

**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 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity and cash flow statement and notes to financial statements for the year then ended 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 the Finance Act, No. 38 of 1971. My comments and observations which I consider should be tabled in 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 Sri Lanka Inventors Commission as at 31 December 2019, and its financial performance and 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 based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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**

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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 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 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 Board 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 Scope of Audit (Auditor's Responsibilities for the Audit of 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 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 Commission'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 Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit 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 audit report. However, future events or conditions may cause the Commission 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 Commission and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Board ;
- Whether the Commission has performed according to its powers, functions and duties; and
- Whether the resources of the Commission had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Comments on Financial Statements**

### **1.5.1 Accounting Deficiencies**

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
The capital provision approved by the Treasury for the year 2019 amounted to Rs. 69,222,000 whereas the value of capital provision released by the Treasury during the year amounted to Rs. 58,000,000. The value of capital expenses incurred by the Commission during the year totalled Rs. 69,430,417. Accordingly, an expenditure had been incurred in excess of the provision received from the Treasury by a sum of Rs. 11,225,000. As such, the balance of capital provision had become a minus value by the end of the year.	Although a sum of Rs. 69,225,000 had been requested by the Commission, only a sum of Rs. 58,000,000 had been granted by the Department of Treasury Operation.	Neither expenses nor liabilities should be incurred in excess of the limit approved by the Treasury.

## 1.6 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
Public Finance Circular, No. PFD/RED/03/03/01, dated 31 March 2016.	Four fittings worth Rs. 1,027,682 purchased on 25 December 2014 have been remaining without being used since 01 October 2016, and no action had been taken in terms of Circulars to dispose of those items.	It has been informed that action will be taken to record those items in the register and dispose of in the ensuing year.	The relevant Circular instructions should be followed.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a deficit of Rs. 4,589,666 as compared with the corresponding deficit of Rs. 1,965,586 for the preceding year, thus observing a deterioration of Rs. 2,624,080 in the financial result. The decrease in the receipt of recurrent grants by a sum of Rs. 20,946,971 had mainly been attributable thereto although the allowances for the inventors had been decreased by a sum of Rs. 13,756,522.

## 3. Operating Review

### 3.1 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
a) The expenses totalling Rs. 15,401,317 that had remained accrued as at 31 December 2019, were not settled even by the date of audit on 12 June 2020.	Due to lack of Treasury provision received in this year, those payments could not be made.	Action should be taken to settle the accrual expenses.
b) It is a duty entrusted with the commission in accordance with budget proposals to provide technical assistance by	It has been informed that the observation was accepted.	Action should be taken to execute the activities as planned.

establishing technology-based incubators for improving the products of the innovators, and assistance amounting to Rs. 51.2 million had been granted in that connection. However, the activities planned to be executed in collaboration with the Universities of Rajarata and Ruhuna, had not been executed.

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| <p>c) Procurement process relating to 27 items worth Rs. 360 million had been commenced in October, 2019. However, procurements had been made in the year 2019 with respect to a sum of Rs. 3,885,575 only.</p>   | <p>At the present day, action has been taken to provide 16 instruments worth Rs. 19,236,739 for the technology-based incubator at the University of Ruhuna whilst 12 instruments worth Rs. 18,241,209 have been provided with that of Rajarata University.</p> <p>Action will be taken for rest of the items to be provided through a formal procurement process once the approval of the Board of Governance is obtained.</p>           | <p>Action should be taken to execute the activities as planned.</p>   |
| <p>d) 96 applications had been received in 07 instances for the <i>Nawa Nipayum Diriya</i> program in the year 2019. The Board of Evaluation had evaluated 76 applications therefrom. Twelve applications submitted had been forwarded to the National Engineering Research and Development Centre for obtaining technical assistance. As it was not possible for the National Engineering Research and Development Centre to</p> | <p><b><u>Multi-purpose pre-cast concrete layer.</u></b><br/>The inventor had not maintained an active liaison with the institution, nor had taken action to provide information relating to verify the quality of his innovation and obtain the Patent.</p> <p><b><u>Multi-purpose and garbage-friendly stone.</u></b><br/>Action has been taken to provide the relevant report through the National Building Research Organization.</p> | <p>Necessary action should be taken to provide assistance for the innovators with emphasis on their technical and engineering requirements.</p> |

provide assistance with respect to 02 of those innovations, it was informed that the civil engineering quality research laboratory should be consulted. It was also informed that the requirements of the instrument regulating temperature for chicks could not be provided by that institution. However, the Commission has not taken suitable action for development of the said 03 innovations even by the date of audit.

