

## **National Building Research Organization - 2015**

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The audit of financial statements of the National Building Research Organization for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a statement 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 Management Responsibilities 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 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**

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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 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 judgement, 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**

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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 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 2015 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 Compliance with Sri Lanka Public Sector Accounting Standards (SLPSAS)

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The following observations are made.

- (a) **SLPSAS, 01 – Presentation of Financial Statements:** The net operating results of 06 Divisions of the Organization had been shown as revenue in the statement of financial performance, instead of being shown the income and expenditure of every Division separately as per the provisions in the Standard.
- (b) **SLPSAS, 07 – Property, Plant and Equipment:** According to the provisions in the Standard the depreciations for plant, property and equipment should be provided based on the date of procurement of such assets. However, according to the policy of the Organization, the provision for depreciation had been provided for the whole year of purchase of such assets and no provisions made for the year of disposal.

#### 2.2.2 Accounting Deficiencies

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The following accounting deficiencies were observed.

- (a) A sum of Rs. 1.44 million had been capitalized as a construction cost of a building constructed for the new Headquarters of the Organization which was not directly attributable for the construction works.
- (b) Income received on consultancy services provided for the Department of Motor Traffic amounting to Rs. 1.66 million had been erroneously treated as income of the Head Office instead of being shown under the income of Environment Studies and Services Division.
- (c) A sum of Rs.17.85 million had been written off as bad debts during the year under review with the concurrence of the General Treasury and treated as expenses of the Landslide Research Risk Management Division instead of treating as an expenditure of the Head Office.

### **2.2.3 Lack of Documentary Evidence**

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As a practice, the Organization includes a profit / overhead margin in the cost estimates prepared for the projects implemented on mitigation of landslide risks, consultancy works etc. out of the proceeds received from the General Treasury. However, the details of profit/overhead margin charged for each project had not been made available for audit. The Director General of the Organization had explained that the over head expenses on quantity estimation, preparation of tender documents and awarding, work supervision, checking of compliance etc, are charged by the Organization based on the standard fee scales for projects which adopted by professional bodies and it is depended according to the nature of the mitigation activity.

### **2.4 Non- Compliance with Laws, Rules and Regulations**

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The following instances of non- compliance were observed.

- (a) It was observed that overtime amounting to Rs. 3.99 million had been paid to 124 officers who were not entitled for such allowance in terms of Section 4.1 of the Chapter VIII of the Establishment Code of the Democratic Socialist Republic of Sri Lanka. According to the Director General, the Organization is running with the scarcity of the staff members with specialized knowledge in the fields of building construction, testing of building materials, water, air, soil and especially on landslides. Therefore, the Organization had made arrangements to pay overtime allowances to the staff officers as well to minimize the staff turnover and encourage them to attain the targets of the Organization which need to fulfill urgently.
- (b) A sum of Rs. 1.14 million had been paid during the year under review as holiday pay allowance for the staff grade officer who worked in public holidays. However, the approval of the Secretary to the line Ministry had not been obtained as required by the Public Administration Circular No. 21/2013 of 13 October 2013. Further, 03 officers who were not entitled to obtain transport facilities from residence to office had enjoyed transport facilities up to September 2015, contrary to the provisions made in the Public Enterprises Circular No. PED/1/2015 of 26 May 2015.
- (c) The officer who participated in the workshop held from 04 October to 12 December 2015 in Japan had obtained an incidental allowance of Rs. 171,444 even though the Institute which organized the workshop had incurred all the costs related to the foreign tour, in contrary to the paragraph 3.2 of the Department of Public Finance Circular No.01/2015/01 of 15 May 2015.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Organization for the year under review had resulted in a surplus of Rs.53.55 million as compared with the corresponding surplus Rs.62.75 million in the previous year, thus indicating a deterioration of Rs.9.20 million in the financial results of the year under review as compared with the

previous year. Increase of operational expenses by Rs.5.28 million and decrease of revenue by Rs.3.92 million during the year under review as compared with the previous year were the main reasons attributed for this deterioration.

