

**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 2022 comprising statement of financial position as at 31 December 2022, 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 2022 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 (Auditor's Responsibilities for the Audit of Financial Statements)**

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 Observations on Preparation of Financial Statements**

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

<b>Non-compliance with reference to relevant standard</b>	<b>Comments of the Management</b>	<b>Recommendations</b>
(a) Eventhough fully depreciated 09 motor vehicles valued at Rs.70.78 million, scientific equipment of Rs. 271.93 million and office equipment valued at Rs.42.59 million were being used, according to Public Sector Accounting Standard 03, the useful life of those assets had not been reassessed and adjusted to the accounts.	Revaluation of assets has been initiated and could not be completed by 28 February 2023. Therefore, necessary adjustments will be made in the final accounts of 2023.	Action should be taken to follow the Sri Lanka Public Sector Accounting Standards.
(b) According to paragraph 69 of Sri Lanka Public Sector Accounting Standard 07, depreciation of an asset begins when it is brought to a state ready for use. Although an asset of 56.47 million given by the Japanese International Cooperation Agency was established on 15 November 2022, due to depreciation for respective asset from 01 January 2022, the depreciation expense was overstated by Rs. 9.90 million and the surplus of the year had been understated from the same value.	Since these assets were received in the year 2021, depreciation was started from 01.01.2022. However, since the relevant asset was used from 15.11.2022, it will be depreciated from that date and necessary adjustments will be made in the year 2023.	Sri Lanka Public Sector Accounting Standard should be followed in preparing financial statements.

## 1.5.2 Accounting Deficiencies

	<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendations</b>
(a)	Computer software of Rs. 2.9 million and laboratory equipment of Rs. 1.40 million which was being used since 2016 were recognized as assets in the year under review and were depreciated by the same amount. Eventhough this should have been shown as adjustments in the previous year, action had not been taken to do so.	No adjustment is required in 2023 as this has no impact on the statement of financial position.	Assets and their depreciation should be accounted for the correct period.
(b)	The mobile air quality monitoring unit worth of Rs. 41.38 million assigned to the National Building Research Organization by the Vehicle Emission Trust Fund of the Department of Motor Transport on 20 November 2020 had not been included in the financial statements even at the end of the year under review. Further, no depreciation adjustments were made thereon.	The mobile air quality monitoring unit received from the Department of Motor Transport was installed in the lorry received with it and due to the ownership of the lorry has not yet been transferred to the National Building Research Organization, that monitoring unit was also not included in the assets of the year 2022. Action will be taken to include the unit into the assets in the year 2023 and necessary adjustments will be made.	Assets and their depreciation should be properly accounted.
(c)	The unrecognized balance of Rs.2.26 million which had been brought forward from previous years as acquisitions of asset in the change in equity statement had been adjusted to the Capital Contributed by Government & Other Entities account without being identified it.	This balance was shown as a provision received for acquisition of assets in the statement of accounts since 16 years ago. The balance was adjusted to the capital account on that basis. This has not affected to the statement of financial position.	Unrecognized balance should be properly identified and accounted.

- (d) Unrecognized receipts of Rs. 3.73 million remitted from the district offices of the organization to the head office were shown as miscellaneous income of the organization without being identified proper. These unidentified remittances are remittances credited to the organization's current account without any identification code. Although an inquiry was made from the People's Bank about this, the bank also failed to identify them. The Audit and Management Committee of the Ministry and the Audit and Management Committee of the Organization gave instructions to include this unrecognized remittance as income. Accordingly, the balance was accounted as income. Unrecognized balances should be properly identified and accounted.