**The Instrument that keeps the chicks warm.**

The observation is accepted. Action will be taken immediately in that connection.

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| <p>e) Despite being proposed by the Board of Evaluation that loans / grants totalling Rs. 23,530,000 be provided for 16 innovators by August 2019, the Commission had not taken measures even by February 2020 to purchase the relevant equipment by fulfilling the requirements.</p>   | <p>Although judgements were given for the <i>Nawa Nipayum Diriya</i> Program, the decisions thereof should have been forwarded to the Board of Control. As a Board of Control was not in existence during those days, approval could not be obtained for further action. However, all the proposals of the Board of Evaluation have been forwarded to the new Board of Control.</p> | <p>Measures should be taken properly to provide assistance for the inventors.</p>   |
| <p>f) After being recommended by the Evaluation Committee of the <i>Nawa Nipayum Diriya</i> Program, and on the approval of the Board of Control of the Commission, a grant totalling Rs. 2,203,310 had been given to an innovator on 07 November 2018 in order to purchase 09 instruments required to bring his innovation to fruition. That sum had been recovered by the</p> | <p>It has been informed that action would be taken to obtain a report to ensure that the grants provided would be used on the intended purpose.</p>   | <p>Innovators should be provided with assistance for obtaining instruments in a manner that his requirements are fulfilled. Follow-up action should be taken as well.</p> |

Commission on 15 February 2019, and the sum recovered had been used by the Commission on making procurements. Having done so, only 02 instruments had been purchased to the value of Rs. 1,839,425, and provided for the innovator. As only 02 of the 09 items required in the innovation had been provided by the Commission, it remained questionable as to whether the objective of the Commission in providing the grant, and the goal of the innovator in requesting that grant, had been achieved.

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| g) | Procurement process worth Rs. 3,200,000 relating to 03 innovators for whom loans / grants had been approved under the Nawa Nipayum Diriya Program in the year 2018, had not been completed even by the date of audit in the year 2020. | Plans were made to provide for their necessities, goods, and machinery by following the Government Procurement process through the changes made to the Nawa Nipayum Diriya Program on instructions given by the Board of Control of the Ministry. However, delays occurred due to various technical problems relating to the procurement and the requirements of the innovators. Accordingly, the Board of Control requested the innovators for their consent to provide the relevant sum as a loan. | As the technology gets updated day by day, procurements relating to the innovators should be done promptly. |
| h) | No payments had been made to any innovator in the year under review from this Fund the balance of which totaled Rs. 46,472,155 by the end of November 2018.  | The deficiencies have been corrected, and all the applications received under the projects have been forwarded for judgement in accordance with the Guideline (IAFM SL) prepared as per the instructions given by the COPE. further action are being taken on those applications.  | Necessary action should be taken to provide the innovators with financial assistance.                       |

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| <p>i) Even though a period of one year had lapsed after providing a sum of Rs. 2,340,100 for manufacturing the Hybrid Electronic Ignition Tester, only 27 per cent had been spent therefrom.</p> <p>According to the agreement, the innovator should make purchases within a period of 03 months and the bills should be presented, but it had not been so done. Furthermore, only a sum of Rs. 433,330 has so far been recovered from the loan amounting to Rs. 2,000,000 granted in the years 2008/2009 on the manufacturing of prosthetic legs.</p> | <p>The innovator had informed the Commission on the progress of the enterprise with copies of the bills made available. It is expected to conduct a field inspection in the future again.</p> | <p>Recommendations of the Observation Committee should be followed.</p> |
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