

## **National Building Research Organization - 2020.**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the National Building Research Organization for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 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 report to Parliament appear in this report.

In my opinion, except for 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 Organization as at 31 December 2020, and of 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 (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 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 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 Organization'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 Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Institute 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 Institute.

#### 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, 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 Research Organization'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 Organization'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 Organization 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 Organization, and

- whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Organization has complied with applicable written law, or other general or special directions issued by the governing body of the Institute
- Whether the Organization has performed according to its powers, functions and duties; and
- Whether the resources of the Organization had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Audit observations on the Preparation of Financial Statements

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### 1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

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Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
(a) Although fully depreciated 09 motor vehicles costing Rs. 60,603,536, laboratory equipment costing Rs. 29,840,484 and office equipment costing Rs. 1,157,589 were further in use, no action had been taken to revalue the useful life of those assets and make adjustments in the accounts in accordance with Sri Lanka Public Sector Accounting Standard 03.	Action will be taken to revalue and account for the motor vehicles in the future. The unusable laboratory equipment and office equipment will be disposed of by an auction and eliminated from the books.	Action should be taken in accordance with Sri Lanka Public Sector Accounting Standards.
(b) In terms of Paragraph 117 of Sri Lanka Public Sector Accounting Standard 20, although the method of depreciation of the useful life of the intangible assets or depreciation ratio should be stated in the financial statements, action had not been taken accordingly in connection with Computer Software costing Rs.12,337,058.	Action will be taken to include those ratios separately in the future.	The disclosures mentioned in the standard should be made in accordance with Sri Lanka Public Sector Accounting Standards.

## 1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) A sum of Rs. 3,977,204 remitted to the Head Office by the district offices of the Research Organization had been stated in the financial statements as unidentified receipts, without being correctly identified as income and liabilities.	Letters have been submitted to the People's Bank requesting details to recognize these unidentified remittances and the bank has failed to provide relevant details.	Action should be taken to put in place a methodology to identify the remittance made to the Head Office and correctly make adjustments in the accounts.
(b) The Nation Building Tax receivable and payable and carried forward from the preceding year amounted to Rs. 7,966,743 and Rs.4,448,125 respectively and those balances had been adjusted to the other expenditure account during the year under review in order to write off them from the relevant accounts. As a result, the other expenditure of the year had been overstated by Rs. 3,528,282 and the profit of the year had been understated by that amount in the financial statements.	The error that occurred due to stating the building tax relating to the purchases of the preceding year as an assets without being stated as an expenditure was corrected in this year.	The Nation Building Tax relating to the preceding year should be correctly brought to account.
(c) A balance of Rs. 6,016,209 that continued to exist as Value Added Tax over a number of years and receivable as at the end of the year under review had been adjusted to the payments for sub-contractors' account as an expenditure on 31 December 2020. As a result, the expenditure and the profit of the year had been overstated and understated by that amount respectively.	Although the Value Added Tax should be stated as an expenditure it was stated as an asset by mistake. It was corrected in this year.	Action should be taken to correctly account for the Value Added Tax.

- (d) Although the National Building Research Organization had acquired a land by paying a tax of Rs. 7,965,000 to the Urban Development Authority on a 30-year lease basis, no lease agreement had been signed between the Organization and the Urban Development Authority. Without being taken action to obtain the legal ownership of the land to the Organization, the value of the land amounting to Rs.7,965,000 had been stated in the financial statements as property, plant and equipment.
- The relevant lease agreement is being prepared. Further, there is a land transferring letter issued by the Urban Development Authority.
- Action should be taken to sign a lease agreement between the Organization and the Urban Development Authority.
- (e) Although it was revealed that the amount of Rs. 51,153,455 which was amortized during the year under review for assets purchased with government grants would be adjusted in financial statements according to the revenue access, the above amount of amortization had not been adjusted in the financial statements.
- Action will be taken to account for government grant in accordance with SLPSAS 11 as per Sri Lanka Public Sector Accounting Standards in the future.
- The amortization relating to the assets purchased by government grants should be adjusted in the financial statements.
- (f) An unidentified balance of Rs. 2,264,498 had been brought forward from previous years as acquisition of assets in the statement of changes in equity and the information thereon had not been submitted for Audit.
- An unidentified balance of Rs. 2,264,498 had been brought forward from previous years as acquisition of assets in the statement of changes in equity and action will be taken to adjust it in the income statements in the ensuing year.
- Unidentified balances should be identified and adjusted in the financial statements.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Observation	Comment of the Management	Recommendation
Although it was not the policy of the Organization to provide services on credit basis, there was a debtors balance of Rs. 62,155,575 due to providing services on credit by the end year under review it was applicable to the period from 2014 to 2020.	The Debt Collection Committee recommended to write off Rs. 5.2 million as it was not received from the Urban Development Authority. That recommendation is to be submitted to the next Inter-Management Committee for approval. Letter of Demands have been sent relating to the remaining loan balances and legal action thereon is to be taken in the future.	A formal arrangement should be made to recover the loans and action should be taken in accordance with the agreements.