### 1.5.3 Unreconciled control accounts or records

<b>Subject</b>	<b>Value as per the financial statements</b>	<b>Value as per corresponding records</b>	<b>Difference</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>		
Balance due for the National Building Research Organization from Landslide Risk mitigation Project through Stabilization Methodology	136.96 million	133.18 million	3.78 million	Corrective adjustments will be made in the 2023 financial statements.	Correct adjustments should be made in the financial statements.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Advances

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
An amount of Rs. 18.68 million paid to the contractors from the year 2015 to the year 2019 had not been recovered even at the end of the year under review. Out of these, Rs. 5.66 million of balance was belongs to the year 2017.	Out of these advances contractor who has been paid Rs. 5,755,130.00 abandoned the contract. approval has been received to obtained advance from insurance company that gave the guarantee. After receiving the amount, the relevant adjustments will be made. The remaining advance amount of Rs. 12,821,316.80 paid to the contractors for the construction of the new laboratory will be remove from the advance account after recovery from the bills	Advances paid to contractors should be recovered.

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

	<b>Reference to the laws, rules, regulations</b>	<b>Non-compliance</b>	<b>Value Rs.</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	Paragraph 02 of the Public Finance Circular dated 11 January 2000 and Public Enterprises Circular No. 05 dated 04 June 1994 of the Public Finance Department	The Organization had paid the incentives from January to April 2022 without seeking the approval of the Cabinet or the Ministry of Public Administration or the Treasury.	9.02 million	Attendance and performance based incentives system was introduced in the year 2013. Due to this incentive, performance of the Organization could be raised to a high level and profitability increased year by year. However, in accordance with the restrictions of National Budget Circular No. 03/2022 dated 26.04.2022, the payment of these	Relevant approvals should be obtained and make payment

allowances will be temporarily stopped after April 2022 and will be repaid after obtaining the approval of the Department of Public Enterprise.

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| (b) | Decision of the Audit and Management Committee Meeting dated 28 December 2021 | Eventhough the Audit and Management Committee had decided to obtain the approval of the Inter-Management Committee and the approval of the Department of Management Services for the payment of allowances for the project services, a sum of Rs. 2 million was debited to a special allowance account and credited to an account (Provision to Project Staff) as allowances payable without obtained such approval. | 2 million | Engineers and Geoscientists will be paid a stipend for those posts by the contracting agency. If specialized personnel are hired from outside for these activities, the profit that can be received to the organization is very minimal. Action have been taken to make allocations to pay these allowances based on the approval given by the Inter-Management Committee to pay 1/3 of the salary offered for the positions by considering fact such as the those consulting services have to be carried out with proper responsibility and beyond the normal duty time limits, contributing to the successful completion of the project and paying an allowance commensurate with their expertise subject. | The relevant approval should be obtained and make payment. |
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## 2. Financial Review

### 2.1 Financial Result

The operating result for the year under review was surplus of Rs. 266,985,728 and corresponding surplus for the preceding year was Rs.70,461,437. Accordingly, an increase of Rs.196,524,291

was observed in the financial result. Increase in the non-revenue income by Rs.178,504,297, depreciation of the assets received by grants by Rs.15,066,452, surplus of Project Management Division by Rs.19,140,828, surplus of the Human Settlement Planning and Research Division by Rs.826,111, surplus of the Geotechnical and Engineering Division by Rs.14,730,579, surplus of the Environmental Studies and Services Division by Rs.1,385,038 and surplus of the Landslide Research and Risk Management Division by Rs.9,829,025 was main reason for this improvement.

## **2.2 Trend Analysis of Major Revenue and Expenditure**

### **2.2.1 Improvement or Deteration of Surplus in Each Sector of the Research Organization Compared to 2021**

It was observed an increase of 27 percent and 223 percent respectively in the year 2022 compared to the year 2021 in the Geotechnical and Engineering and Project Management Divisions. The surplus in Human Settlement Planning and Research, Landslide Research and Risk Management, Environmental Studies and Services and Building Materials Divisions were observed a deteration by 90, 60, 91 and 182 percent respectively in 2022 compared to 2021.

