

## **Sri Lanka Institute of Nanotechnology (Private) Limited – 2016/2017**

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The audit of financial statements of the Sri Lanka Institute of Nanotechnology (Private) Limited (the Company”) for the year ended 31 March 2017 comprising the statement of financial position as at 31 March 2017 and the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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.

This report is issued in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

### **1.2 Board’s Responsibility for the Financial Statements**

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The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.3 Auditor’s Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements 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 Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, the financial statements give a true and fair view of the financial position of the Sri Lanka Institute of Nanotechnology (Private) Limited as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities.

#### **2.1.1 Emphasis of Matter**

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Without qualifying my opinion I draw attention to Note 28 of the financial statements on going concern assumption in the preparation of the financial statements.

#### **2.1.2 Report on Other Legal and Regulatory Requirements**

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As required by Section 163 (2) of the Companies Act No. 07 of 2007, I state the following:

- a. The basis of opinion and scope and limitations of the audit are as stated above.
- b. In my opinion:
  - I have obtained all the information and explanations that were required for the audit and, as far as appears from my examinations, proper accounting records have been kept by the Company.
  - The financial statements of the Company, comply with the requirements of Sections 151 of the Companies Act.

However, it should be noted that the net assets of the Company as at 31 March 2017 were less than half of the stated capital and facing a serious erosion of capital situation in terms of Section 220 of the Companies Act, No. 07 of 2007. Note 29 of the financial statements explain the actions that have been taken by the Company to mitigate this situation.

## **2.2 Comments on Financial Statements**

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The following Observations are made;

- (a) The Company had depreciated its assets from the first day of the month of purchase instead of being considered the date available for use. As a result, the depreciation for the year under review had been overstated by Rs. 1,033,846
- (b) Although the actual tax liability for the period under review was Rs.5,067,235, it was shown in the financial statements as Rs.4,975,019. Hence, the provision for income tax had been understated by Rs. 92,216 in the financial statements for the period under review.

## 2.3 Non – compliance with Laws, Rules, Regulations and Management Decision, etc.

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The following Instances of non-compliance were observed in audit.

<b>Reference to Laws, Rules, Regulations and Management Decisions etc.</b>	<b>Non- compliance</b>
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(a) Public Enterprises Circular No. PED/12 of 02 June 2003.	
(i) Section 9.2 (e)	The approval of the Department of Public Enterprises, had not been obtained for the Organisation Chart and Cadre of the Company
(ii) Section 9.3.1 (i)	The Scheme of Recruitments and Promotions (SOR) of the Company had not been approved by the Ministry concerned with the concurrence of the Department of Public Enterprises.
(b) Financial Regulation 237(b) of the Democratic Socialistic Republic of Sri Lanka.	A certificate that the articles have been received and that they have been brought on charge in the appropriate inventory should be appended before making payments for store supplies. However, the Company had paid advances between the range of 50 per cent to 70 per cent before receiving the goods worth Rs.14,705,584 to the store from 8 local purchases.

## 3. Financial Review

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### 3.1 Financial Results

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According to the financial statements presented, the operations of the Company for the year ended 31 March 2017 had resulted in a pre-tax net loss of Rs. 131,961,978 as compared with the corresponding pre-tax net loss of Rs. 144,708,235 in the preceding year, thus indicating an improvement of Rs. 12,746,257 in the financial results for the year under review. The main reason attributed for this slight improvement in the financial results was the revenue received from the sale of patents in the year under review. Further, the accumulated loss of the Company as at 31 March 2017 was Rs. 778,477,641 and this has increased by Rs. 106,905,072 in the year under review.

In analyzing the financial results of the year under review and four preceding years, the net loss had been continuously reported since the year 2012/2013. However, after taking into account the employees' remunerations, taxes paid to the government and depreciation on non-current assets, a favourable position in the value addition of the Company could have been seen except in the year 2014/2015.

## **4. Operating Review**

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### **4.1 Performance**

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The following observations are made.

- (a) Although an Action Plan for the period under review had been prepared, it had not been included the expected targets and allocations for the projects carry out by using private parties' funds.
- (b) The Company had entered into two research agreements with two private companies for five and six months project execution periods. Those private companies had paid Rs. 3,091,693 to the Company as agreed for this purpose. However, due to failure in completing the projects within the agreed period, the Company had incurred an additional cost of Rs. 4,446,321 in this regard.
- (c) The Company had successfully completed a research project to develop a cost effective process for extracting Titanium from Ilmenite sand at a cost of Rs. 79 million of Government funds. However, the Company had not able to commercialize the results in locally or internationally even up the end of the year under review.

## **5. Accountability and Good Governance**

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### **5.1 Procurements**

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The following observations are made.

- (a) The procurement committee had granted its approval on 20 September 2016 to purchase the equipment worth Rs.10,225,266. However, the Company had failed to purchase such equipment even up to end of April 2018.
- (b) The Company had purchased 16 equipment worth Rs.17,510,343 for the use of bio-laboratory. However, the bio- laboratory had not been established by installing that equipment even as at the end of February 2018. As a result, that equipment had been kept with idle.

**6. Systems and Controls**

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

<b>Areas of Control</b>	<b>Observations</b>
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(a) Trade and Other Receivable	Long outstanding balances remained in the accounts without being recovered.
(b) Tax Management	Delays in remitting NBT and Stamp Duty to the Department of Inland Revenue.
(c) Control over Payment	Altered payment vouchers and duplicated voucher numbers existed.