### 1.6.2 Advances

Audit Observation	Comment of the Management	Recommendation
A sum of Rs. 118,236,114 paid as advances to the contractors from 2015 to 2019 had not been settled even by the end of the year under review.	Out of this amount, Rs.96 million had been paid for the construction of the new building and Rs.5.5 million for the computer system. Action will be taken to include that amount in the assets account on completion of these activities. The balance amount too will be adjusted at the end of each activity.	Action should be taken to recover the advances paid to the contractors.

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Value	Comment of the Management	Recommendation
(a) Public Finance Circular No. 03/2015 dated 14 July 2015.	Although the officers who obtain ad hoc sub-imprest should settle the advances immediately after the completion of the	Rs. 1,182,500	In most cases, special advances are obtained to settle expenditure in work sites. These sites are located far away from the Head Office.	Action should be taken to recover advances without

relevant work, delays ranging from 32 days to 102 had occurred in settling advances in 54 instances.

Hence, there are delay. practical issues in settling advances within 14 days.

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| (b) | Guideline 6.22 of the Procurement Guidelines.  | Although a minimum period of 21 days should be given in calling for national bidding for two disaster mitigation projects , only 16 days had been given.   | 61,845,848 | The above number of days has been reduced to expedite projects to avoid delays in projects due to the Kovid epidemic prevailed in the country.  | Action should be taken in accordance with Procurement Guidelines. |
| (c) | The Letter No. NBRO/AD/2019/132 dated 18 June 2019 of the Director, Finance.                           | Although it has been notified that advance will not be paid until the previous advance is settled, advances had been paid even without settling the previous advances.   | 28,145     | In most cases, special advances are obtained to settle expenditure in work sites. These sites are located far away from the Head Office. Hence, there are practical issues in settling advances within 14 days. | Action should be taken to settle advances within the due period.  |
| (d) | Letter of the Department of Management Services No. DMS/1508 vol viii and 2017 dated 19 December 2017. | Thirty-three officers had been paid salaries and contributions to the Employees Provident Fund and the Trust Fund, contrary to circular instructions, for fulfilling landslide risk mitigation consultation contracts. | 11,126,348 | These payments have been made as it would have to pay a large salary if specialists for this work were recruited from outside.  | Payments should be made in accordance with the circular.          |

**2. Financial Review**

**2.1 Financial Results**

The operations of the Organization for the year under review had resulted in a surplus of Rs. 30,169,666 as compared with the corresponding surplus of Rs. 55,239,903 for the preceding year, thus observing a deterioration of Rs. 25,070,237 in the financial result. This deterioration was mainly due to the decrease in the surplus of the Project Management Division by Rs. 9,165,576, the Human Settlement Planning and Research Division by Rs. 3,185,800, the Building Research Division by Rs. 1,155,671, the Geotechnical and Engineering Division by Rs. 9,237,577 and the Environmental Studies and Services Division by Rs. 2,492,502.

## 2.2 Trend Analysis of major Income and Expenditure items

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### 2.2.1 Improvement or Deterioration of Surplus of Each Division of the Research Organization compared to the year 2019

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As compared with the year 2019, the surplus of the Landside Research and Risk Management Division had increased by 12 per cent in the year 2020 and deterioration by 28,64,96,77,69 per cents were observed in the Environmental Studies and Services Division, Geotechnical Engineering Divisions, Project Management Division, Human Settlement Planning and Research and Building Material Research Division respectively in 2020 compared to the year 2019.

