

Intellectual Property Fund -2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Intellectual Property Fund for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the 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(3) 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. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2022, 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 expressed qualified opinion on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my 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 management determines, is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process. As per Sub-section 16 (1) of the National Audit Act, No. 19 of 2018, the Fund 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 Fund.

1.4 Auditor's Responsibility for the Audit of 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 skepticism 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 Fund'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 the 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 Fund'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 of my auditor's report. However, future events or conditions may cause the Fund 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 Fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

The Fund is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Accounting Deficiencies

Non-compliance with reference to relevant standard	Comments of the Management	Recommendation
At the end of the year under review, the cost of property, plant and equipment, which was fully depreciated at Rs.6,330,865, was already in use, but it was not disclosed in the financial statements. Also Public Sector Accounting Standards of Sri Lanka No. 03 the estimated error on the useful life of these assets had not been re-reviewed and adjusted in the financial statements.	I further inform that there is a problematic situation regarding the effective life of the office fixtures as they have been working to move the office to another place for the past time.	Action Should be taken as per the Public Sector Accounting Standards of Sri Lanka No.03

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Non-compliance Laws, Rules Regulations etc.	Comments of the Management	Recommendation
Public Finance Circular No. 01/2020 dated August 28, 2020 and No.01/2020(ii) dated December	Although all the public institutions which have not increased the fees charged for provision of services should take necessary steps to revise	Before publishing the new rates in the gazette, the relevant cabinet paper draft and the gazette containing the new revised rates
		Action should be taken as per the instruction of circulars.

20,2022	the fees, The necessary approval to revise the fees was obtained and the revision of the fees was not done.	have been forwarded to the Ministry of Trade, Commerce and Food Safety on 12 April 2023.
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1.7 Investment Management

Audit Observation	Management Comment	Recommendation
During the 4 consecutive months in the fund account of the year under review, there had been a range of balance between Rs. 10 million to Rs. 15 million and there was no effective utilization of surplus funds.	Maintain cash balance to manage expenses according to daily income requirements of the office and accordingly, arrangements have been made to invest the excess money.	Action should be taken to effectively utilize the excess money in the fund account.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs.174,567,112 and the corresponding surplus in the preceding year amounted to Rs.68,822,100 Therefore an improvement amounting to Rs.105,745,012 of the financial result was observed. The main reason of this improvement, the investment interest income was increase by Rs.118,552,063.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The Urban Development Authority had acquired the related land while spending an amount of Rs.22,298,752 for the construction of an intellectual property sales promotion center without acquiring the ownership of the land. It was not possible to settle the amount spent for the construction of that building in the year under review.	Even though, Cabinet approval had been taken in 2014, to reimburse the amount of spent was Rs.22,298,752, Urban Development Authority has not reimbursed the amount so far. And they are already working to recover the amount.	Action should be taken to get the amount from the Urban Development Authority.
(b) The VAT amount of Rs.273,083 which was overpaid in the year	That the relevant institution has informed that after the	Actions should be taken to recover the

2019 was not collected in the year under review.

completion of the activities of the year 2016 on the value added tax file, the necessary inspections for the following years will be carried out.

overpaid amount.

(c) Since the regulations for the registration of geographical indications have not been approved, and also the work of registration of those applications had not been started in the during the year under review

Due to the crisis situation in the country in the year 2022, it had been Obstructed to the performance of duties.

Approval of regulations for registration should be expedited.

That the final draft is now ready to be sent to the Law Drafting Department.

3.2 Operating Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) During the year under review, 431 people had applied for patents and as of April 30, 2023, only 5 patents had been issued.	As of May 04, 2023, five applications from the applications received in the year 2022 have been published in the Gazette and one application has been prepared for publication in the Gazette.	The causes of delay should be identified and solutions should be taken.
(b) In the year under review, out of 9465 applications for trademark registration, only 531 applications of 5.6 percent had undergone primary and secondary examination only.	In the year 2022, due to the processing of about 8400 applications received in previous years, The primary and secondary screening of applications received in the year 2022 was delayed.	The causes of delay should be identified and solutions should be taken.
(c) In relation to the previous year, out of 3640 trademark registrations made in the reviewed year, 557 registrations were from applications received before the year 2012. According to Sections 118(1) and (2) of the Act, the license is valid	A special program was initiated in the year 2022 to expedite backlogged registrations, and due to reasons beyond the control of the institution, the said project could not be completed and was scheduled	The causes of delay should be identified and solutions should be taken.

for a period of 10 years from the date of submission of the application, so the license was not valid at the time of trademark registration.

to be completed in June and July 2023.

(d) A project study has been done in 04 years from the year 2019 to December 31, 2022 to join the Hague International Agreement, but it has been recognized that a feasibility study should be done on the beneficial situation for Sri Lanka by entering into the agreement, but it has not been done.

From the preliminary study done, a proper feasibility study should be done on the beneficial situation for Sri Lanka by entering into the agreement.

Feasibility study should be done as soon as possible.

4. Accountability and Good Governance

4.1 Tabling of Annual Performance Reports in the Parliament

Audit Observation	Comments of the Management	Recommendation
Although the Annual Performance Reports should be tabled in Parliament within 150 days after the end of the financial year in accordance with (2)(e) of Finance Regulation 877 inserted in paragraph 15.1 of State Finance Circular No. 01/2020 dated 28 August 2020, By April 30, 2023, only the performance report related to the year 2019 had been tabled in Parliament.	That the revised 2020 report and 2021 performance report will also be submitted for approval within the next four weeks.	Annual performance reports should be tabled in the Parliament as per circular.