

## **Sri Lanka Inventors commission – 2017**

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The audit of Financial Statements of the Sri Lanka Inventors Commission for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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.

### **1.2 Responsibility of the Management for the 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 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. Subsections (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**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except 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 2017 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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##### **Sri Lanka Public Sector Accounting Standard 07**

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Fully depreciated fixed assets costing Rs.22,958,914 had been in further use due to the failure to review the effective life of non-current assets annually according to the paragraph 65 of the Standards. Accordingly, action had not been taken for the revision of the estimated error in terms of the Sri Lanka Public Sector Accounting Standard No. 03.

#### **2.2.2 Accounting Deficiencies**

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A sum of Rs. 1,482,797 which was paid in advance in December 2017 for reservation of hall facilities for the 2018 Inventors' Day and the International Innovative Exhibition, had been accounted, as an expenditure in the year 2017 instead of being accounting as prepayment or advance under current assets.

### **2.3 Accounts Receivable**

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Following observations are made.

- (a) Action had not been taken to settle pre-payment and other advances totalled Rs. 485,281 made for contractual services with National Apprentice and Training Authority older than 05 years.
- (b) Action had not been taken to recover even by 31 December of the year under review the loan receivable balance of Rs. 9,317,683 out of which had been granted in the years 2008 and 2009 for inventors,.

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

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Following non-compliances were observed.

<b>Non-compliance with Laws, Rules, Regulations</b>	<b>Non compliance</b>
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(a) National Procurement Guidelines of 2006 (i) 3.4.3 and 3.4.4	Although quotations may be call from the registered suppliers or suppliers who registered in SLT Rainbow Pages in the shopping procurement method, the selected methodology was not clear when calling bids for the 2 procurements amounting to Rs. 4,583,265 during the year under review.
(ii) 1.2.1.(f)	Although the requirement is clearly stated in the specifications, for ensuring transparency and consistency in the evaluation and selection procedure, the Commission's specific requirements had not been clearly stated in 2 procurements amounting to Rs.5,305,000.
(b) Ministry of Finance Circular No. 01/2015/01 dated 15 May 2015 (i) Section 4(a)1(iii)	Due to the payment of subsistence allowance by calculating as first category instead of second category officers when paying subsistence allowance for the foreign travelling, in the year under review, a sum of Rs. 70,178 had been overpaid as subsistence allowances for two university lecturers who participated in 2 foreign invention competition.

## 3. Financial Review

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### 3.1 Financial Results

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According to the financial statements presented, the operations of the Commission for the year ended 31 December 2017 had resulted in a surplus of Rs.843,425 as against the corresponding deficit of Rs. 719,018 for the preceding year thus indicating an increase of the financial results by Rs. 1,562,443 in the year under review as compared with the preceding year. However, emoluments by Rs. 2,301,300 and administrative expenses by Rs. 12,219,776 were increased, increase of the Governments' Contribution for recurrent expenditure by Rs. 16,917,850 had mainly attributed to the above increment.

In analysing financial results of the year under review and of 04 proceeding years, even though deficits had been seen in the financial result from the year 2013 to 2016, a financial surplus had seen for the year 2017. Further, when taking into consideration the employees' emoluments and depreciation on non-current assets, a continuous improvement had been indicated from the year 2013 to the year 2017 and had been a sum of Rs. 23,029,875 in the year 2017.

#### **4. Operational Review**

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##### **4.1 Performance**

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##### **4.1.1 Activities and Review**

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Following observations are made according to the action plan for the year under review and on the performance of the Commission from the year 2013 to 2017.

- (a) There were 1,118 inventions presented under the "Sahasak Nimewum" national competition from the year 2014 to the year 2017 and out of that amount of inventions won were 318. However, it was observed only 63 inventions had obtained patent license during the period of 2014-2017. It was 5 per cent out of the inventions presented to the competition or 20 per cent of the inventions won.
- (b) **Producing Financial Assistance to new inventors**

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  - (i) A manual with Conditions and Guidelines for producing financial assistants had not been prepared when giving financial assistant to the new inventors.
  - (ii) Although eight new inventors have been recommended to provide financial assistance from "Nava Nipeyum Diriya 2016" Program, financial assistance were provided only to 3 inventors as at 31 December of the year.
  - (iii) A sum of Rs. 7,720,345 had been awarded to 11 new inventors in 2016 and 2017 as financial assistance. Due to funding without a proper study of the need for funds and the instance of need for funds, the funds did not achieve the expected objectives in 3 instances totalled to Rs.4,133,879. It is further observed that a formal methodology has not been prepared for evaluating their progress after loans or aids are given.
- (c) Helping new inventors to sell their inventions is a function of the Commission. Although it was able to analyze the the products presented at the "Sahasak Exhibition" as private companies with ability to commercializing those products / help them to commercialize those products, and must be cordinate them, those institution had not veen invited.
- (d) Although organizing creative societies at schools, technical colleges and universities was a function of the Commission, such sociaties were not organized

