

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Institute of Nanotechnology (PVT) Ltd (“Company”) for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 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 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 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 Company as at 31 March 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Financial Reporting Standards for Small and Medium Entity (SLFRS for SMEs).

1.2 Basis for Qualified Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my 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 Sri Lanka Financial Reporting Standards for Small and Medium Entity (SLFRS for SMEs) and for such internal control as 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 financial statements, management is responsible for assessing the Company’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 Company 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 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 skepticism 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 Company'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 the 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. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. 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 Company ;

- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Financial Reporting Standards for Small and Medium Entities

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
According to section 2.52 of the Sri Lanka Financial Reporting Standards for Small and Medium Entities, entity shall not set off the assets and liability unless permitted by the SLFRS for SME's. However, it was observed that receivable balance of Rs.2,686,524 from Ministry of Science, Technology and Research had been set off against trade payable balance.	Agreed and considered for future improvements.	Must comply with the accounting standards

1.5.2 Accounting Policies

Audit Issue	Management Comment	Recommendation
(a) According to the accounting policy of Sri Lanka Institute of Nano Technology (PVT) Limited estimated useful life for building is 30 years and depreciation had been made at 3.33 percent per annum. However, it is observed that green house building valued at Rs.65,873,148 had also been categorized under "building" category, though the useful life had been estimated as 10 years and depreciation had been made at 10 percent per annum. As per section 17.31 of the SLFRS for SMEs has stated that an entity shall disclose the useful lives or the depreciation rates used for each class of property plant and equipment. However, it had not been disclosed.	Agreed and improvement to be made in the accounting policy.	Must comply with the accounting policies.
(b) As per section 17.19 of the SLFRS for SMEs on property, plant and equipment (section 17) the useful life of the assets shall be reviewed and if expected is differ from previous estimate the change shall be accounted in accordance with paragraph 10.15 - 10.18. However, useful life of the fully depreciated fixed assets amount in Rs.235,016,653 had not been reviewed by the Company.	Company policy is to value Property, Plant & Equipment at cost basis, but not on revalue basis. Remaining assets are under working condition and not yet decided to dispose.	When preparing financial statements company must comply with accounting policies

1.5.3 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
<p>Entity had incurred the accumulated loss of Rs.1,255,772,577 as at 31 March 2020. And net assets had been decreased to the Rs.106,736,899 while stated capital of the entity was Rs.1,362,509,477. Therefore it had observed that invested capital had been impaired by 92.2% due to the accumulated loss incurred. Net assets of entity was less than half of its stated capital according to the section 220 of company Act, No. 24 of 2007 which was critical issue for the going concern of the business entity. According to the circular tabled at board meeting on 10 August 2020 for the purpose of section 220 of company Act, No. 14 of 2017, it had mention that science team will be allocated to the 5 pillars and each pillar had been instructed to generate 02 project to earn 4 million in next 9 month as short term revenue strategy of entity. However it was observed that no revenue had been generated through such project as at audited date of 06 January 2020 while 6 months had been already expired from 9 month.</p>	<p>Due to COVID – 19 pandemic, research was not a priority for the major industries in the country. Therefore, SLINTEC had not been able to get the expected income as projected under 5 different pillars.</p> <p>However, SLINTEC had captured business opportunities amidst the pandemic situation and able to generate un-forecasted income of over Rs.86Mn from SWAB production. New mask testing facility contributed to increase the analytical services income. Further, SLINTEC has developed LAMP PCR test kit and which is in the process of getting NMRA approval. New joint venture will be created with private sector to commercialize the product once the approval is obtained.</p>	<p>Company should try to minimize the loss by increasing income and decreasing unnecessary expenditures.</p>

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
<p>Debtors included two balances totaled Rs.170,006,139 due from two Indian Companies who had default more than 6 years. Company had made a provision on that, & it was observed that the recovery actions are not taken at a satisfactory level.</p>	<p>We wish to highlight that the above matter is a specific issue and overall debtors are followed up diligently every month and the CEO / COO connects with client or e-mails as follow up regularly.</p> <p>As explained in details Nagarjuna bought the rights to a slow release fertilizer and paid a sum of Rs. US\$ 1.0 million. They were due to pay a second tranche along with SLINTEC transferring the patent. However, due to financial challenges the client was unable to settle the dues. We followed up diligently and</p>	<p>Action should be taken to recover the balances of debtors.</p>

our chairman along with the CEO and Chief of Research visited the client to request a settlement of the above. We also have not released the patents which are in our name and also issued a letter to client indicating that we will proceed to monetize our patent in the event we do not receive the balance amount due.

1.6.2 Payables

Audit Issue

Management Comment

Recommendation

Payable balance of 9 vendors out of 15 payable vendors as at 31 March 2020 had been exceed the 91 day of ageing which was sum of Rs.1,708,737.

Due to financial difficulties and to manage the working capital in efficient manner, certain payments were delayed temporary. These long outstanding is a result of that practice followed by the company.

