

## **Sri Lanka Institute of Nanotechnology (Private) Limited – 2017/2018**

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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 2018 comprising the statement of financial position as at 31 March 2018 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. My comments and observations on the performance of the company which I consider should be furnished to the Parliamentary in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

### **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 Company as at 31 March 2018, and of 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**

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Without qualifying my opinion I draw attention to Note 29 of the financial statements on the going concern assumption in the preparation of the financial statements.

### **2.1.1 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 appears from my examinations, proper accounting records have been kept by the Company.
  - The financial statements of the Company, comply with the requirement of Sections 151 of the Companies Act.

However, it should be noted that the net assets of the company as at 31 March 2018 were less than half of the stated capital and facing a serious loss of capital in terms of section 220 of the Companies Act, No. 07 of 2007. Note 30 of the financial statements explain the actions that have been taken by the company to mitigate this situation.

income recognized from grants amounting to Rs. 138,709,961 had been setoff against the expense instead of being shown separate by in the financial statements.

### **2.2 Accounts Receivable**

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The following observations are made.

- (a) Out of the total debtors before the impairment the balance of Rs.167,463,995 as at 31 March 2018, balances aggregating to Rs.147,261,000 due from two Indian Companies had defaulted the payments for more than four years. However, the Company had not recovered such balances even at the end of September 2018.
- (b) A sum of Rs. 2,286,129 had been spent for purchasing equipment for a research conducted by a nominated candidate of the University of Jaffna and only a sum of Rs. 1,852,700 had been received from the University of Jaffna on 10 August 2015 in this regard. However, excess of Rs.433,429 had not been recovered from the University even up to the end of September 2018.

## 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 of the General Treasury 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 of the General Treasury.

## 3. Financial Review

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### 3.1 Financial Result

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According to the financial statements presented, the operations of the Company for the year ended 31 March 2018 had resulted in a pre-tax net loss of Rs. 145,272,784 as compared with the corresponding pre-tax net loss of Rs. 131,961,978 in the preceding year, thus indicating a further deterioration of Rs. 13,310,806 in the financial results for the year under review. The main reason attributed for this deterioration in the financial result was the decrease of revenue by Rs. 31,236,324 received from contract researches in the year under review.

## 4. Operational Review

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### 4.1 Performance

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The following observations are made.

- (a) The company had entered into four research agreements with three private companies during the year under review. The total income earned from such researches and the total cost incurred on such researches during the year under review was Rs. 19,641,861 and Rs. 29,259,689 respectively, which shows a loss of Rs. 9,617,828 on such researches.

- (b) Company had started 12 research projects under the “Pre Work on Client based Projects” in the years 2016 and 2017 with the intention of entering into research agreements with potential clients and the cost incurred on such research projects as at 31 December 2017 was Rs. 4,769,944. However, only one project had been identified to continue and company had not been able to find potential clients for the rest of 11 projects even up to the end of September 2018. The cost incurred for those projects was Rs. 4,327,630.

#### **4.2 Management Activities**

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The following observations are made.

- (a) As per the extraordinary Gazette Notification No. 2032/23 dated 16 August 2017, the Sri Lanka Institute of Nanotechnology (Private) Limited had been recognized as a degree awarding institution for the purpose of developing higher education.

However, a separate entity called “SLINTEC Academy (Guaranteed) Ltd.” had been incorporated on 19 September 2017 to award degrees in Nano and/or advanced technology in Sri Lanka which sole guaranteed by Sri Lanka Institute of Nanotechnology (Private) Limited. However, no documentary evidence were made available to audit to ensure whether that the approval had been given to SLINTEC Academy (Guaranteed) Ltd to award degrees in Nano and/or advanced technology in Sri Lanka.

- (b) As per the board of survey reports of the Company for the years 2017/2018 the cost of the idle assets was Rs. 10,074,179. However, no action had been taken to dispose those assets even up to the end of August 2018.
- (c) Although a sum of Rs. 1,800,000 had been paid to a private transport company during the year under review, it had not been entered into an agreement for the service obtained.
- (d) Entity had purchased paints amounting to Rs. 416,747 on 31 October 2016 for a project which had scheduled to be commenced with a private company. However, the project had not been commenced or payments had not been recovered from the Company and paints are remained with the company for a considerable period without been utilized.
- (e) A sum of Rs.1,715,000 had been paid by the company to the SLINTEC Academy in respect of the Research projects carried out by the Academy. However, Agreements or a Board decisions were not made available for audit in respect of the researches get done by the academy and payment for the staff of the academy.
- (f) Although the agreement for hiring a vehicle had expired on 2 July 2018, no action had been taken to renew or extend the agreement even up to 31 August 2018.

- (g) The deferred tax liability had been understated by Rs. 911,827 due to the application of incorrect rate of capital allowances for a motor vehicle and intangible assets amounting to Rs. 3,574,063 purchased in the year 2017/2018.

#### **4.3 Idle Assets**

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Even though construction work of two laboratories had not been completed, 32 laboratory equipment and furniture valued at Rs. 92,083,892 had been purchased for two laboratories in the years 2017 and 2018. However those assets had not been utilized even at the end of August 2018.

#### **5. Achievement of Sustainable Development Goals**

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Every public institution should act in compliance with the 2030 Agenda of the United Nations sustainable development and the Sri Lanka Institute of Nanotechnology (Pvt) Ltd had not aware of the manner in implementing functions that come under their scope.

#### **6. Accountability and Good Governance**

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##### **6.1 Procurement management**

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As per the guideline 4.2.1(c) of the Procurement Guideline a detailed procurement plan had not been prepared by the company elaborating the stages of each procurement with the time plan.

#### **7. 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 Receivables	Long outstanding balances not being recovered.
(b) Management of Research Projects	Provisions not being included in the research agreements to mitigate the risk .
(c) Invoicing	A proper control not being implemented.
(d) Advances	Advances being given deviating the proper procedure.
(e) Contractual Services	Delays in signing contract agreements.