- (e) Estimated cost of Rs.94,000,000 for 13 activities were included in the Action Plan and since physical targets were not fixed for 11 of those activities, the progress and results achieved in those activities could not be evaluated.
- (f) With the aims of to give manufacturers a proper recognition in the society, to recognize them as a reputed group of people in the society, to give them a glimpse of them, and to focus creative people on innovative products creative people for innovative products, the method of issuing Identity Cards was introduced in the year 2016. Although, 2000 Identity Cards were printed for Rs. 600,000 by the end of May 2018 only 312 identity cards were issued.
- (g) A mechanism for bringing their invention product to market and promoting research has been launched in the year under review and by August 2018, a sum of Rs. 4,701,920 had been spent on administrative activities, but no researcher or inventor had been provided with financial support.
- (h) A provision of Rs. 2,000,000 had been provided for the development of the website of the Commission and although it is expected to contribute through creating a new culture of innovation, and regular them it was not observed that inventors were registered. Furthermore, the website could be used to promote commercial product marketing, but such a program was not implemented.

## 4.2 Management Activities

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Following observations are made

- (a) Formulate a Media Policy to Promote and Establish an Innovation Culture in Sri Lanka
 

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  - (i) Even though a sum of Rs. 1,680,000 had been spent for conduct a media conference for this purpose, by the 30th of June 2018, no media policy had been approved.
  - (ii) Even though a sum of Rs. 125,000 had been paid to a resource person for prepare a media policy, an agreement had not been entered with the resource person including the time period to present the media policy to the Commission and fields to be covered.
- (b) A decision had been taken to provide financial assistance to an inventor on the recommendation of the Sri lanka National Engineering Reserch and Development Center for developing a machine for Solid waste mechanically shredding and selecting and according to the letter of Sri lanka National Engineering Reserch and Development Center dated 04 July 2017 it was mentioned the cost of the machine as Rs. 335,369. Further, it was mentioned that the suitability of the machine will be inform later. Even though relevant amount had been paid to the inventor by July 2017, a report on suitability of the machine had not been obtained even by April 2018, the date of audit.

- (c) The Commission sponsored the "Science 2017" exhibition organized by the University of Kelaniya and a sum of Rs. 1,475,000 had been agreed upon for this purpose. 90 per cent or Rs. 1,327,500 in advance, was paid on 1 September 2017 and the expenditure reports had not been obtained even by April 2018.
- (d) It was not observed a proper method of selecting products for overseas exhibitions and although it was stated that the winners of the open category of the "Sahasak Nimawum - 2016" exhibition were selected for the 45 Geneva Exhibition but without been offered to the inventions of the first places in 4 fields opportunities had been offered to 3 products which got second places. Although, it was mentioned that were referred to the another exhibition, it was not done.

### **4.3 Operational Activities**

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Five thousand books were printed at a cost of Rs.390,000 including the names of inventors and inventions for the "Sahasak Nimawum" exhibition but 2,465 books valued at Rs.192,270 or about 50 per cent were in the stock. This exhibition is annually organized by the Commission and in the previous years too, the books printed in this manner were in the stock and was a loss due to printing of books in the year under review without paying attention to past experience.

### **4.4 Idle or Under Utilized Assets**

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Even though at the beginning of the year under review a sum of Rs. 4,213,081 existed in the Inventors Fund and only Rs. 1,795,000 had been provided to 03 inventors during the year under review and it was observed that the funds were underutilized.

## **5. Sustainable Development**

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### **5.1 Achieving the Objectives of Sustainable Development**

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Every public institution should act in compliance with the United Nations Sustainable Development Agenda for the year 2030. With respect to the year under review, the Sri Lanka Inventors Commission had not been aware as to how to take measures relating to the activities under purview of their scope.

## **6. Accountability and Good Governance**

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### **6.1 Procurement and Contract Activities**

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#### **6.1.1 Procurement**

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Following observations are made.

- (a) Although a major procurement plan has been prepared in accordance with Section 4.2.1 (a) of the Government Procurement Guidelines, expected procurements were ranked according to the programs expected for the year rather than the product, services, work and consultancy services.

