

Sri Lanka Inventors Commission – 2018

1.1 Opinion

The audit of the financial statements of the Sri Lanka Inventors Commission for the year ended 31 December 2018 comprising the statement of financial position, statement of financial performance, 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 and Finance Act No.38 of 1971. My comments and observations which I consider should be report to the Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Commission as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

I conduct my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under these Auditing Standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section in this 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 Public Sector Accounting Standards and for such internal control as the 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 statements, management is responsible for assessing the Commission'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 Commission or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

As per sub section 16(1) of the National Audit Act No.19 of 2018, the Commission 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 Commission.

1.4 Audit Scope Auditors Responsibility for 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 scepticism 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 Institute'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 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 Institute'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 my auditor's report. However, future events or conditions may cause the Institute 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 Institute, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statement

1.5.1 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
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(a) The stock of caps and T-shirts amounting to Rs.283,750 had not been accounted as at 01 January 2018.	Take actions to do this accurately in the future.	Should be follow accurate accounting policies.
(b) The total amount of Rs.275,575 relating to two insurance agreements for the period of	Action had taken to correct it.	Should be follow accurate accounting policies.

2018/2019 under contractual expenditure owing to that recognized as the expenditure of the year under review had been over stated by Rs.173,038.

1.6 Non – compliance with Laws, Rules and Regulations and Management Decisions ect.

Reference to the Laws, Rules, Regulations ect.	Non compliance	Comment of Management	Recommendations
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(a) Financial Regulations 137	An amount of Rs.39,000 had been paid in two instances, before perform the relevant tasks by an officer who empowered to approve service, works or supplies on completion.	Observation is accepted and actions to be taken in terms of Financial Regulations in future. Even though the cheques were written the day before the date of interview. Payments had been done after end of the interview and certified the arrival by signing in the attendance register.	Should be take actions in accordance with Laws, Rules and Regulations ect.
(b) Financial Regulations 753(2)	Even though the form General 219 for good received notes should be used, the commission had	Observation is accepted actions to be taken to follow the accurate	When purchasing goods for the institute those goods received should be enter in the good

	not been used those procedure in the future. received notes.	
	Forms.	
(c) Financial Regulations 780	<p>Even though in the execution of public works and services should pay due attention to the need for economy and efficiency and ensure execution of tasks, contrary to that in three instances of purchasing had been done for 'Sahasak Nimaum Exhibition' an amount of Rs.566,710 had been expend un economically.</p>	<p>The approval for the establishment of this new post had received from the Department of Management Service letter No.DMS/1609 dated 23 August 2017. Two applicants were participated to the interview which was held on 18 September 2017 and the approval received from the Board paper No.2017(6)-16-4(1) to recruit as per the results of the interview and also the approval of the Board had received for the payment of allowance amounting to Rs.2,000.</p>
(d) Establishment code of Democratic Socialist Republic of Sri Lanka Section 5.4.3 of paragraph	<p>Even though it was enough to be members in an interview Board consist of minimum 3 members and essential members contrary to that</p>	<p>Observation is accepted and take actions in terms of Financial Regulations in future.</p>
		Should be careful about the economy and efficiency when expending by a Government Institute.

- ii. a Board of interviewers had been appointed consist of seven members for the recruitment of two drivers.
- (e) Establishment code of Democratic Socialist Republic of Sri Lanka Section 5.4.4 of paragraph ii. Even though appointing of drivers should be made by the Board as authorized officer of appointments after having recommendations of the interview Board. The Board also included in the interview Board. Observation is accepted The interview Board actions to be taken to should appoint suitably follow the accurate to do the recruitments procedure in the future. unbiasly and independently.

2. Financial Review

2.1 Financial Result

The operating result for the year under review amounted to a deficit of Rs.1,982,586 and the corresponding deficit in the preceding year amounted to Rs.843,425. Therefore a deterioration amounting to of Rs.2,826,011 of the financial results was observed. The reasons for the deterioration is increase of administration expenses by Rs.3,459,172 and incentive for inventors by Rs.7,963,664 even though the Government Grant increased by Rs.7,071,203.

