

National Building Research Organization - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Building Research Organization for the year ended 31 December 2021 comprising statement of financial position as at 31 December 2021, 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the National Building Research Organization as at 31 December 2021 and financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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

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 National Building Research Organization 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 National Building Research Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the National Building Research Organization financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the National Building Research Organization 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 Organization.

1.4 Audit Scope

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 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 National Building Research Organization and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the National Building Research Organization has complied with applicable written law, or other general or special directions issued by the governing body of the the National Building Research Organization;
- 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 Observation on the preparation of the financial statements

1.5.1 Non-compliance with the Sri Lanka Public Sector Accounting Standard

Non-compliance with Reference to the Standard	Comment of the Management	Recommendation
As per the Sri Lanka Public Sector Accounting Standard 03, motor vehicle valued at Rs. 68.3 million, laboratory equipment valued at Rs.248.1 million and office equipment valued at Rs. 43.6 million which were depreciated fully and using now had not been brought to the financial statements after assessing the use full life again.	Action will be taken brought to the accounts after being carried out an assessment again.	Action should be taken in term of the Sri Lanka Public Sector Accounting Standard.

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
Eventhough a balance of Rs.6 million had been shown in the financial statements of the Organization since 2009 as receivable from the Urban Development Authority, such a balance had not been shown in the financial statements of the Urban Development Authority correspondingly.	Action will be taken to obtain the approval to write off from the accounts from the Public Enterprise Department in future.	Action should be taken to recover the debt promptly.

1.6 Receivable and Payable Accounts

1.6.1 Receivable Money

Audit Observation	Comment of the Management	Recommendation
Rendering of the services on the credit basis is not the policy of the Organization, debtor balance of Rs. 38.4 million had been shown from the year 2009 to 2021, due to rendering of services on credit basis.	Recovering of this credit is being carried out.	A proper arrangement required to be implemented to recover the debts.

1.6.2 Advances

Audit Observation	Comment of the Management	Recommendation
Amount of Rs.10 million paid to the contractors as advances since year 2015 to 2017 had not been recovered even at the end of the current year.	Action will be taken to brought to the accounts as soon as settle the advances.	Action should be taken to recover the advances paid to the contractors.

1.7 Non-compliances with Law, Rules, Regulations and Management Decisions

Reference to the Law, Rules, Regulations	Non-compliances	Amount	Comment of the Management	Recommendation
(a) Financial Regulation of the	Action had not been taken on the losses	Rs. Rs.3 million	After completion of the F.R 104 test	Action should be taken as per the

	Democratic Socialist Republic of Sri Lanka FR 104(1)(a), 104(3) and 104(4)	relating to 23 vehicles accidents occurred since 2019 to 2021 in terms of Financial Regulation.		promptly action will be taken thereon.	Financial Regulation.
(b)	Paragraph 9.12 of the Circular No. PED 12 of 02 June 2003	The organization had made expenditure for the insurance of employees without obtain an approval as per the circular.	Rs. 2.6 million	The expenditure had been incurred out of the interest of the fixed deposit deposited for the payment of gratuities without burden to the General Treasury.	Action should be taken to obtain the approval of the General Treasury in implementing the welfare programme.
(c)	Public Finance Circular No.0/2015 of 14 July 2015	Officers who obtained ad hoc sub imprest had delayed 34 days to 102 days to settle in 61 instances.	Rs.1.8 million	Action will be taken to minimize the delays in settlement of expenses in future.	Action should be taken to recover the advances without delay.
(d)	Paragraph 2.4.1 of the Government Procurement Guidelines	Action had not been taken in accordance with the procurement Guidelines in obtaining the vehicles on rent basis for the district office	Rs.23 million	If the vehicles are not able to supply, the activities of the institutions may cause to inactive definitely and therefore, vehicles had to be supplied by facing the prevailed situation.	Action should be taken in accordance with the procurement Guidelines.

