

Intellectual Property Fund – 2024

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Intellectual Property Fund (“Fund”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 material accounting policy information, 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 report to Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the fund as at 31 December 2024, 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 Opinion

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 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 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 financial statements, management is responsible for assessing the fund’ stability 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 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 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 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka 757 (2)	Although a Board of Survey was conducted for the year under review, the survey reports had not been submitted to the Auditor General.	As soon as the divisions present reasons for the deficiencies identified in each division of the fund, those deficiencies are corrected, and a copy of the Board of Survey report is forwarded to the Auditor General.	Arrangements should be made to submit Board of Survey reports in accordance with the Financial Regulations.
(b)	Public Finance Circulars No. 01/2020 dated 28 August 2020 and No. 01/2020 (ii) dated 20 December 2022.	Although all public institutions that had not increased the fees charged for the provision of services during the period from 2020 to 2022 were required to revise such fees in accordance with the circular, the Fund had not revised the fees and published them in the Gazette.	Further work is being carried out in accordance with the letter dated 28 April 2025 volume ii, No. MT/AGC/NIPO/20 issued by the Secretary to the Ministry of Trade.	Fee revisions should be carried out promptly in accordance with the provisions of the relevant circular.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.189,852,340 and the corresponding surplus in the preceding year amounted to Rs.308,424,933. Therefore, a deterioration amounting to Rs.118,572,593 of the financial result was observed. The reason for the deterioration was mainly attributable to a decrease in investment interest income by Rs.123,109,255, despite an increase of Rs.11,604,572 in trademark income.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
Although the Intellectual Property Fund incurred an expenditure of Rs. 22.29 million in 2008/2009 to construct an Intellectual Property Sales and Promotion Center on land belonging to the Cooperative Wholesale Trading Corporation, the land had subsequently been acquired by the Urban Development Authority for tourism-related development activities. Although it took nine years to initiate the recovery of the expenditure incurred on the construction of the building from the Urban Development Authority following Cabinet approval, the amount had not been recovered as of the audit date, 15 May 2025, due to the lack of agreement from the Cooperative Wholesale Trading Corporation.	Despite several letters sent in this regard, the relevant amount has not been recovered to date.	No construction should be undertaken without securing or verifying ownership of the land, and prompt action should be taken to recover the funds already expended.

3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) During the year under review, the Fund earned a total income of Rs. 264,366,459, comprising 66.73 percent from investment interest and 33.27 percent from fees levied under the Intellectual Property Act. Of this fee income, 30.08 percent was collected from trademark registration. Accordingly, revenue generated from fees under the Intellectual Property Act remained at a relatively low level representing only 30 percent of total income.	Since the Fund's total investment amount is approximately Rs. 1.56 billion, interest income accounts for nearly 66 percent of the Fund's total income. The estimated revenue from fees collected under the Intellectual Property Act in 2024 was approximately Rs. 76.4 million, whereas the actual revenue amounted to Rs. 87.96 million. Therefore, the revenue generated from fees under the Intellectual Property Act has exceeded the estimated amount.	Priority should be given to ensuring the Fund fulfills the duties assigned under the Intellectual Property Act.

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| <p>(b) During 2023 and 2024, the Fund registered 59 and 40 patents locally, and 141 and 147 patents overseas, respectively, totaling 200 and 187 registrations, which represents a 6.5 percent decrease in 2024. Additionally, patent application inspections in the Patents Division declined from 895 in 2023 to 595 in 2024, representing a 33.5 percent decrease.</p> | <p>The shortage of officers has resulted in a decrease in the number of inspections.</p> | <p>Solutions should be identified and implemented to address the reasons for decrease and delay of issuing the patent applications and to ensure the objectives of the Act are achieved.</p> |
| <p>(c) The number of industrial design application examinations by the Industrial Design Division has been gradually decreasing since 2020 and had declined to 55 percent of the 2024 compared to 2020. A higher number of industrial design applications were received compared to 2023. And also, In 2023, the number of industrial design registrations was 145. Accordingly, it had dropped to 80 in 2024, representing a decrease of 44 percent.</p> | <p>The number of inspections was 288 in 2020 and 164 in 2021. From 2022 to 2024, two officers examined industrial design applications, and more over the same officers also examined patent (PCT) applications.</p> | <p>Steps should be taken to investigate the reasons behind the decline in industrial design registrations and identify solutions, and actions taken in accordance with the provisions of the Act.</p> |

4. Accountability and Good Governance

4.1 Annual Action Plan

	Audit Observation	Management Comment	Recommendation
(a)	Although it was planned to permanently move the Intellectual Property Office to new premises and Rs. 15 million had been allocated for this purpose, the work was not completed during the year under review.	No further action has been taken to move the office to other building premises as approval from the Ministry has not been received.	Action plan should be developed based on practical circumstances, and steps should be taken in accordance with the plan.
(b)	Although Rs. 10 million had been allocated for establishing an online payment system for the fund, the task was not completed during the year under review.	The installation of the online payment system was suspended in 2024, and its implementation is now scheduled to take place after the completion of the digitalization project.	Action plan should be developed based on practical circumstances, and steps should be taken in accordance with the plan.

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| (c) | Although it was expected to register 10 geographical indications during the year under review, only a government gazette notification for the registration of geographical indications was published. | Geographical Indication registration commenced in 2025, and two applications have been submitted for registration. | Actions should be taken in accordance with the action plan. |
| (d) | Although it was expected to establish a separate division for copyright within the Trademark Division, such a division was not established during the year. | It will be possible to establish a separate copyright division within the next year. | Actions should be taken in accordance with the action plan. |
| (e) | Although an estimated Rs. 1 million was allocated to promote an educational video clip on intellectual property, only an officer was appointed to conduct a feasibility study during the year. | Work will be undertaken in the coming year to produce a professional, timely, and high-quality educational video for the institution. | Actions should be taken in accordance with the action plan. |
| (f) | Although it was expected to establish two new Technology and Innovation Support Centers (TISCs) in the Vidatha Resource Centers of the identified institutions, conduct two training courses for TISC staff, and update its website, these activities were not carried out during the year. | It is expected that the TISC centers will commence in the next year. | Actions should be taken in accordance with the action plan. |
| (g) | Although it was planned to install the IPAS-IV software as part of the modernization of the Industrial Property Automation System, the work was not completed during the year under review. | The existing hardware capacity is insufficient to update the old version of IPAS currently in use. As a result, technical experts at the World Intellectual Property Organization have indicated that the IPAS-IV software will be provided in the final phase of the digitization project, to be implemented after the signing of a technical cooperation agreement between the World Intellectual Property Organization and Sri Lanka. | Action plan should be based on practical circumstances, and steps should be taken in accordance with the plan. |

4.3 Internal Audit

Audit Observation	Management Comment	Recommendation
It was observed that no internal audit of the Fund had been conducted and no internal auditor had been appointed as required under Section 40(1) of the National Audit Act, No. 19 of 2018.	The vacant position of Internal Auditor in the Fund is not a departmental post but belongs to the Sri Lanka Accounting Service. Consequently, several letters have been sent to the Ministry of Public Administration, Provincial Councils, and Local Government requesting that an officer be assigned to the relevant vacancy.	In accordance with the provisions of the Act, an internal auditor should be appointed and an internal audit conducted.