3. Operational Review

3.1 Uneconomic Transactions

Audit Observation -----	Comments of the Management -----	Recommendation -----
Even though a sum of Rs.1,680,000 had been spent in the year 2017 to formulate a Media Policy to promote and establish an Innovation Culture in Sri Lanka. That Media Policy had not been used practically by the month of April 2019.	Investigation of Audit is going on.	Should be careful about the economy and efficiency when expending by a Government Institute.

3.2 Management Inefficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Even though the approval had been received from the Department of Management Services for the recruitment of posts of programme officer and Management Assistant by the month of February 2018 and vacancy of programme officer including 3 posts by the date of 04 October 2018. Actions had not been taken to those requirement by the of May 2019.	Actions had taken to finish the interviews within the month of June.	Should be done soon owing to the approval had received.
(b) According to the requirements of the Act, the qualifications which fulfill when giving loan facilities under the fund of new inventors a new project of providing financial assistance naming 'Nawa Nipeyum diriya' have been	Observation is accepted take actions to correct in future.	Required approval should be take before payments made.

implementing from year 2016 and a sum of Rs.24,031,564 had been paid out of the Rs.52,800,000 of provisions had been done for the project of 'Nawa Nipeyum diriya' new project from 2016 to 2018. The approval of the Board of Management and the approval of the Ministry for the project of 'Nawa Nipeyum diriya' in terms of (1) and (2) of the section 15 of new inventors innovative Act had not been submitted to the audit.

- (c) It was observed that there were many instances of with out sent reports of productions which had been done by the inventors from the loan given under the scheme of 'Nawa Nipeyum diriya' and instances of progress reports had not been submitted after taking follow up actions by the commission.
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| Proper methodology had prepared for loans and aids given from the fund and the approval of the Board had received. | Follow up actions should be done about the performance of the loan and aids given. |
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3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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Hundred per cent of doubtful debts had been allocated for the loan receivable balance of Rs.9,802,964 of which was unsettled and not confirmed had been brought forward in the financial statements for a period of 9 years approval of the Ministry had requested to written off those balances from the books with out taking actions to settle.	Take actions in future to implement proper procedures to be done by following up the new inventors to written off the balances.	Should be recover cash which should be receivable to the Government.

3.4 Transactions of Contentious Nature

3.4.1 Purchase of T-shirts for Sahasak Nimewum Exhibition

Audit Observation -----	Comments of the Management -----	Recommendation -----
An amounting to Rs.998,450 valued 1,270 number of T-shirts had been purchased from a private Institute and the terms and conditions of the procurement guide line had not been followed when selecting that Institute.	Accept the observation a proper procurement procedure have been following in the Sri Lanka New Invertors Commission.	Government procurement procedure should be followed when purchasing of goods and services.

3.4.2 New Innovations Acceleration Fund

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Provisions had been provided amounting to Rs.100 million under the budget provisions in 2017 for Sri Lanka New Invertors Commission to provide loans for new innovators for the purpose of increasing new innovations of Sri Lanka New Invertors and those new innovations added to the economy and society soon. Consultancy service had been obtained with out following procurement methodology relating to obtain consultancy service for operating this fund. Between the New	Although the procurement methodology of obtaining the service of consultant had followed it was accepted that there had been a deficiency of whole procedure and necessary attention has paid to do accurately in the programmes of next year.	Should be take actions to comply with Government laws, rules and regulations and take disciplinary actions by recognizing officers who were not perform duties in accordance with the laws, rules and regulations.

Invertors Commission and the relevant consultancy firm had entered in to agreements on 01 November 2017 and the relevant firm was not registered firm by that occasion.