## 3. Operating Review

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### 3.1 Management Inefficiencies

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<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
Although the Bill prepared in accordance with the Cabinet Memorandum submitted to prepare a bill to grant legal status to the organization had been referred to the Legal Draftsman's Department on 10 September, 2012, no action had been taken to present it to Parliament even by 31 December 2020.	It is reported that requests have been made to table it in Parliament.	Necessary steps should be taken to get the bill passed expeditiously.

### 3.2 Operating Inefficiencies

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<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) Recommendations for 1,168 Landslide Risk Assessment Report applications had not been made for building construction and development activities during the year under review. It accounted for 13.6 per cent of the total assessment report applications received.	The field activities could not be properly carried out due to the Covid-19 pandemic prevailed in 2020. As a result, it was not possible to issue reports for 1,168 out of 8,542 LAB/LAD applications.	Applications received for land inspection and development work for building construction should be examined and recommendations made expeditiously.



- (b) During the year under review, 7,879 applications had been received for the landslide survey and reports for 3,717 out of the above applications had been issued and recommendations had not been made for 4,162 applications received for the landslide survey during the year under review. It represented 52.8 per cent of the number of applications received for recommendation during the year.
- The field activities could not be properly carried out due to Covid-19 pandemic prevailed in 2020.
- Action should be taken to conduct field inspections for landslide survey applications and make recommendations expeditiously.

### 3.3 Underutilization of Funds

Audit Observation	Comment of the Management	Recommendation
A sum of Rs. 8 million received for Landslide Detection Systems for the implementation of Community Based Disaster Mitigation Programmes and Rs. 5 million received by the Landslide Risk Mitigation Division had not been utilized and out of the Rs. 97.25 million received during the year under review for the implementation of landslide mitigation projects, Rs.11.89 million had not been utilized.	It is expected to use these funds in the future.	Steps should be taken to use the grants and provisions for the relevant objectives.

### 3.4 Procurement Management

Audit Observation	Comment of the Management	Recommendation
Although the construction of the new office and laboratory building of the Organization should have been completed in 240 days as per the agreement, 1016 days had elapsed by 31 December 2020, whereas no action had been taken to	Various factors beyond the control of the contractor also contributed to the delay in the construction of the building.	Construction of the building should be carried out in accordance with the agreement.

recover the late fee of Rs. 3,650,000. According to the work done reports, new work worth Rs.51,730,418 had been completed and the works valued at Rs.63,927,288 had been eliminated from work plans. An additional amount of Rs.13,271,473 had to be paid to the contractor due to the errors of the officers of the Project Management Division.

### 3.5 Human Resource Management

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Audit Observation	Comment of the Management	Recommendation
<p>-----</p> <p>Although the approved cadre of the Organization was 386 as at 31 December, the staff engaged in the service was 424. It was observed that 98 of the above staff were not the officers in the permanent cadre and there were 62 staff vacancies.</p>	<p>-----</p> <p>The Department of Management Service had approved a cadre of 386 members. In addition to the permanent employees served in this staff, employees are recruited on casual basis from time to time for special counseling programmes so as to limit to the relevant purpose.</p>	<p>-----</p> <p>Employees should be recruited as per the relevant scheme of recruitment after obtaining the relevant approvals.</p>

### 3.6 Vehicle Fleet Management

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Audit Observation	Comment of the Management	Recommendation
<p>-----</p> <p>When renting vehicles to the head office and district offices of the Organization, the Organization had to bear an additional Rs. 599,512 on 34 occasions due to not taking action to utilize the minimum distance required to run.</p>	<p>-----</p> <p>According to the tender agreement, payments should be made for the agreed minimum mileage although the vehicle had been run less than that. It is informed that various measures were taken to reduce the underutilization of vehicles to make this payment favourable to the institution.</p>	<p>-----</p> <p>In obtaining vehicles on rent, action should be taken to use it so as to cover the minimum distance required to run.</p>