

## **National Intellectual Property Fund of the National Intellectual Property Office of Sri Lanka - 2013**

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The audit of financial statements of the National Intellectual Property Fund of the National Intellectual Property Office of Sri Lanka for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the comprehensive income statement, 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with and Section 176(6) of the Intellectual Property Act, No. 36 of 2003. My comments and observations on the above financial statements appear in this report.

### **1.2 Management's Responsibility for Financial Statements**

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management 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 consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). 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 judgements, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund'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 Fund'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 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 Fund of the National Intellectual Property as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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Even though according to the Financial Regulation 880 of the Democratic Socialist Republic of Sri Lanka ,officers who are administratively responsible for, or who under delegation are entrusted with, the receipt or custody of public money, revenue stamps or stores, or the disbursement of public money or the issue of stamps or stores and those who certify vouchers or sign cheques on Government Account should be required to give security in accordance with the Public Officers (Security) Ordinance (Cap.612) for the faithful discharge of their duties , it had not been so done.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the operating result of the Fund for the year under review was a surplus of Rs.49,692,263 as compared with the corresponding surplus of Rs.47,715,331 for the preceding year. The increase of the surplus for the year under review as compared with the preceding year by a sum of Rs.1,976,932 had been mainly due to the decrease of the operating expenditure in the year under review by a sum of Rs.2,185,492 .

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Registration of Trade Marks, Patents and Industrial Designs**

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According to the information made available , performance of the registration of trade marks, patents and industrial designs for the year under review and the preceding year is given in the chart below.

	Registration of Trade Marks		Registration of Patents		Registration of Industrial Designs	
	2013	2012	2013	2012	2013	2012
Number of applications brought forward from the preceding year	28,720	22,538	1,525	1,287	955	823
Number of applications received within the year	8,825	9,036	516	539	346	394
Number of applications to be registered in the year	37,545	31,574	2,041	1,826	1,301	1,217
Number of applications registered in the year	1,485	2,854	236	301	130	262
Number of applications brought forward to the following year but not registered	36,060	28,720	1,805	1,525	1,171	955
Number of files being in progress	16,400	-	1,730	-	729	-
Number of files un attended	19,660		75		442	
Number of applications unattended as a percentage	55		4		38	

The following observations are made in this connection.

- (a) As significant differences were observed between the schedules submitted with the financial statements and progress reports on information, arising of problems on the accuracy of the above data could not be avoided.
- (b) According to the above information, registration of trade -marks, patents and industrial designs are the main objectives of the National Intellectual Office of Sri Lanka, but the execution of the said tasks were at a very weak level. As such, due to discouragement of new inventors and registration not made on time, a significant contribution had not been afforded to the economy through the new inventions of the inventors. Even though a piece rate payment method had been introduced from May 2013 for the quick registration of applications submitted, an additional cost of Rs.305,960 had been spent from the Fund. However ,it could not be satisfied in audit in relation to the registration of trade- marks and industrial designs .

#### 4.2 Management Inefficiencies

Even though according to the Annual Action Plan Rs.5 lakhs had been allocated for the establishment of 03 centres to provide intellectual property facilities, the said objective had not been achieved even by 31 December 2013.

#### **4.3 Construction of buildings in the lands not formally vested**

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Expenditure totalling Rs.22,978,101 had been incurred in the years 2008 and 2009 for the construction of a Depository and a Sales Promotion Centre for the National Intellectual Property Office of Sri Lanka. As the construction had been commenced without ascertaining the ownership and existence of the land, the expenditure spent for the building which had been decided to demolish and remove had been fruitless.

#### **4.4 Transactions of Contentious Nature**

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Out of a sum of Rs.800,000 allocated for foreign trainings in the year under review, an amount of Rs.360,000 had been spent for foreign training in respect of 10 external officers of the Institute.

#### **4.5 Personnel Administration**

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The following observations are made.

- (a) Eventhough the post of the Director General of Intellectual Property has been vacant over a period of one year, a female officer had been appointed for acting duty without being taken action to fill the this vacancy. Further two posts of Deputy Director and one post of Assistant Director had been vacant from periods of 4 ½ and 2 ½ years respectively.
- (b) Twelve posts of Intellectual Property Technical Assistant, Intellectual Property Research Assistant, Documents and Data Assistant and Intellectual Property Officer and 06 posts of Management Assistant had been vacant over a period of 2 years as at 31 May 2014.

### **5. Accountability and Good Governance**

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#### **5.1 Internal Audit**

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In terms of the Department of Management Audit Circular No. DMA/2009(1) dated 09 June 2009, an adequate internal audit in respect of the activities of the Fund had not been carried out.

#### **5.2 Budgetary Control**

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Significant variances were observed between the budgeted and the actual income ranging from 17 per cent to 120 per cent between the budgeted and the actual expenditure ranging from 60 per cent to 100 per cent, thus indicating that the budget had not been made use of as an effective instrument of financial control.

**6. Systems and Controls**  
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Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Director General of Intellectual Property. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Registration of Trade Marks, Patents and Industrial Designs
- (c) Human Resources Management
- (d) Contract administration