## **3. Operational Review**

### **3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The approval had been received for the Cabinet Memorandum which had been submitted to prepare an Act for granting legal status to the Organization On 12 October 2021, Eventhough the bill prepared accordingly was sent by the Legal Draftsmen's Department to the Attorney General's Department on 26 September 2022, the bill has not been prepared and submitted to the Parliament so far. Accordingly, 30 years have passed since the establishment of the National Building Research Organization, the Organization has not been able to pass an Act to grant legal status.	The approval was received for the Cabinet Memorandum which had been submitted to prepare an Act to grant legal status to the Organization on 12 October 2021. The draft bill prepared accordingly was sent to the Attorney General's Department by the Legal Draftsmen's Department on 29 September 2022 and with the aim of including some essential functions into the scope of the National Building Research Organization, a round of discussion was held by the Attorney General's Department on 03.02.2023 and informed that the final recommendation will be given promptly.	Necessary measures should be taken to pass the bill promptly.

### **3.2 Operating Inefficiencies**

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendations</b>
(a) 330 automatic rain gauges had been installed in 14 high-risk districts for issuing landslide alert as	Real-time rainfall data is obtained through a connected network of automatic rain gauges established in catchment areas of landslide prone districts.. Although a	Automatic rain gauge system should be properly maintained.

of date of audit on 15 September 2022, out of that 72 remained inactive. As the rain gauge systems are maintained from the head office, the maintenance was not done properly due to lack of staff and other factors. It was observed that the blockages in data transmission of automatic rain gauge systems were affect to the issuance of accurate early landslide warning messages.

- number of rain gauges installed across the 14 districts were not working, weather forecasts issued by the Meteorological Department by using rain gauges installed nearby to issue warnings according to a scientific method.
- (b) A high-tech automatic mobile air quality monitoring unit for monitoring of air quality in urban areas of Sri Lanka was handed over to the National Building Research Organization on 01 April 2019 by the Department of Motor Transport. The lorry bearing WPLO-3426 with the Mobile Air Quality Monitoring Unit was parked at the Colombo Municipal Council premises from March 2020 and the data obtained by it was limited to the Colombo Municipal Council premises only. Other urban areas were not serviced.
- The Department of Motor Transport handed over the Mobile Air Quality Monitoring Unit to the National Building Research Organization on 01 April 2019 and the ownership was transferred to National Building Research Organization from 20.11.2020. Arrangements were made to use the Mobile Air Quality Monitoring Unit stationed with full security in the premises of the Colombo Municipal Council to collect data from March 2020 with the agreement of the Colombo Municipal Council in order to prevent the damage that may occur to these devices by leaving them unused and to use the devices in a beneficial way, due to no provision was made to maintain this unit in operational condition
- Arrangements should be made to provide services to the Colombo Municipal Council premises and other urban areas.

### 3.3 Underutilization of funds

Audit Observations	Comments of the Management	Recommendations
(a) Out of Rs. 143 million given for the construction	Eventhough the construction of the laboratory building of the National	Provisions should be utilized to achieve the

of Ratnapura and Kalutara district offices from the year 2019 to the year 2021, a sum of Rs. 60.52 million had been remained unutilized. The construction of Ratnapura district office had been completed and construction of Kalutara district office had not commenced.

Building Research Organization proposed for Kalutara district is scheduled to commenced in the year 2021, it was not possible to commenced its construction works as scheduled, due to the proposed plot of land had not been handed over to the National Building Research Organization. Further, according to the decision of the Government to temporarily suspend the construction of Government buildings for a period of two years, the construction of the said building was temporarily suspended. However, the design of architectural plans and related structural plans for the construction of the building has been completed by now. respective objectives.

- (b) The allocation of Rs.28.07 million made in previous years for the construction of houses for 1000 families in 14 districts under the settlement program of people who living in high risk areas in safe places with the technical contribution of the National Building Research Organization had been remained unutilized. The disaster relief service center is implementing the project of resettling people living in high risk areas in safe places and the National Building Research Organization is providing the necessary technical support. Actions should be taken to fulfill the task which provision made.
- (c) An allocation of Rs. 05 million had been made for the project of Systematic Diagnostic Assessment of Chemical Disaster Risk in Sri Lanka during the year under review by the General Treasury and Rs. 2.32 million had been remained at the beginning of the year from the previous year's provision savings. The financial progress of the project for A final meeting of stakeholders is expected to be organized to conclude this project and the methodology, its tools and database framework will be introduced to the various stakeholders involved in managing Chemical Disaster Risk in Sri Lanka and after presenting and reviewing the necessary policies and strategies that required, the project is expected to be completed in the first half of the year 2023 Action should be taken to carry out the assigned tasks as planned.

the year was Rs. 4.25 million and Rs. 3.07 million remained underutilized. This project which was supposed to be completed according to the action plan of the year 2021 was not completed by the end of the year 2022.