However, the above mentioned operating results for the year under review and the previous year had been in a favourable position of Rs.288.19 million and Rs. 250.97 million respectively after adding the remunerations, depreciation and taxes paid to the Government aggregating Rs.234.64 million and Rs.188.20 million for the year under review and the previous year respectively.

#### **4. Operating Review**

##### **4.1 Performance**

The main objective 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 matters observed in audit on achievement of this objective by the Organization during the year under review are given below.

##### **(a) Issue of Landslide Risk Assessment Reports**

According to the information made available for audit, the Landslide Risk Assessment Reports should be obtained directly from the Organization or through the respective Local Authorities by the parties who expected to construct buildings in the landslide risk areas, before the commencement of development activities. For that purpose, offices had been established by the Organization in 10 Districts which are vulnerable to landslide risks. A sum of Rs.38.6 million including the Treasury grants of Rs. 24 million had been earned during the year under review through issuing such assessment reports.

The following observations are made in this connection.

- (i) Out of the total amount of Rs. 3.51 million to be recovered from the Pradeshiya Sabhas on issue of the above mentioned reports, a sum of Rs. 1.07 million had not been recovered even as at 31 December 2015, thus indicating that the mechanism established to recover the dues from Pradeshiya Sabhas in timely manner had not been properly implemented .
- (ii) According to the information received, the programme for issuing reports and approvals for the construction and developments in the landslide risk areas had been commenced in the year 2011 and since then 45,563 applications had been received up to the end of the year under review. Out of that 42,775 applications had only been approved. However, an effective course of actions had not been taken by the Organization to follow up the constructions made on rejected applications. As explained by the Director General, the Organization has no authority to stop any unauthorized construction or to take any legal action against defaulting parties, whereas the concerned local government body has the authority to do so. However, the

Organization had taken steps to mark the sites of rejected applications in the hazard maps and maintain a register of rejected applications.

(b) **Activities on Mitigation of Landslide Risks**

The following observations are made.

(i) **Gerandiella Landslide Risk Mitigation Project**

The activities such as rescue of 50 houses facing high risk of landslides, earth filling and construction of a dam to divert debris flowing to some other area and reconstruction of several main roads, etc. had been scheduled to be implemented under this Project. The activities of the Project had been commenced in 2012 and expected to be completed in 2015. Even though according to the initial estimate the works costing Rs.93.01 million were expected to be carried out during the year under review, the works at a cost of Rs.35.50 million only were carried out during the year under review and out of that works valued at Rs.11.90 million had only been completed as at the end of the year under review. Further, it was observed that the District Secretary of Nuwara-eliya had made a request on 09 November 2015 to expedite the construction works under the mitigation project. As explained by the Director General of the Organization, as the site is situated in a high rainfall area with unexpected geographical variances, the construction of drain system showed delays. During the mitigation period the site were subject to ground movements and as a result, designs, construction schedules and cost estimation thereon were changed. However, it is expected to complete the mitigation works by the end of August 2016.

(ii) **Pessionwatte Landslide Mitigation Project**

The mitigation works under the above Project had been continued from 2014 and the first stage of the Project had been completed in July 2015. The second stage of the Project agreed to be completed on 31 January 2016 had not been completed even as at 30 June 2016. The Director General had explained that the Stage II of the Project had shown a slow progress as a result of unfavourable climatic condition prevailed in the area, barriers in transportation of machineries, material and shortages of labour force.

(c) **Landslide Mitigation Projects implemented in Schools**

The construction works at Watukanda Maha Vidyalaya, Udagampitiya Maha Vidyalaya, Ovitigama Maha Vidyalaya and Vijitha Maha Vidyalaya at Dikwella had not been completed even as at the end of the year under review, out of the construction works for landslide mitigations expected to be completed in 14 schools. In addition to that the Organization had entered into an agreement to provide consultancy services on landslide mitigation activities of another 18 schools in Kandy District under the Climate Resilience Improvement Project implemented by the Ministry of Irrigation and Water Resources Management. Out of that the construction works of 04 schools under 02 contract packages had been commenced

during the year under review whilst consultancy services including selection of contractors and bid evaluation etc. had remained incomplete even as at 31 December 2015.

