

## **National Intellectual Property Fund of National Intellectual Property Office of Sri Lanka - 2014**

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The audit of the financial statements of Intellectual Property Fund of National Intellectual Property Office of Sri Lanka for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and the 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 Section 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 176 (6) of the Intellectual Property Act, No.36 of 2003. My comments and observations on the above financial statements appear in this report.

### **1.2 Management's responsibility for the Financial Statements**

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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 the 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 risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the preparation and fair presentation of the fund's 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 fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **1.4 Basis for Qualified Audit 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 for 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 National Intellectual Property Fund of National Intellectual Property Office of Sri Lanka as at 31 December 2014 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 Accounting Deficiencies**

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The following observations were made.

- (a) Even though the financial statements had been prepared based on accrual basis, provisions had not been made for a sum of Rs.1,114,807 payable on expenses related to the year under review.
- (b) An asset should be depreciated on systematic basis over its' useful life when it is brought to the usable condition. However the assets procured by the fund had been depreciated from the year subsequent to the year of purchase. Further difference rates had been applied to calculate the depreciation of books instead prescribed depreciation rates.

### **2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions**

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#### **Reference to Laws, Rules, Regulations and Management Decisions**

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#### **Non - compliance**

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| (a) Attachment "E" of the Presidential Circular No.PPA/6/1/1 dated 31 December 1993 and Circular No.105/9/FG/14 dated 17 October 2014 issued by the Ministry of Industries and Commerce. | Even though a report on foreign tour is required to be submitted to the officer who approved the foreign tour, within 07 days of returning to the island after the foreign tour, 25 officers had not complied accordingly during the year under review. |
| (b) Letter No. IC/COM/1/5/miscellaneous dated 27 June 2014 of the Ministry of Industries and Commerce  | A report of all future foreign tours is required to be presented to the Ministry within 07 days in every month to limit the government expenses on foreign visit. However actions had not been taken accordingly.                                       |

### 3. Financial Review

#### 3.1 Financial Results

The financial result of the operation of the Fund in the year under review amounted to a surplus of Rs. 51,285,906 as compared with the corresponding surplus of Rs.55,828,450 for the preceding year. The reduction of the surplus in the year under review by Rs.4,542,544 compared to the preceding year was attributable to the increase of administration and establishment expenses by Rs.8,121,397 representing by 37 per cent.

### 4. Operating Review

#### 4.1 Performance

##### (a) Registration of Trade Marks, Patents and Industrial Designs

According to the information provided, statistics relation to the performance of registration of Trade Marks, Patents and Industrial Designs during the year under review compared with the preceding year are given below.

|  | Registration of Trade Marks |                 | Registration of Patents |                | Registration of Industrial Designs |              |
|--|-----------------------------|-----------------|-------------------------|----------------|------------------------------------|--------------|
|  | 2014                        | 2013            | 2014                    | 2013           | 2014                               | 2013         |
| No. of applications carried forward from previous year | 36,060                      | 28,720          | 1,805                   | 1,525          | 1,171                              | 955          |
| No. of applications received during the year           | <u>8,552</u>                | <u>8,825</u>    | <u>536</u>              | <u>516</u>     | <u>292</u>                         | <u>346</u>   |
| Total for the year                                     | 44,612                      | 37,545          | 2,341                   | 2,041          | 1,463                              | 1,301        |
| Registered during the year                             | <u>(1,138)</u>              | <u>(1,485)</u>  | <u>(263)</u>            | <u>(236)</u>   | <u>(529)</u>                       | <u>(130)</u> |
| Balance uncompleted during the year                    | 43,474                      | 36,060          | 2,078                   | 1,805          | 934                                | 1,171        |
| No. of files in progress                               | <u>(34,501)</u>             | <u>(16,400)</u> | <u>(1,909)</u>          | <u>(1,730)</u> | <u>(934)</u>                       | <u>(729)</u> |
| Files which any action not taken                       | 8,973                       | 19,660          | 169                     | 75             | -                                  | 442          |

It was indicated that the basic function of the Fund is to register the Trade Marks, Patents and Industrial Designs, had not been done properly and failures in attend duties to be done annual, this revealed indicates that the management has not paid attention to fulfill main objectives of the Fund. The following observations are further made in this regard.

- (i) According to the information furnished for audit, 44,612 applications had remained pending for registration during the year under review, including 8,552 new applications received for registration of trade marks during the year under review. Out of that 34,501 applications had remained in progress and 1,138 applications representing 2.6 per cent of total applications, had been registered. At the end of the year , 8,973 applications had remained without taking any action.
  - (ii) During one year under review, 2,341 qualifications remained accumulated including 536 new applications received for registration of patents during the year and 263 applications representing 11 per cent had been registered during the year. Further, 1,909 applications had remained in progress during the year and 169 applications had remained without taking any action.
  - (iii) During the year under review 1,463 application had remained accumulated including 292 new industrial design applications received for registration in the year 2014 and out of that, only 529 industrial design applications representing 36 per cent had been registered. Further, 934 files had remained in progress at the end of the year under review.
- (b) The main function of the National Intellectual Property Office of Sri Lanka is registration of Trade Marks, Patents and Industrial Designs. However, new inventors had become discouraged due to poor achivement and a considerable contribution to the economy was not received due to registrations were not proceed on time.

Following observations were made in this regard.

- (i) Even though a piece based payment system was introduced to accelerate the registration of applications, a decrease of 347 applications (i.e 23%) was observed in registration of trade marks in the year under review compared to the preceding year.
- (ii) Even though Rs.1,262,595 extra cost was incurred in the year under review from the Fund on piece based payment system introduced for accelerating the registration of trade marks, patents and industrial designs, the audit was not satisfied about the progress of registration of trade marks and industrial designs.

#### **4.2 Personnel Management**

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Even though the carder approved by the Department of Management Services was 94, as the actual carder was 54 as at 31 December of the year under review 40 officer level carder provisions were vacant.

#### **4.3 Construction of a Protection House for National Intellectual Property Office**

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Even though Rs.22,298,751 was spent from the Fund to construct a Protection House and a Marketing Development Center for the National Intellectual Property Office, ,the Cabinet had ordered to Urban Development Authority by the cabinet paper No.AMP/15/0272/625/007 dated 23 April 2015, to reimburse the money spent for construction of the building as the respective land had been transferred to Urban Development Authority. This amount had not been obtained from the Urban Development Authority at the audited date of 28 August 2015.

#### **4.4 Transactions of Contentious Nature**

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Rs.88,111 was spent to give foreign training for 07 officers outside the institution ,out of Rs.800,000 provided for the foreign training in the year under review .

### **5. Accountability and Good Governance**

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#### **5.1 Action Plan**

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According, to the Action Plan for the year under review, allocation amounting to Rs.1.4 million had been made to introduce a Computer Information System and other allocation amounting to Rs.0.5 million and Rs.100 million had been made all to establish intellectual property centers islandwide and to build a new office building, respectively. However none of the activities had been implemented during the year under review. Therefore it was observed that the action plan has not implemented effectively during the year under review.

#### **5.2 Procurement Plan**

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Actual expenditure for procurement of computers and office equipments and fixtures had been exceeded by the allocation made in the procurement plan for Intellectual Property by 89 per cent and 72 per cent respectively. Therefore it was observed that the prepared action plan had not been used as a tool of control.

### **6. Systems and Controls**

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Deficiencies in the systems and controls observed during the course of audit had been brought to the notice of the Director General from time to time. Special attention is needed in respect of the following areas of systems and controls.

- (a) Accounting
- (b) Registration of Trade Marks, Patents and Industrial Designs
- (c) Human Resource Management