

1.1 Opinion

The audit of the financial statements of the Sri Lanka Institute of Nano Technology (PVT) Ltd (“Company”) for the year ended 31 March 2019 comprising the statement of financial position as at 31 March 2019 and the statement of profit or loss and other comprehensive income, statement of changes in equity, 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 2019, 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 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 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 size Entities (SLFRS For SMEs)

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) It is observed that the laboratory equipment which purchased on 12 February 2019 for Rs.458,000 has not been recognized under property plant and equipment until the audited date though they are using at the premises. As per SLFRS for SMES section 17.20 depreciation of an asset begins when it is available for use, when it is in the location condition necessary for it to be capable of operating in the manner	This has occurred due to system error in GRN process & rectified later on.	All property plant and equipment should be accounted and depreciate as per the provision in the standard.

intended by mgt. however, non-complying to the above section entity has been identified depreciating understating the amount of Rs.13,852.

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| (b) As per the section 2.52 of SLFRS for SMES an entity shall not Set-off assets liabilities or income and expenses unless required or permitted. But it is observed that fixed asset loss of Rs.126,698 has been set off against tender fee income and other income. | Agreed | Loses on fixed asset should be shown separately without being set off against income. |
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1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Previous year research and development cost amounting to Rs.401,500 had been recorded as expense of the current year.	This expenditure has been recognized in April 2018.	All income and expenditure should be accounted for the related accounting period.
(b) Differences of cash flow statement. Though the summation of amortization and utilization of grants was Rs.181,476,647 , it had been recorded as Rs.181,570,041. As a result amortization and utilization of grants had been overstated by Rs.93,394.	Agreed.	Amortization and utilization of grants should be accounted correctly.
(c) A difference of Rs.9,224,192 was observed between revenue shown in the Economic service charge return and revenue shown in the financial statements for the year ended 31 March 2019.	Agreed. Balance payment has been made and return amendment is in process.	Action should be taken to reconcile the difference and make corrections accordingly.

1.5.3 Un-reconciled Control Accounts or Records

Item	As per Financial Statements	As per corresponding Record	Difference	Management Comment	Recommendation
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	Rs.	Rs.	Rs.		
Creditors	9,049,483	26,648,823	17,599,340	As a control mechanism in ERP system, all advance received from the customers should be recorded in the individual customer accounts of Accounts Receivable Sub-Ledger. These receipts will be set off against the actual sales value, when the invoice is raised.	Action should be taken to reconcile the balances and make corrections accordingly.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
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Total of dues from related parties & debtor balances Rs.4,339,412 existed more than 3 years without settling & entity had not taken appropriate actions to recover the amounts.	We have identified and made all necessary actions to recover those debtors outstanding from the beginning. However, it was not succeeded in the above instances and SLINTEC has made 100% provision for all of these debtors as per the company bad debts policy. Audit committee reviews all long outstanding debtors and recommends actions required for the management. These long outstanding balances will be reviewed by the Audit Committee and recommend actions required for the Board of Directors.	Recovery actions should be taken to recover the outstanding balances.

1.7 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
According to the letter dated 26 December 2018 issued by Inland Revenue Department regarding the interpretation of Value Added Tax (VAT) liability, the company is liable to pay VAT for 8 income categories. According that income categories total amount of taxable supplies is Rs.87,178,875. However, the Company had not paid VAT for those categories for the year of assessment 2018/2019 and no disclosure had been made in the financial statements for the VAT liability that may arise for the VAT liable turnover.	We are registered for VAT with effect from May 2019.	VAT liability should be calculated correctly and paid on or before the due date.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.158,770,482 and the corresponding loss in the preceding year amounted to Rs.161,453,322. Therefore an deterioration amounting to Rs.2,682,840 of the financial result was observed. The reasons for the deterioration are other income has increased by Rs.1,582,538 and administrative expenses had decreased by Rs. 5,981,767.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
Debtors included two balances totaled Rs.170,006,139 due from two Indian Companies named “Nagarjuna Cooperation Limited” & Nagarjuna Fertilizer & Chemicals who had default more than 5 years. Company had made a provision on that, & it was observed that the recovery actions are not at a satisfactory level.	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. 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 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.	Recovery actions should be done for outstanding balances.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
Equipments purchased at a cost of Rs. 73,596,384 for the Synthetic Bio Lab in January 2018 had remained without being used for the said purpose even at the end of September 2019.	Observation is not clear. Need more details for the response.	Procurement of equipments should be made after identify the specific purpose and utilized them for the said purposes without idling them.