2. Financial Review

2.1 Financial Result

Operating result for the year under review was an excess of Rs.70,461,437 and corresponding excess for the preceding year was Rs 30,169,666. Accordingly, it was observed an improvement of Rs.40,291,771 in the financial result. Increase in excess of the Project Management Division by Rs.5,546,761, excess of the Human Settlement Planning and Research Division by Rs.7,948,571, excess of the Building Research Division by Rs. 4,405,395, Geotechnical and Engineering Division by Rs. 6,379,365, excess of Environment Studies and Service Division by Rs. 9,644,943, Landslide Research and Risk Management Division by Rs. 20,761,268 was the main reasons for the improvement.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Eventhough draft of the Act which was prepared in order to award legal status for the organization had been submitted to the Legal Draftsmen’s Department on 10 September 2012, it was not submitted to the Parliament.	It is reported that the it is scheduled to submit to the Parliament.	Action required to be taken to pass the Act promptly.
(b) Eventhough a building with the extent of squire feet 1500-2000 is enough to maintain an office in the Kandy district, a building with the extent of squire feet 6,017 had been obtained by incurring a rent of Rs. 125,000 per month over 6 years.	A separate office in the Kandy district was maintain for the Landslide Hazard Mapping Project (LHMP) during the preceding year. However, the project office is scheduled to attach to the district office in this year and it will operate from the May 2022.	Action should be taken rented out the buildings as per the requirement.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
Eventhough applications of 11,972 had been received for the survey of landslides, applications of 4,770 representing 39.84 percent of the received applications had not been surveyed and give the recommendations.	Action had been taken to issue 7,202 respective reports as per the priority, out of the 11,972 requests received in the year 2021 and out of the other requests, action had been taken to issue inspection reports by now which required to be carried out definitely.	Action should be taken to give the recommendations promptly by carrying out filed inspections for landslide survey applications.

3.3 Underutilization of funds

Audit Observations	Comments of the Management	Recommendations
(a) A sum of Rs 7.6 million received in year 2015 for the community base disaster mitigation programme and landslide displacement identification system and Rs. 5 million received in year 2015 to the landslide risk mitigation division had not been utilized even up to 31 December 2021.	The respective projects had been included to the Action plan of 2022 for the utilization of this funds and the necessary activities is being carried out thereon.	Action should be taken utilized the allocations for the respective objectives.
(b) Out of the Rs. 150 million received for the implementation of landslide risk mitigation projects during the year under review, A sum of Rs. 101.35 million had been remained under utilization.	There was a delay in awarding of contracts, due to Covid-19 pandemic situation prevailed in the country. Further, the reasons for the slow progress of the project were practical issues arise in the Malapattawa site during the implementation of the respective contract and scarcities of the materials in the country.	Action should be taken to fulfil the allocations provided activities accordingly.
(c) Out of the funds allocation of Rs.60 million received to the organization for the construction of offices with laboratory facilities in the Rathnapura and Kaluthara districts during the year under review, A sum of Rs. 35.37 million had been remained without being utilized.	It was unable to commenced the construction activities of the lab of the Kaluthara district, due to non-completion of the handing over activities of the land which was allocated by the Secretary of the Kaluthara district to the National Building Research Organization.	Action should be taken to fulfil the allocations provided activities accordingly.
(d) Allocations of Rs. 32.85 million received for the 1,000 families in 14 districts under programme of resettlement of persons who live in high risk areas in secured places with the technical contribution of the National Building Research Organization	A new Cabinet paper has been forwarded to the State Ministry of Disaster Management to obtain Cabinet approval for the construction of houses at current market prices taking into account the rising prices of building	Action should be taken to fulfil the allocations provided activities accordingly.

had not been utilized.

material and labour costs. Accordingly, after receiving the above approval, it is planned to construct 35 housing units in 2022.

- (e) Out of the allocations received from the General Treasury for the landslide profile development project, Rs. 34.42 million had been remained without being utilized. It was unable to confirmed the accuracy of this system by carrying out the filed inspections, due to covid -19 situation prevailed in the country. Action should be taken to fulfil the respective activities as scheduled by using the allocations.

3.4 Human Resources Management

Audit Observation	Comment of the Management	Recommendation
Vacancies of 21 had been remained in the senior level posts of the Organization. Out of that post of Director (Admin) from the year 2016, post of Director (Landslide Research and Risk Management) from the year 2018 had been remained vacant. Further, vacancies of 19 in the 03 senior level posts namely Senior Science, Manager (Technical/Laboratory) had been remained and it was remained over 03 years.	Recruitments will be done in future.	Action should be taken to recruit the staff as per the qualifications mentioned in the recruitment procedure.