

Sri Lanka National Intellectual Property Fund - 2012.

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1 .2 of this report, the financial statements give a true and fair view of the financial position of the National Intellectual Property Fund as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on Financial Statements

1.2.1 Accounting Policies

Cash obtained by the Fund from the customers for the publication of registration of industrial design, trademarks and amendments in the Gazette had been credited to the income of the Fund instead of being retained in the liabilities account and debiting the relevant expenditure to that account. Therefore, the financial statements do not give correct position of the income of the Fund.

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

Action had not been taken to obtain securities from the government officers who should give deposit in terms of Financial Regulations 880 and Chapter 612 of the Government Officers Securities Ordinance.

2. Financial Review

2.1 Financial Results

The operations of the Fund for the year under review had resulted in a surplus of Rs.47,715,331 as compared with the corresponding surplus for the preceding year amounting to Rs.42,862,389. Increase of interest on investment for the year under review by Rs.7.8 million had mainly attributed for the improvement of financial results for the year under review by Rs.4,852,942 as compared with the preceding year.

2.2 Analytical Financial Review

The following matters had attributed relating to increase of surplus of the financial results.

Details	<u>Year</u>		Increase of Financial Results	Percentage of Increase in the Financial Results
	2012	2011		
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	Rs.	Rs.	Rs.	%
Patent	5,012,774	4,339,251	673,523	16
Investment Income	40,479,756	32,673,971	7,805,785	24

3. Operating Review

3.1 Performance

Registration of Trademark, Patent License and Industrial Designs

The performance of registration of trademark, patent license and industrial designs for the year under review as compared with the performance of the preceding year is given below.

	Registration of Trademark		Registration of Patent License		Registration of Industrial Designs	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Number of applications brought forward from the previous year	22,538	19,864	1,287	1,081	823	573
Number of applications received during the year	<u>9,036</u>	<u>7,657</u>	<u>539</u>	<u>429</u>	<u>394</u>	<u>443</u>
Number of applications to be registered during the year	31,574	27,521	1,826	1,510	1,217	1,016
Number of applications registered during the year	<u>2,854</u>	<u>4,983</u>	<u>301</u>	<u>223</u>	<u>262</u>	<u>193</u>
Number of applications brought forward for the ensuing year without						

making registration	28,720	22,538	1,525	1,287	955	823
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Percentage of applications

not registered even though

applied for registration (%)	91	81	84	85	78	81
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The following observations are made in this connection.

- (a) Out of the applications received for registration of trademarks during the year under review, 28,720 applications had existed as at 31 December 2012 without taking any action and it represented 91 per cent of the total applications to be registered during the year. It had exceeded the percentage for the preceding year of 81 per cent. Comparison of applications completed during the year under review revealed that completion of the above mentioned quantity of applications will take a further period of more than 10 years.
- (b) Even though registration of 301 applications out of 1,896 patent licenses to be registered during the year under review had achieved more progress than the previous year, it had represented a minor percentage of 16 per cent of applications to be completed. Particulars relating to applications which were completed partially and abandoned wholly had not been submitted for audit.
- (c) Applications totalling of 1,217 consisting of 823 applications for industrial designs brought forward from the previous years and 394 applications received during the year under review had remained for registration and of these, only 262 applications had been registered. Even though 1,217 applications had been received during the year under review for registration of industrial plans, of these, the Fund had registered only 22 per cent or 262 applications. Particulars relating to applications which were completed partially and abandoned had not been submitted for audit.

- (d) Even though according to the above mentioned information, registration of trademarks, patent licenses and industrial designs was the main function of the National Intellectual Property Office of Sri Lanka, these functions were at a very weak level. As a result, new creators had discouraged and contribution to the economy from new creations of the creators had not been received due to not making registration within the appropriate period. The Fund had not drawn attention relating to strategy and action plan in order to expedite the registration of remaining applications.

3.2 **Management Inefficiencies**

(a) Construction of a Depository and a Sales Promotion Centre

Sums aggregating Rs.22,978,101 had been spent during the years 2008 and 2009 for construction of depository and a sales promotion centre for the National Intellectual Property Office and other activities thereon. The following observations are made in this connection.

- (i) Construction had been carried out without confirming the ownership and existence of the relevant lands and as such, a sum of Rs.22,978,101 spent thereon had become a fruitless expenditure.
- (ii) According to the agreements entered into with contracting company, construction should be completed by 18 December 2008. However, it had been stopped halfway.
- (iii) The land had remained insecurely and not taken for utilization for a period of two and a half years after abandoning the construction works in the month of December 2008. Action had not been taken to utilize the above building for other government activities effectively.

- (iv) Action had not been taken up to 30 June 2013 to recover sum of Rs.4,549,750 to be recovered from the cash paid as advances to the contracting company which was carrying out the construction.

(b) Establishment of Centres for Supplying Intellectual Property Facilities

According to the Annual Action Plan, a sum of Rs.04 million had been allocated for establishment of the above 03 Centers. However, the above objective had not been achieved up to 31 December 2012.

3.3 Personnel Administration

The following observations are made.

- (a) Even though five posts in the executive level including the post of Director General of the Intellectual Property Office had remained vacant from the year 2007, action had not been taken up to 31 December 2013 to fill the above vacancies.
- (b) Among the posts which were very special to the Fund, eleven posts out of 27 approved cadre of the posts such as Intellectual Property Technical Assistants, Intellectual Property Research Assistants, Document and Data Assistants and Intellectual Property Officers had remained vacant up to 31 May 2013.

4. **Accountability and Good Governance**

4.1 **Corporate Plan**

A Corporate Plan relating to the Fund covering the year under review had not been prepared in order to achieve the vision and mission of the Fund.

4.2 **Procurement Plan**

Main Procurement Plan had not been prepared in terms of Guideline 4.2.1 of the Procurement Guidelines.

4.3 **Internal Audit**

Even though an internal audit relating to the activities of the Fund should have been implemented and its audit report submitted to the Auditor General in terms of Financial Regulations 133 and 134(3), action had not been taken accordingly. However, Internal Audit Division of the Ministry had also covered the internal audit activities of the Fund.

5. **Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were reported to the Director General of the Intellectual Property from time to time. Special attention is needed in respect of the following areas.

- (a) Accounting
- (b) Registration of Trademarks, Patent Licenses and Industrial Plan
- (c) Management of Human Resources
- (d) Construction Contracts