Action should be taken to settle the credit balances.

1.7 Non -compliance with Tax Regulations

Audit Issue

Management Comment

Recommendation

Income tax provision for the year ended 31 March 2019 was Rs.9,948,740. whereas, gross tax payable as per Income tax return filled for the year of assessment 2018/2019 was Rs.9,816,894. Accordingly, over provision for the year of assessment 2018/2019 of Rs.131,846 has not been adjusted to income tax expenses and tax payable as at 31 March 2020 in the statement of profit & loss and the statement of financial position of financial statements.

Agreed and adjustment has been made in the financial statements of 2020/2021.

Tax liability should be calculated accurately

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 157,071,131 and the corresponding loss in the preceding year amounted to Rs.158,770,482. Therefore an improvement amounting to Rs. 1,700,351 of the financial result was observed. The main reason for the improvement is decreasing of Research and development cost.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue

The Company had paid a sum of Rs. 11,312,834 as stipend allowances, from April 2018 to September 2020 for 14 external students studying the PhD & MPhil courses at Slintec Academy. Further audit revealed that such allowances should be paid by the Slintec Academy. This was not approved by the Board of Management.

Management Comment

These payments have been made to Academy students for the involvement in SLINTEC research projects. It is similar to hiring of external interns and paying intern fees monthly. Hence, this is a part and partial of general operations, approval from the Board is not required.

Recommendation

Only expenses related to the company's transactions should be borne.

3.2 Management Inefficiencies

Audit Issue

- (a) The company had recorded Rs.8,540,987 as receivable from SLINTEC Academy in respect of shared cost for using physical resources, human resources, electricity and technical equipment of Institute of Nanotechnology (PVT) Ltd. However, the Company had written off the receivable balance without a proper approval.
- (b) From September 2017 to August 2020, the Company had paid a sum of Rs.14,730,754 as salary of four officers who were released on full time leave to study the PhD in Slintec Academy. However, the Company had been failed to sign contracts with employees to get specified period of service after completing the PhD Degree course.

Management Comment

The Board approval has been obtained for the write-off and provided for the Audit purpose.

All the lectures have been conducted after 5.00 p.m on weekdays and laboratory practical sessions were conducted on Saturdays. The above mentioned officers' academic activities did not interrupt with SLINTEC duties.

Recommendation

All expenditure incurred by the company should be efficient and effective and should be noted proper way to write-off the receivables.

In giving facility to study to employee, company should sign the contract with employees.

3.3 Operational Inefficiencies

Audit Issue

- (a) Active pharmaceutical ingredient pilot plant strategic project has been scheduled for 3 years (commenced on 2017) in order to manufacture Active pharmaceutical ingredients in Kilogram quantities. The

Management Comment

The proposed synthetic route for Thyroxin gave very low yields and hence it was abandoned- such failures are to be expected when carrying out research,

Recommendation

Socio-economic benefits should be acquired from research conducted with government

company had incurred Rs.27, 315,188 on this project up to the 31 December 2020. Other than that expenditure Laboratory equipment purchased for the project from year 2017 at a cost of Rs.88,307,858 had remained without been utilized for the said purposes even at the end of March 2021. Management has decided to discontinue the pilot plant studies stating that low overall yield and reduction of economical effectiveness of the 2 researches which were completed successfully. Thus, it is observed that objectives of this project had not been achieved.

particularly in synthetic chemistry. Although both Beclamethazone and Betamethasone were synthesized successfully, it was found that the route had too many steps with low overall yield and economically not viable. Hence the management made a conscious decision not to continue with the pilot scale study. Since API pilot plant units such as reactors, solvent evaporators, Freezers, Storage cabinets etc., (which are general purpose items), were idling due to the above reasons, they were used for SLINTEC graphene research productively.

grants aimed at socio-economic benefits.

It should be noted these General purpose pilot plant units can be used for organic synthesis work at any time, if and when promising commercially viable candidates are identified.

(b) Synthesis of dry spinnable & vertically super aligned, multi walled carbon Nano tube arrays by chemical vapor deposition (CVD) project had completed at a cost of Rs.27,712,850 under the government grant in 2019 with the primary objective of commercialization. The company had failed to commercialize those projects by March 2021.

Although there is some novelty in the CNT production process due to low commercial potential and high patenting cost it was decided not to patent the process. However a high quality publication is under preparation and will be submitted soon.

government grants should be used to provide socio-economic benefits.

(c) The institution has failed to transmit the 06 Pre-work on client based projects which has value Rs.11, 856,557 in to the next stage and find clients for 06 projects which has the value of Rs.2,104,075 even as at the audited date of 31March 2021

Some of the projects mentioned above, will be converted to research agreements in near future. Due to COVID-19 pandemic, it has taken longer period than expected to convert the pre-works to contract research projects.

A systematic program should be devised to find clients.