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| <p>(b) Three activities which should be done directly by the technical evaluation committee and the commission, had been assigned to the consultancy firm by including the agreement.</p> | <p>It was recognized as deficiency of non payment of attention when preparing selection criterias for the confirmation of the legality and actions to be taken in future to avoid that.</p> | <p>Should be entered in to agreements recognizing activities implement by the Institute and it should be correct soon.</p> |
| <p>(c) Even though preparing a data base is an activity of a consultancy firm in accordance with section 8 and 12 of the agreement. It had not been executed.</p> | <p>Observation is accepted and actions to be taken to accurate.</p> | <p>Should be satisfied about the accuracy and quantitative of the activity which was implemented before payments of cash relating to that.</p> |
| <p>(d) Even though the payments for implementing operational activities of the fund should be done for the consultancy firm after having monthly progress payments amounting to Rs.4,620,000 had been paid for 12 months as per Rs.385,000 per month before those reports received.</p> | <p>In accordance with the agreement progress had not been expect for the first installment and it was entered into agreement to do it when the agreement signing. From the 2nd month agreed to pay after</p> | <p>Should be satisfied about the accuracy and quantitative of the activity which was implemented before paying cash relating to that.</p> |

receiving progress. Therefore the monthly progress relating to the month of December 2017 had received on 04 January 2018 and payment had done for on 5 January.

- (e) The total applications applied for financial assistance was 24 and out of that applicants only 04 applicants were given loans totaling Rs.9,127,600 according to that similarly to the value out of 50 per cent of loan amount given to the new inventors from the fund had been paid for the consultancy firm as per consultancy fees.
- There were no further understanding about the range of relevant subject and increase of initial capital from the 2nd year planned to implement by the commission without consultancy firm, so that expenses could be minimized. The commission expected to given training relevant to the officers to over come short comings happening in the first year.
- Should be satisfied about the the quantitative and accuracy of the relevant activity before payment made.

3.4.3 Sahasak Nimewum Exhibition 2018

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) The National New Inventors exhibition of ‘Sahasak Nimewum’ organized by Sri Lanka New Inventors Commission annually, had been held from 14 to 16 of September 2018.	Observations are accepted actions had been taken to follow the methodology	When having supplies and services Government

A supplier had selected without following Government procurement committee when reserving a place to be held the exhibition. calling bids using activities should be registered post and follow the when opening bids Government following procurement procurement guide guide lines those line. activities.

- (b) A private firm had been selected to printed and electronic media propaganda of the ‘Sahasak Nimewum exhibition 2018’. A sum of Rs.2,650,000 had been paid for that out of that Rs.1,250,000 had been paid for publish advertisements on Dinamina, Thinakaran, Lankadeepa, Daily News and Daily Mirror newspapers. Designing advertisements to publish on newspapers done by the staff of the New Inventors Commission and to published in the newspapers an amount of Rs.1,250,000 had been paid for an inter mediator.
- The selected institute Should be careful to implement this about the economy activity being a and effectiveness activity of published when expending in newspapers Government advertisements on Dinamina, Thinakaran, Lankadeepa, Daily News and Daily Mirror therefore that activity expenses. was implemented by them. Actions to be taken to activities which can be done directly by using staff in future.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Seven number of activities out of activities including in the Action Plan of the year 2018 had not been implemented.	Observation accepted to be take action to accurately in future.	Should be prepare Realistic Action Plan and should be give priority to the implement planned activities.

- (b) Even though the target of Development sections established to Should be take actions to the commission is to give prepare patent in the year 2017, prepare better realistic support to complete 500 Although the approval requested to plan. no. of domestic and recruit for the posts from the international patent Management Service Department applications support has only the approval had been given to given only for 60 No. of the posts of Assistant Manager and Domestic patents and 03 the Management Assistant. No. of international Therefore required targets cannot be patents. achieved. But processing of patent was carrying out efficiently by using existing cadre and the Management Assistants and it was inform that 33 number of patent could be completed. It is inform that requested to establish two posts of officers for law and after recruiting those two posts this process could be done efficiently.
- (c) For the upliftment of new Three No. of new innovation youth Realistic plan should be innovations and ground clubs had been established by the prepare and plan should level creativity. Even month of May in the year 2019 and give priority to achieve though 50 number of proper actions to be taken in future those plans. active new innovative to give provisions for the empowerment of new innovations and improved only one and to publish the establishment of new innovative youth clubs under new innovative circular had been established. the approval of the Board.