

Sri Lanka Institute of Nanotechnology (Private) Limited – 2015/2016

The audit of financial statements of the Sri Lanka Institute of Nanotechnology (Private) Limited (the Company”) for the year ended 31 March 2016 comprising the statement of financial position as at 31 March 2016 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 to carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

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

1.2 Establishment and Ownership of the Company

The Sri Lanka Institute of Nanotechnology (Private) Limited is a limited liability company incorporated under the Companies Act, No. 07 of 2007 by amalgamating the Sri Lanka Institute of Nanotechnology (Pvt) Ltd with Nanco (Pvt) Ltd. The Company incorporated as a Public Private Partnership between the Government of Sri Lanka and six leading private sector companies.

1.3 Board’s Responsibility for the Financial Statements

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.

1.4 Auditor’s Responsibility

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 judgement, 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

2.1 Opinion

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 2016, 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.

Emphasis of Matter

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.

Report on Other Legal and Regulatory Requirements

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 and the financial statements of the Company, comply with the requirement of Sections 151 of the Companies Act.

However, it should be noted that the company's net assets are less than half of the stated capital and face a serious loss of capital situation in terms of Section 220 of the Companies Act No. 07 of 2007. Note 29 of the financial statements explains the action the Company has taken to mitigate this situation.

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

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

Reference to Laws, Rules, Regulations and Management Decisions etc.	Non- compliance
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(a) Public Enterprises Circular No PED/12 of 02 June 2003 (I) Section 6.3.1	The Company had not prepared Annual Reports for each preceding year and tabled in Parliament

(II) Section 9.2 (e)

The approval of the Department of Public Enterprises, General Treasury had not been obtained for the Organization Chart and the Cadre of the Company.

(III) Section 9.3.1 (i)

The Scheme of Recruitments and Promotions (SOR) of the Company had not approved by the Ministry Concerned with the concurrence of the Department of Public Enterprises of General Treasury.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operations of the Company for the year ended 31 March 2016 had resulted in a pre-tax net loss of Rs. 144,708,235 as compared with the corresponding pre-tax net loss of Rs. 229,105,780 in the preceding year, thus indicating an improvement of Rs. 84,397,545 in the financial results for the year under review. The main reason attributed for this slight improvement in the financial result was diminishing need for impairment of trade receivables as compared with the preceding year. However, the Company is experiencing an accumulated loss and the accumulated loss has increased by Rs. 170,030,439 in the year under review.

3.2 Value Addition of the Company

In analyzing the financial results of the year under review and the four preceding years, net loss had continued from the year 2011/ 2012 to the year 2015/ 2016. However, when taking into consideration the employees' emoluments, taxes paid to the government and depreciation on non-current assets, a continuous improvement had been indicated in the overall contribution of the Company except in the year 2014/2015.

4. Accountability and Good Governance

4.1 Annual Action Plan

Although an Action Plan had been prepared, it had not been included the expected targets and allocations for the projects carry out by utilizing private parties' funds.

5. Systems and Controls

Special attention is needed in respect of the following areas of systems and controls.

Areas of Control	Observations
(a) Inventory Management	<ul style="list-style-type: none">- The Company has not established necessary guidelines to ensure proper tests are carried out and adequate documentation is maintained to state that a quality checks are carried out at the time of receiving inventory.- Inventory Management System is incapable of producing an inventory ageing report.
(b) Receivables	<ul style="list-style-type: none">- The age analysis produced by the system does not analyse debtors in excess of 90 days.
(c) Fixed Asset Management	<ul style="list-style-type: none">- Information pertaining to assets in the fixed assets register is not adequate to identify details of those particular assets. A comprehensive physical verification of fixed assets had not been carried out since 2014.-