

National Building Research Organization - 2013

The audit of financial statements of the National Building Research Organization comprised with the Statement of Financial Position as at 31 December 2013 Statement of Financial Performance, Statement of Changes of Equity and the Statement of Cash Flow 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 Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971. My comments and observations, which I consider should be published with the annual report of the Organization in terms of Section 14 (2)(c) of the Finance Act, appear in this report.

1.2 Responsibility of the Management for the Financial Statements

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 controls 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

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 Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the 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 Organization's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub - sections (3) and (4) of the Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Opinion

In my opinion, except for the effects of 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 Building Research Organization as at 31 December 2013 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

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

- (a) Even though the grants amounting to Rs 25,493,260 received from various institutions and organizations for research and training purposes during the period from 1985 to 2005 and utilized for the purposes of development and training activities, it had been shown under grants continuously without making adjustments.
- (b) The provision for the payable amounting Rs 6,167,402 as at the end of the year under review on activities carried out under Gerandi Ella Land Slide Mitigation Project had not been made in the financial statements.
- (c) Even though a sum of Rs 11,641,621 had been shown in the Financial Performance Report as the research and development expenses that had been shown as Rs.10,735,000 in the detailed note presented for audit.
- (d) Recovery of receivables amounting to Rs 7,024,787 on services provided in 2012 to 09 external parties by the Land Slide Research and Mitigation Division had taken 02 years and such amount had been shown under the work- in - progress instead debtors.
- (e) The rainfall measurement equipment procured in 2014 at a cost of Rs 18,708,860 had been treated as the assets purchased in 2013 and provided depreciation amounting Rs 29,000 thereon.
- (f) Income on issue of Land Slide Risks Assessment Reports amounting to Rs.846,360 for the year under review from 15 Pradeshiya Sabhas and a sum of Rs.141,933 for the previous year from 08 Pradeshiya Sabhas had not been brought to account.

2.2.2. Accounts receivable

The following observations are made.

- (a) Even though the debtor balances aggregating Rs 4,602,121 representing 16 per cent of the total debtor balances as at the end of the year under review had remained over the period ranging from 5 to 17 years, action had not been taken to recover such balances.
- (b) An additional cost amounting to Rs. 10,500,000 incurred exceeding the proceeds received from the General Treasury in 2010 for procurement and research purposes had been shown in the financial statements as an amount receivable.

2.2.3 Lack of Evidence for Audit

Evidence such as progress reports, bills certified, etc. related to the balance of Rs.17,666,169 shown as work- in progress under Geo Technology Engineering and Research Division, Project Management Division and Land Slide Research and Risks Mitigating Section had not been submitted for audit.

2.3 Non- Compliance with Laws ,Rules, Regulation and Management Decisions

The following instances of non- compliances were observed in audit.

Reference to Laws, Rules and Regulations, etc.

Non- compliances

- (a) Section 9.4 of the Chapter XV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka

The Warm Clothing Allowances on foreign travel should not be provided for officers more than once in a 05 year period. However, the Warm Clothing Allowances amounting to Rs 15,173 and Rs 15,176 had been provided to an officer in the years of 2012 and 2013 respectively.

- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

- (i) Financial Regulation 371(2)

The advances granted should be settled immediately after completion of the intended purposes. However, contrary to the above requirements, advances aggregating Rs1,589,263 had been settled in 57 instances after delays ranging from 02 to 06 months.

- (ii) Financial Regulation 371(5)

All the advances granted should be settled as at 31 December of every year. Such unsettled balances at the end of the year under review amounted to Rs 455,277.

- (iii) Financial Regulation 757(a) and (b) Neither the Inventory Book had been closed at the end of the year under review nor certification issued by the officer- in- charge of the stores.
- (iv) Financial Regulation 1647 Even though a full Annual Board of Surveys should be carried out on 18 vehicles owned to the Organization and accessories, it had not been carried out for the year under review comprehensively.
- (c) Public Administration Circular No. 41/90 of 10 October 1990 Even though the fuel consumption of every motor vehicle of the Organization should be tested once in every 06 months, fuel consumption tests of motor vehicles of the Organization had not been carried out even once in the year under review.

3. Financial Review

3.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs.11,227,959 and the corresponding surplus in the previous year amounted to Rs.21,461,664. Therefore a deterioration amounting to Rs.10,233,705 of the financial result was observed. When compared with the previous year, the income of various Divisions of the Organization had increased by Rs.36,962,917 whilst the research grant had also increased by Rs.11,160,000. However the increases of the operating expenses by Rs.63,637,836 had mainly affected for said deterioration.

4. Operating Review

4.1 Performance

The mission of the Organization is to minimize the risks on disaster and promotion of research and development activities by providing technical support for the purpose of secured environment. The basic activities of the Project are mapping of land slide and disaster risk zones, conducting of land slide risk mitigating projects and issuing risk assessment reports. The overall information regarding the performance achieved by the Organization in fulfilling of the mission and the activities are given below.

(a) Project on Mapping of Land Slide Disaster Risk Zones

The risk is assessed by the Organization through risk identification, determining of the limits of risky zones and mapping of connected risks into 1:10,000 and 1:50,000 scales. Therefore, it was scheduled to complete such maps covering 32,972 kilometres in 11 Districts. The following observations are made.

- (i) Under the Project on Mapping of Land Slide Disaster Risk Zones, it was scheduled to complete 168 maps into 1;10,000 scale covering 6,720 kilometres in 10 District.