**(d) Climate Resilience Improvement**

The Organization had entered into an agreement to provide consultancy services on landslide mitigation activities of unstable slopes in 16 sections of Kandy – Mahiyangana Road. According to the information received, the physical progress of the several sections of the Road was remained only at 4.2 per cent whereas the expected target was 75 per cent and the works to be completed as at 31 December 2015.

**4.2 Contract Administration**

The following observations are made.

- (a) Action had been taken during the year under review to construct the Headquarters building for the Organization at an estimated cost of Rs. 350 million and out of that the capital grant amounting to Rs. 100 million had been received during the year under review from the General Treasury. The following observations are made in this connection.
  - (i) Even though the estimated cost for the construction was Rs. 350 million, a Cabinet Approved Procurement Committee and Technical Evaluation Committee had not been appointed as required by Guideline 2.14.1 of the Government Procurement Guidelines. Instead, a contract had been awarded on 29 December 2015 for the piling works at a cost of Rs. 45.28 million under the approval of a Procurement Committee appointed by the Secretary of the line Ministry.
  - (ii) It was observed that the piling works commenced on 29 March 2016 had not been completed even as at 30 June 2016. The mobilization advance amounting to Rs.8.12 million had been paid on 30 December 2015 without entering into an agreement with the contractor. It was further observed that the mobilization advance had remained unsettled for over 03 months due to not commencement of piling works.
- (b) It was observed that the procedure applied for the disposal of 03 motor vehicles of the Organization was not carried out in transparent manner as the valuation of such vehicles had been done by the external party and inadequate period of 08 days only had been granted to submit the bids.

**4.3 Human Resources Management**

Even though 35 persons for the posts of Scientists had been recruited during the year under review to fill the vacancies prevailed as at the end of the previous year, 31 persons had been

still deployed under contract and assignment basis without the approval of the Department of Management Services.

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

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### **5.1 Establishment of the National Building Research Organization**

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This Organization had been established under the decision of the Cabinet of Ministers dated 29 September 1993, in order to establish a separate institution to perform the functions vested to some other institutions such as Building Research Institute, State Engineering Corporation and Soil Research Laboratory of the Department of Buildings etc. As the Organization was not incorporated under an Act of Parliament, the validity of the certificates issued by the Organization for construction purposes was remained questionable. Further, the opportunities on follow up action to be taken by the Organization against the persons involved in constructions activities in the risky areas was very limited.

### **5.2 Action Plan**

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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, the physical performance in connection with mapping of disaster risk zones and construction works done etc. to minimize landslides could not be satisfactorily evaluated in audit.

### **5.3 Internal Audit**

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The Internal Audit Section of the Organization comprised with an officer and payments made to meet various functions carried out by the Organization, progress on achievement of the physical performance, etc. had not be examined by the Internal Audit Unit.

### **5.4 Matters of Contentious Nature**

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It was observed that the Organization had invested its surplus funds of Rs 149.24 million in fixed deposits, contrary to the provisions in the Section 11(b) of the Finance Act, No. 38 of 1971 and Department of Public Enterprises Circular No. PED 56 of 27 January 2011.

### **5.5 Budgetary Controls**

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Significant variances between the budgeted and actuals figures were observed in audit, thus indicating that an adequate attention had not been paid in determination of financial targets for the Budget and to meet income and expenditure targets. Therefore, the Budget had not been made use of as an effective instrument of management control.

## **6. Systems and Controls**

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Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Director General in time to time. Special attention of the management is needed in respect of the following areas.

**Area of Operations**

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- (a) Control over Debtors
- (b) Human Resources Management
- (c) Project Management

**General Weakness**

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- Follow-up actions on long outstanding balances
- Filling the vacancies in the key posts.
- Implementation of Project activities without delays