

Sri Lanka Inventors Commission - 2015

The audit of Financial Statements of the Sri Lanka Inventors Commission for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and statement of financial performance, 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 read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 27 of the Sri Lanka Inventors Incentives Act, No. 53 of 1979. My comments and observations which I consider should be published with the Annual Report of the Commission in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7) (a) of the Finance Act will be issued to the Commissioner of the Commission in due course.

1.2 Responsibility of the Management for the Financial Statements

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

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 Auditing 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 Commission'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 Commission'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. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Inventors Commission as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

According to the Sri Lanka Public Sector Accounting Standard 7, action had not been taken to revalue and account to show the fair value of the fully depreciated assets but still in use costing Rs.18,492,638.

2.2.2 Accounting Deficiencies

In the preparation of the statement of changes in equity, a Grants Account had not been maintained so as to reflect the Government Grants received from the Government and its adjustments and the transactions on capital grants had been adjusted in the Accumulated Fund.

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

A building had been rented for the office without an approval of the Secretary to the Ministry in terms of Financial Regulation 835(1)(c) of the Democratic Socialist Republic of Sri Lanka and without entering into agreements in terms of Section 8.9.1 (b) of the National Procurement Guidelines of 25 January 2006. Even though the monthly rental of that building was Rs.425,500 according to the assessment report, a total sum of Rs.11,933,794 comprising a rental deposit for 02 months at the rate of Rs.525,000 and 06 months' rent as advances had been paid as rent from 17 November 2014 up to 31 December of the year under review.

2.4 Transactions not Supported by Adequate Authority

A Committee had been appointed by the Director for the disposal and auction of scrap items in the year 2014 without the approval of the Ministry and that Committee had taken action to eliminate 22 undisposed office equipment from the Inventory in the year under review.

3. Financial Review

3.1 Financial Results

The following observations are made.

- (a) According to the financial statements presented, the operations of the Commission for the year ended 31 December 2015 had resulted in a deficit of Rs.3,576,072 as compared with the corresponding deficit of Rs.1,921,459 for the preceding year thus indicating an

increase of the deficit by Rs.1,654,613 in the year under review as compared with the preceding year. Even though the Governments' Contribution for recurrent expenditure had increased by Rs.4,308,512, the increase of employees emoluments by Rs.2,580,276 and administrative expenditure by Rs.2,975,350 had mainly attributed to the increase in the deficit.

- (b) Except in the year 2012, a financial deficit had continued from the year 2011 to the year 2015 in analyzing the financial results of the preceding years. However, when taking into consideration the employees' emoluments and depreciation on non-current assets, a continuous improvement had been indicated in the overall contribution of the Commission, despite the continuous increase of employees' emoluments from the year 2011 up to the year 2015.

3.2 Analytical Review

According to the statement of financial position presented, the working capital ratios of the Commission are analyzed below.

	Year 2015	Year 2014
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Current Ratio	12.6:1	32:1
Cash Ratio	9.8:1	21:1

A decrease in the current ratio and the cash ratio of the Commission had been indicated in the year under review as compared with the year 2014.

4. Operating Review

4.1 Performance

Among the powers and functions of the Commission specified in Section 11(1) of the Act, the functions not fulfilled and functions not adequately fulfilled in the year under review are given below.

- (a) Even though assistance should be given in the preparation of applications for providing technical assistance and issuing patent licence to the inventors after examining the inventions, it was not confirmed in audit that the inventors had been referred to obtain patents by the Commission during the period from the year 2011 to the year 2015.
- (b) Providing assistance to the inventors in selling the inventions in Sri Lanka and abroad is a function of the Commission. Despite having won awards for 468 inventions during the period from the year 2011 to the year 2015, action had not been taken to issue patent licences and to commercialize in respect of 437 inventions.
- (c) Even though granting financial aid to inventors to develop, perfect and produce inventions under terms and conditions specified by the Commission is a function of the Commission, a balance of Rs.9,793,495 remained in the Inventors Fund as at the

end of the year under review. Only a loan of Rs.400,000 had been granted despite planning to grant loans and aid amounting to Rs.8,000,000 according to the Action Plan.

- (d) Even though a common research laboratory should be established and maintained to facilitate carrying out the inventions and researches of the inventors, action had not been taken to establish that laboratory from the inception of the Commission up to now.
- (e) Even though organizing creative societies in Schools, Technical Colleges and Universities to improve and encourage the creativity among Sri Lankan youths is a function of the Commission, it was not confirmed in audit that organizing of creative societies had been carried out in Technical Colleges and Universities.

4.2 Personnel Administration

The following observations are made.

- (a) The approved cadre and the actual cadre of the Commission had been 24 and 20 respectively as at 31 December 2015 and as such, the number of vacancies had been 04.
- (b) Even though 12 functions to be fulfilled by the Commission are specified in Section 11(1) of the Sri Lanka Inventors' Incentives Act, No.53 of 1979, only 06 functions out of them are being fulfilled due to inadequate approved cadre. Action had not been taken to obtain approval for the cadre to establish divisions for research, patent and legal for the administrative purposes of the Commission in terms of Section 21 (1) of the Act.

5 Accountability and Good Governance

5.1 Internal Audit

An internal audit unit had not been established in the Commission in terms of Financial Regulation 133 of the Democratic Socialist Republic of Sri Lanka and no audit had been carried out by the internal audit unit of the Ministry as well.

5.2 Budgetary Control

Variances ranging from 30 per cent to 100 per cent were observed between the budgeted and actual expenditure thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Commissioner from time to time. Special attention is needed in respect of the following areas of control.

System	Observations
(a) Control of Fixed Assets	<ul style="list-style-type: none">i. Failure in numbering the fixed assets so as to identify them.ii. Entering the same asset many times in the Register of Fixed Assets.
(b) Inventory Control	Failure to update inventories by including receipts and issues of goods.