However, 58 maps covering 2,320 kilometres could not be completed at the end of the year under review.

- (ii) The periods to complete the mapping activities had been specified in the physical plans prepared for mapping purposes and it was observed that 58 maps remained half completed at the end of the year under review. Even though the financial progress of the mapping work is adjusted at the end of the year to be in line with the budget estimate, the details of the physical progress of the work and the provisions saved had not been made available to audit.

(b) Issue of Land Slide Risk Assessment Reports

According to the information made available for audit, Land Slide Risk Assessment Reports should be obtained through the respective Local Authorities by the parties who expected to construct buildings in the land slide risk areas, before the commencement of development activities. For that purpose, offices had been established by the Organization in 10 Districts. According to the information relating to the issue of Land Slide Risk Assessment Reports collected from Land Slide and Research Division and the District Offices, a sum of Rs 30,475,433 had been earned from issuing such reports. The following observations are made in this connection.

- (i) It was observed in audit that people living in the villages around the areas with land slide risks were not adequately made aware of the necessity of obtaining of such certificates and Grama Niladhari in respective areas had not taken action to maintain Co-ordination in this regard with the general public. Therefore it was observed that the certificates had not been obtained in connection with the constructions carried out privately.
- (ii) A data base on the application submitted for Land Slide Assessment Reports and the application rejected had not been maintained to prevent the re-submission of rejected applications and obtaining approval. Even though the Geo-Survey Reports issued by the Organization in connection with the construction of the Small Scale Electricity Project in the Grama Niladhari Division, Padiyapelella in Nuwara-Eliya District indicated that the land is vulnerable to land slide risk and not suitable for proposed construction, the party concerned carried out construction works at a cost of Rs 2,087,960 neglecting the report. The explanation of the Director General of the Organization in this connection was that the Organization does not have a legal right to take follow up action on the reports issued by the Organization and respective Local Authority should take action thereon.
- (iii) A sum of Rs. 27,466,943 had been recovered from the Pradeshiya Sabhas to issue such certificates and out of that a sum of Rs. 948,393 had not been remitted even as at 31 December 2013, thus indicating that a proper mechanism had not been implemented to remit the recoveries made by the Pradeshiya Sabhas.

(c) Gerandiella Landslide Risk Mitigation Project

The activities such as saving of 50 houses facing high risk of land slides, earth filling and construction of a dam to prevent debris flowing and reconstruction of several main roads, etc. had been scheduled to be implemented under this project during the period of 2012-2016. The estimated total cost of this project amounted to Rs. 93,011,363. Works valued at Rs 12,750,000 due to be completed during the previous year had not been completed and out of , works costing Rs.11,550,000 had not been included in the Action Plan for 2013.

4.2 Staff Management

Even though the Scheme of Recruitment of the Organization had been approved by the Department of Management Services on 02 March 2012, there were 57 staff vacancies as at 31 December 2013. Further, 41 employees had been recruited under contract basis for permanent posts. Vacancies for the posts of Management Assistant (Technical) directly connected to the activities of the Organization had been 27 and the recruitments had been delayed by 02 years.

5. Accountability and Good Governance

5.1 Establishment of National Building Research Organization

This Organization had been established by the decision of the Cabinet of Ministers dated 29 September 1993, to establish a separate institution to perform the functions vested with the institutions such as Building Research Institute, State Engineering Corporation and Soil Research Laboratory of the Department of Buildings, etc. The Organization is not established under a Parliamentary Act as a State owned regulatory body and it was observed in audit that the action to be taken by the Organization against the persons involved in constructions made in the risky areas was limited.

5.2 Annual Action Plan

It was observed that the Annual Action Plan of the Organization had been prepared to achieve only for the financial targets and not based on physical target expected to be achieved. Therefore physical performances in connection with mapping of disaster risk zones and construction works done etc., made to minimize land slides could not be evaluated in the audit.

5.3 Internal Audit

The Internal Audit Section of the Organization comprised one officer and the matters on payments made to meet the various functions vested with the main Divisions of the Organization, progress on achievement of the physical performance, etc. had not be examined by the Internal Audit Unit.

5.4 Budgetary Controls

Significant variances between budgeted figures and actuals were observed in audit and it indicated that an adequate attention had not been paid in determination of financial targets

for the Budget and lack of attention on follow up action taken to meet income and expenditure targets. Therefore it was observed that the Budget had not been made use of as an effective instrument of management control.

5.5 Achievement of Environmental and Social Responsibility

The responsibility of mapping of landslide risk areas by carrying out of studies on land slide occurring in the hilly areas of the country and issuing of Landslide Risk Assessment Reports on constructions made in such areas is vested in the Organization.

Through the mapping of landslide risk zones, the distribution pattern of risky areas are identified and such maps are used for the activities such as development of policies in national and provincial levels, preparation of development plans, issue of prior announcements of land slides and permits for the construction of building in the risky areas, etc.

In addition to the above matters, 06 module houses to withstand land slides, tsunami and floods, etc. had been constructed and a sum of Rs 2,677,773 had been spent as at 30 June 2013 thereon. A manual had been prepared by the Organization to instruct the people to withstand of natural disasters.

6. System and Controls

The observations made during the course of audit were brought to the notice of the Director General from time to time. Special attention of the management is needed in respect of the following areas of control.

- (a) Accounting
- (b) Debtors Control
- (c) Staff Administration
- (d) Project Management
- (e) Budgetary Control