

Sri Lanka Climate Fund (Private) Company - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Climate Fund (Private) Company for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020, statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be report to the Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Sri Lanka Climate Fund (Private) Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Sri Lankan Small and Medium Enterprises.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conduct my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under these Auditing Standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section in this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Accounting Standards for Sri Lankan Small and Medium Enterprises and for such internal control as the management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Commission or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per sub section 16(1) of the National Audit Act No.19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also,

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the company has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards for Small and Medium Enterprises

Non-compliance with reference to relevant standard	Comments of the Management	Recommendation
(a) According to clauses (b), (c), (d) of paragraph 3.1 of Accounting Standard No. 17 for Small and Medium Enterprises, the depreciation policy related to vehicles had not been disclosed.	That the accounting policy notes will be updated to include the depreciation policy related to vehicles in the future.	According to accounting standards, the depreciation policy related to vehicles should be disclosed.
(b) In accordance with Accounting Standard for Small and Medium Enterprises No. 28.3(a), the Company had not made any provision for employee gratuity payments.	That the company will take necessary steps for that in the future.	Action should be taken to allocate the Gratuity payments
(c) Although the fixed deposit of Rs.10,000,000 should be shown as non-current assets according to section 4.4 of the Small and Medium Business Accounting Standard, fixed deposit had been shown in the cash and cash equivalents under current assets.	That will be corrected in the future.	The fixed deposit of Rs.10,000,000 should be classified as non-current assets.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommen-dation
(a) Provision has not been made for the audit fees payable in respect of the year under review and arrangements have not been made to pay the audit fees allocated in respect of the previous year.	That the amount of Rs. 150,000 indicated in the final accounts as audit fees to be paid in relation to the previous years and that the audit fees will be allocated for the year 2020.	Audit fees should be allocated and action should be made to pay annually.
(b) Although the property, plant and equipment worth Rs. 5,311,485 included in non-current assets had been fully depreciated, those assets had not been revalued and necessary adjustments had not been done in accounts.	In the future, non-current assets will be revalued and applied to the financial reports.	Action should be done to revalue the Assets and necessary adjustments should be made.
(c) According to the financial statement notes, the air conditioner worth Rs.209,000 and curtains worth Rs.46,410 included in the property plant and equipment were not included in the inventory registers submitted to the audit. Furthermore, according to the inventory register, the value of computers and printers which was Rs.1,029,600 was included in the financial statements as Rs.1,223,800 and that had been overstated by Rs.194,200.	That the inventory register will be updated in the future including the values of these items.	Assets should be recorded correctly in the inventory register and financial statements.

1.5.3 Unreconciled Control Accounts or Registers

Item	Value according to Financial Statements	Value as per corresponding records	Difference	Comments of the Management	Recommen-dation
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	Rs.	Rs.	Rs.		
Income of the Company	4,172,827	2,207,780	1,965,047	Since this analysis is based on actual cash receipts, certain invoice values issued and cash receipts in future years have not	Arrangements should be made to properly account for the income of the year.

been recorded and that the correctly prepared analyses will be provided to the audit in the future.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
<p>(a) Guideline No. 01/2021 dated 16 November 2021 of the Department of Public Enterprises</p> <p>(i) Guideline No. 3.1(i).</p>	<p>Recruitment procedure of the company or cadre had not been approved still 08 September 2022.</p>	<p>Answers had not been given.</p>	<p>Arrangements should be made to get the approval for recruitment procedure and cadre.</p>
<p>(ii) Guideline No. 4.2</p>	<p>The composition of the Audit and Management Committee was prepared based on Circular No. DMA/01-2019 related to Government Ministries and Departments instead of Guideline 4.2 of the 01/2021 Code of Guidelines issued by the Department of Public Enterprises to be applied to public companies and the Audit and Management Committees according to the letter, committee members, observers and committee convener were also not clearly specified.</p>	<p>Answers had not been given.</p>	<p>The Audit and Management Committee should be appointed according to instructions of the circular.</p>

2. Financial Review

2.1 Financial Results

The operating result for the year under review had been a loss of Rs. 771,256 and the corresponding profit of the previous year was Rs.6,715,967. Accordingly, a deterioration of Rs. 7,487,223 was observed in the financial result. Although the direct costs related to the projects decreased by 76.73 percent compared to the previous year, the revenue generation of Rs.13,010,802 in the previous year increased to Rs. 4,727,468 by Rs.8,283,334 or 63.66 percent was mainly responsible for this decline.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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(a) According to paragraph 3(1)(b) of the Cabinet Memorandum No. 14/2007 dated 24 May 2007, the procedures for establishing the fund had not been drafted and submitted to the Cabinet.	Answers had not been given.	Procedures for establishing the fund should be drafted and submitted to the Cabinet.
(b) A share certificate had been issued in the name of the Secretary to the Treasury on 31 December 2011 as an ordinary share capital of Rs.25 million in the name of Sri Lanka Carbon Fund Pvt. Ltd. It was observed that although the name of the company was changed to Sri Lanka Climate Fund Private Company on 16 January 2015, the share certificate was still in the name of Sri Lanka Carbon Fund Private Company.	Answers had not been given.	The share issue certificate should be maintained in the name of the company.
(c) In relation to the Bank of Ceylon account, the amount of Rs. 362,036 worth of issued but not realized cheques from the year 2019 had not been credited to the income.	Answers had not been given.	Cheques issued but not realized must be credited to revenue in accordance with Financial Regulation 396(c).