

**1. Financial Statements**

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**1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Lanka Inventors Commission for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021, 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, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Sri Lanka Inventors Commission as at 31 December 2021, 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**

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

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**

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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)

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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. 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 Audit observations related to the preparation of financial statements

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### 1.5.1 Non-compliance with Sri Lanka Public Sector Accounting standards

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Non-compliance with the reference to particular standards	Comments of the Management	Recommendation
<p>Although section 65 of Sri Lanka Public Sector Accounting Standard No. 7 requires the residual value and useful life of an asset to be reviewed at least at the end of each annual reporting period but the effective life of the assets which were fully depreciated but already in use, the cost of Rs.8,674,312 had not been re-reviewed and adjusted in the financial statements in accordance with Sri Lanka Public Sector Accounting Standard No. 03.</p>	<p>It is also informed that since the goods and equipment under these asset categories are of different types, it is not practical to estimate the life time in general. A high variability can be seen in the effective lifetimes of individual products. Therefore, since it is impractical to revise the life time estimates again, we are informed that only these disclosures have been made in accordance with Section 45 of Sri Lanka Public Sector Accounting Standards No. 3.</p>	<p>Sri Lanka Public Sector Accounting Standards should be followed.</p>

## 1.5.2 Accounting Deficiencies

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Audit Observation	Comments of the Management	Recommendation
<p>(a) Due to the non-accounting of 12 accrued expenses belonging to 12 categories, the total value of which was Rs.2,866,966 for the year under review, the profit of the year under review had been overstated by that amount in the financial statements.</p>	<p>Accept the observation.</p> <p>Actions will be corrected the ledger accounts relating to 01/01/2022 and submitted a copy of the corrected double entry.</p>	<p>Close attention should be paid to annual allocations while preparing expenditure estimates and making expenditure commitments. Also, all expenses related to the year should be included in the annual accounts.</p>
<p>(b) Out of Rs. 1,610,000 cheques written on 30 December of the year under review to 161 schools for the establishment of new production circles 99 checks totaling Rs.990,000 remained in the custody of the commission without being distributed to the respective schools by the date of audit, 21 March 2022. Accordingly, the non-disbursed Rs. 990,000 was overstated in the financial statements for the year under review.</p>	<p>Although the application related to depositing these cheques should be submitted to the commission with the account number, the applications were not submitted to the commission due to the closure of schools due to the covid epidemic in the country and the arrangements are being made to give the cheques by coordinating the schools again.</p>	<p>Spending should be done efficiently and effectively.</p>

## 1.6 Accounts Receivable and Payable

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### 1.6.1 Cash Receivables Receivables

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The allocation for doubtful debtors for the 12 loan balances amounting to Rs.9,602,964 including Rs. 9,317,683 of 15 receivable loan balances had been done and the recovery of those loan balances had not been satisfactory.	The balances mentioned here have been recorded as receivable balances in the books of account since 2011. A full half-debt provision has been made until these balances are written off.	Urgent steps should be taken to recover the amount due.

## 2. Financial Review

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### 2.1 Financial Result

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The operating result for the year under review had been a deficit of Rs. 3,433,824 as compared to the corresponding deficit of Rs. 1,025,898 in the preceding year. Thus indicating a decrease of Rs. 2,407,926 in the financial results. This decline was mainly due to the increase in personal salaries and allowances by Rs.1,993,692.

## 3. Operational Review

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### 3.1 Management Inefficiencies

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Due to keeping the cheques written by the Commission for various projects and expenses without proper planning and need, without handing over to the relevant institutions and individuals, during the year under review, the 40 cheques amounting to Rs. 743,089.00 had been dishonored.	Accept the observation. Some of the cheques mentioned here by you have already been resolved. However, care will be taken to prevent such matters in the future.	Duties must be performed efficiently and effectively within the prescribed time frame.

### 3.2 Transactions of Contentious Nature

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Audit Observation	Comments of the Management	Recommendation
<p>(a) The Sri Lanka Mahaweli Authority and the Sri Lanka Inventors Commission had awarded the contract to prepare an elephant fence to a private company without informing the patented inventors regarding the project to reduce conflicts between humans and wildlife through inventions launched in several stages. The provisions of the procurement guidelines had not been followed in the selection of this company. Furthermore, at the time of selection of this institute as well as at the time of field inspection on 23 December 2020, this institution had not been registered as a business.</p>	Answers had not been given yet.	At the beginning of new projects, the organizational objectives should be taken into account. Provisions of procurement guidelines should be followed.
<p>(b) Although the objective of the commission is to help the inventors to sell their inventions in Sri Lanka and abroad, but to earn income from it, the commission had collected a 30 percent production tax from the contractors through the project to reduce conflicts between humans and wildlife through inventions. Accordingly, the government had to bear an unnecessary cost due to the inclusion of this 30 percent commission to be paid to the commission by the contractor while preparing the estimates.</p>	Answers had not been given yet.	As this is an inventor-centric project, the inventors and their rights must be treated fairly.