

Sri Lanka Institute of Nanotechnology (Private) Limited – 2021/2022

1.1 Opinion

The audit of the financial statements of the Sri Lanka Institute of Nanotechnology (Private) Limited (“Company”) for the year ended 31 March 2022 comprising the statement of financial position as at 31 March 2022 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, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2022, 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 Entities (SLFRS for SMEs).

1.2 Basis for Opinion

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 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 Auditor's Responsibilities For the Audit of the Financial Statements

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 Audit Observations on the preparation of Financial Statements

1.5.1 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
I draw attention to Note 2.6 to the financial statements on going concern of the Company. The company incurred a net loss of Rs.20,630,743 for the year under review with an accumulated loss of Rs.1,373,629,350 as at the end of the year under review and as of that date, the company's total liabilities exceeded its total assets by Rs.11,119,874.	This has been addressed on the EGM.	Must be highly considered about the going concern of the company.

1.6 Accounts Receivable

Audit Issue	Management Comment	Recommendation
The total debtors outstanding for more than two years were Rs. 68,446,402 and the Company had failed to recover them even at the end of the year under review.	Management has tried in their level best to recover these balances. However, it was failed due to various reasons. Management has requested from the Audit Committee to write-off some of these balances (Ex :P.L Hettiarachchi, Stretchline (Pvt) Ltd, Tokyo Cement (Pvt) Ltd, Trischel Fabric (Pvt) Ltd , Laughs Petroleum (Pvt) Ltd , Lanka Tile Grout Manufacturing Pvt Ltd , Hirdaramani Mercury Apparel (Pvt) Ltd, Dankotuwa Porcelain plc). However, the Audit Committee has not granted approval to write-off. Medical Research Institute has not positively responded to pay Rs. 6.5Mn though they have accepted the goods during COVID period.	Receivable income from debtors should be collected.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Law, Rule and Regulation	Non-compliance	Management Comment	Recommendation
Paragraph 6.6 of the Operational Manual of the State Owned Enterprises dated 16 November 2021.	The accounts should be handed over to the Auditor General within sixty (60) days after the close of the financial year, but the accounts of the year ended 31 March 2022 were submitted on 23 September 2022, after 03 months and 23 days later.	This was delayed due to more time taken for the Board approval.	Final Accounts must be handed over to the Auditor General according to the time frame mentioned Manual of the State Owned Enterprises.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 20,630,743 and the corresponding loss in the preceding year amounted to Rs. 104,329,628. Therefore, an improvement amounting to Rs. 83,698,885 of the financial result was observed. The main reason for the improvement is increasing recurrent grant by Rs. 66,400,000 in the year in review.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
a) SLINTEC has entered into an agreement with an Indian company, on 15 March 2012 to transfer the Nano Fertilizer Development technology. According to the agreement total value was US \$ 2,250,000 and schedule to be recovered in four installments. However, only a sum of US \$ 1,000,000 had been settled on time as per the agreement and even though invoice had been issued on 30 June 2013 for a sum of US \$ 750,000(Rs. 216,562,500) it had not been recovered by the end of the year under review.	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 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.	Receivable income should be collected.
b) The Company had not re-estimated the effective life time of the fully depreciated fixed assets which are currently being utilized, costing Rs.671, 844,504.	The cost to be incurred for the re-estimating of the useful life time of the assets just for the reporting purpose, is a waste of funds. SLINTEC may need to get the support from the foreign experts to re-estimate the useful life time of the assets which would be very costly. Further, if the re-estimation of the useful life time of the assets are done, it should be done within the useful life time of the asset and not after it. All these assets are fully depreciated and re-estimation of the useful lifetime and recognizing them as additions of assets would lead for improper financial statement presentation.	Must comply with accounting policies.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
c) It was observed that 15,315 square feet of the accommodation building and 12,676 square feet of the cafeteria building at the SLINTEC park has being idle even at the end of year under review.	Management has discussed with NSBM of the possibility of using accommodation as a hostel for their students or lecturers. NSBM is in the process of evaluating the SLINTEC proposal in this regard. 01 st tenant started his operations in the cafeteria with effect from 01 st November 2022. Number of other parties have visited the facility and SLINTEC has provided proposals for them in renting out the cafeteria.	Usable assets must be utilized.