

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Institute of Nanotechnology (Private) Limited ("Company") for the year ended 31 March 2023 comprising the statement of financial position as at 31 March 2023 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 2023, 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 -sized Entities (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 -sized Entities (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 Non - Compliance with Sri Lanka Accounting Standard for Small and Medium Entities

Non - Compliance with the reference to particular standard	Management Comment	Recommendation
Action had not been taken to reassess the useful life of assets which were completely depreciated by March 31, 2023 but are still in use, amounting to Rs. 693,993,216 in accordance with Section 17.19 of Sri Lanka Accounting Standard for Small and Medium Enterprises and record accordingly.	We are currently initiating the revaluation of laboratory equipment, having obtained approval from the Ministry Development & Innovation Department.	Should comply with accounting Standard.

1.5.2 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.53,324,398 for the year under review with an accumulated loss of Rs.1,422,311,947 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.59,802,470.	This has been addressed on the EGM.(Emergency General Meeting)	Should be highly considered about the going concern of the company.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

Audit Issue	Management Comment	Recommendation
The debtor balances amounting to Rs.2,767,407 of over four years and Rs.6,503,883 of over one year, total amounting to Rs. 9,271,290 had not been recovered during the year under review.	Management has tried in their level best to recover these balances. However, it was failed due to various reasons.	Receivable should be recovered.

1.6.2 Accounts Payable

Audit Issue	Management Comment	Recommendation
Although more than two years have passed since the completion of the four research projects, the sum of remaining balances of Rs.1,908,230 had not been settled.	Agreed, We will take necessary action in this year.	Action should be taken immediate to recover the dues.

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.	(i) 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 2023 were submitted on 24 August 2023, after 02 months and 24 days later.	The delay primarily stems from a recent change in management and an under staffed finance authorities, which has affected the timely initiation of the annual audit process.	Annual Financial Statement should be handed over to the Auditor General according to the time frame mentioned in the Manual of the State Owned Enterprises.
	(ii) Though the financial statements should have been submitted with a draft of the annual report within 60 days after the end of the financial year, the company has not submitted them even at the reporting date.	-do-	-do-

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 22,431,598 and the corresponding loss in the preceding year amounted to Rs. 4,875,832. Therefore, an increase of loss amounting to Rs. 17,555,766 of the financial result was observed. The main reasons for the above loss were increase in the administration expenses by Rs. 23,189,427, decrease in the government grant by Rs.38,400,000, decrease in the engineering service income by Rs.16,555,643, increase in the rent income by Rs. 52,217,611, increase in the analytical service income by Rs. 6,088,642 and decrease in the research and development cost by Rs. 2,452,289 during the year under review.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The value of the finished stock of fertilizer was Rs. 1,412,601, which has remained unsold in the warehouse.	SLINTEC (Pvt) Ltd initiated the development of a urea-based slow-release fertilizer utilizing hydroxyapatite nanoparticles in 2009, aimed at reducing urea wastage in agriculture. This research gained significant traction, attracting interest from local and international organizations due to Sri Lanka's lack of a domestic urea manufacturing plant. By 2017, SLINTEC established a mini-scale Urea-hydroxyapatite nanohybrid production plant. However, due to limited ongoing support, production was temporarily suspended.	Action Should be taken to create a suitable market for the new invention.
(b) On November 15, 2021, SLINTEC has entered into an agreement with private company to lease office and laboratory space for a period of 5 years. Despite the agreement, Rs. 1,986,673 worth of furniture was provided for the leased premises.	To attract our new rate, such support was given to JKH but no treasury funds were used for it.	Should comply with the agreement.
(c) SLINTEC has entered into an agreement with an Indian company on March 15, 2012, to transfer Nano Fertilizer Development technology. According to	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	Receivable income should be collected.

the agreement, the total value was US \$2,250,000 and was scheduled 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 although an invoice had been issued on June 30, 2013, for a sum of US \$750,000, it had not been recovered by the end of the reviewed year.

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.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
a) Sri Lanka Institute of Nanotechnology has constructed 62 rooms within 2 buildings to provide hostel facilities and they have been remained idle at the end of the year under review.	Negotiations are underway with various parties for rent and further requirements are being prepared.	Usable assets should be utilized.
(b) Eventhough a green house had been constructed at a cost of Rs. 33,373,109 in 2017 , it had not been utilized for the intended purpose as at September 2023.	Green house facility was given to several client to utilize at a cost time to time. Few clients engaged are as follows. <ul style="list-style-type: none"> • Codgen • LOLC Advanced Technologies 	Usable assets should be utilized.
(c) Laboratory equipment and furniture purchased for the Active Pharmaceutical Ingredient pilot plant strategic project from year 2017 at a cost of Rs 88,770,040 had remained without been utilized for the said purposes even at the end of March 2023.	With success, Slintec completed the lab scale testing, achieved the necessary kilo scales, and obtained the Certificate of Analysis. Currently, this project has been abandoned and Some of these equipment are being used by Mineral Laboratories and Natural Product Laboratories for other R&D projects.	Usable assets should be utilized