- (c) A detailed procurement plan including each procurement, which is expected to be carried out under goods, services, works and consultancy services, estimated value, procurement method, time frame for each sub procurement had not been prepared in accordance with Section 4.2.1 (c) of the Government Procurement Guidelines.
- (c) Four Program Organizers were selected by following shopping method according to the Section 3.4 of the 2006 Procurement Guide Lines for goods and works without following the 2007 Guidelines for the selection and engagement of consultants and it was agreed to pay a sum of Rs. 10,734,765 for this, and the both parties had not entered into agreements on the achievement of the services.
- (d) A project was initiated in the year under review to ceate a machanism to bring the their inventions to the product market of inventors of Sri Lanka and to promote researches and a consultancy firm was selected for a period of one year and agreed to pay Rs.4,620,000. Following observations are made regarding the selection of the consultancy institution
- (i) Although if it is necessary an additional staff for this purpose, it is stated that it it was necessary to obtain approval to this requirement from the Department of Management Services according to the National Budget Department letter No. BD/HRD/196/MIN/G/2017 dated 19 July 2017, the consultancy firm was recruited for a period of one year based on the Ministry letter No. MTR/7/3/23 Vol-1 dated 31 August 2017. However, action had not been taken to obtain approval for the additional cadre even up to the date of audit, August 2018.
- (ii) The Expression of Interest for selecting a consultancy firm had only published in one newspaper in addition to the website of the Commission. Since procurement should be competitive in order to obtain more quality and productivity, it was not advertized in sufficient number of news papers to obtain Expression of Interest.
- (iii) Instanses were observed that contrary to the guidelines for selecting and employing a consulting firm of 2007.
- Even though the Departmental Advisory Procurement Committee has to be appointed by the Chief Accounting Officer in terms of Section 2.6.3, the Commission had not acted accordingly.
  - Although it is necessary to study the requirement of resources and preparing a cost estimate in terms of Section 3.4, this was not done.
  - The consultant should be selected by obtaining proposals from the consultancy firms and evaluating by the Counseling Procurement Committee according to the Sections 2.3.1 (d), 2.5(e) and 6.2.1., The Counseling firm had selected only by evaluating the letter of expression of interest itself without been so done.

- (iv) The process of selecting a consultant must be transparent in accordance of the Section 1.2.1 of the Consultant Procurement Guidelines, it was observed the procurement was not transparent according to the observations made by the interest evaluating committee relating to the matters of experiences, similar activities, resource allocation, financial estimates, counseling services provided and legal of the institutes which expressed interest.
- (v) It is a problem in the audit if there is a need for a consultancy firm to perform 9 activities out of the 13 activities mentioned in the agreement with the consulting firm. If the approval for an additional staff obtained, it is observed that it will be possible to minimize operating costs and increase the number of government grants to improve inventions.

**6.2 Budgetory Control**  
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Following observations are made.

- (a) Variations from 10 per cent to 100 per cent between budgeted expenditure of the budget and the actual expenses are observed and accordingly the budget was not used as a productive management control tool.
- (b) Relating to 04 activities variance in estimation from 90 per cent to 100 per cent had been observed and though it was able to review and ammend the budget in timly basis, it was not done.
- (c) Even though provision of Rs.5,000,000 had been made for development of human resource in the annual budget of the year under review, a human resource plan had not been prepared.

**7. Systems and Controls**  
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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.

<b>Area of System and Control</b> -----	<b>Observations</b> -----
(a) Procurement Management	<ul style="list-style-type: none"> <li>(i) Not including an invitation with the letter of invitation fot bids to participate at the Bid Opening time.</li> <li>(ii) No statement expressed on the existence of confidentiality, impartiality and personal obligations by the members of the Procurement Committee and the Technical Evaluation Committee.</li> </ul>



- (iii) Failure to maintain a register for confirm attendance of the Bidder's Representative.
  - (iv) Payment had been done before goods received.
  - (v) In the consultancy procurement, approval of the Consultancy pProcurement Committee had not been obtained for the advertisement for expression of interest.
- (b) Fixed Assets Control
  - (i) Serial no. not mentioned in the fixes assets register.
  - (ii) Goods inventory book not balanced annually.
  - (iii) Differences in 2 instances of brandnames in the inventory and the phisically existance brandnames.
- (c) Issuing Advances
  - Taking long period to settle advances.
- (d) Accounting
  - Two juurnal entries posting under one journal entry number.
- (e) Operational Control
  - Not predicting the number of participants accurately when organizing programmes.