### 3.4 Delays in Projects or Capital Works

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>A sum of Rs. 10 million had been allocated for the landslide risk mitigation project for the year 2022. The Organization had spend Rs. 3.77 million used for projects and an amount of 6.23 million remained underutilized. It was 62 percent of the allocation. Eventhough Rs. 150 million had been received for the implementation of landslide risk reduction project in the last year, A sum of Rs. 101.55 million had been remained unutilized. Although the Kotaherakanda project, which was planned to be completed on 14 August 2022 implemented using the above provisions, its physical progress was 62 percent at the end of the year.</p>	<p>A sum of Rs. 10 million was received as imprest for the landslide risk mitigation project on 19.12.2022. Therefore, there was not enough time to carry out the planned activities for that project. The amount of Rs. 150 million received for the landslide risk project in 2021 has been entered into agreements and of which Rs. 140.67 million has been paid by 2022.12.31. Further, its progress was Rs. 142.9 million as at 11.04.2023. The work of the Kotaherakanda project could not be completed on the scheduled date, due to the shortage of fuel and raw materials in the market and about 80% progress has been achieved by 31.03.2023. The project is planned to be completed by 30.06.2023.</p>	<p>Action should be taken to carry out the assigned tasks as planned.</p>

### 3.5 Procurement Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>The construction works of the new office and laboratory building of the Organization was supposed to be completed in 240 days according to the contract. Eventhough 1,746 days had passed as of 31 December</p>	<p>The construction of the building was delayed, due to various reasons beyond the control of the Organization. All necessary arrangements have been made to open it by 31 May 2023.</p>	<p>Action should be taken to carry out the construction works as per the agreement as planned.</p>

2022, the construction had not been completed.

### 3.6 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
<p>There were 35 vacancies for 04 senior level positions in the Organization. Meanwhile, the post of Director (Administration) and Director (Landslide Research and Risk Management) were vacant since 2018. Further, the number of vacancies in 03 senior level positions namely Senior Scientist, Scientist, Manager (Technical/Laboratory) was 33 and Senior Scientist and Manager positions had been remained vacated over 04 years period.</p>	<p>Director of Human Settlements Planning and Training Division had been appointed up to 02.01.2018 to acting of the officer who resigned the post of Director (Establishment) in August 2016 then this post was approved two positions as Administration and Finance and two officers were appointed for the posts from 02 January 2018. Then those who were appointed as Director (Administration) was resigned in August 2018 interview had been held in by calling applications in 4 instances for the post of Director (Administration), the vacancy could not be filled, due to non-present of eligible person.</p> <p>The State Ministry of Disaster Management has been informed to take necessary steps to appoint a suitable person for the post of Director (Administration) by assign duties to the Assistant Director (Administration) of this post.</p> <p>A senior Scientist had been appointed assign work of the position, due to the Director who held the position of Director (LRRMD) position mentioned in the approved recruitment procedure had been released in 2018 as the project director of the landslides risk mitigation project. A senior scientist has been appointed assign work for the post after the retirement of the Director Human Settlements Planning and Training Division (HSTPD) on 31.12.2022.</p> <p>There was no opportunity to recruit and fill vacancies, due to the orders given by the Secretary of the Ministry of Finance to suspend all recruitments from 2019. At present, recruitment for all these</p>	<p>If the presence of vacancies adversely affects the performance of the organization, steps should be taken to fill the vacancies or, if not, take action to revise the staff composition.</p>

vacancies has been referred to the committee appointed for the review of public service recruitment on the recommendations of the Inter-Management Board. After the approval of committee, only essential posts will be filled and recruited. Nevertheless, due to the huge downturn in the construction industry with the current economic crisis in the country, it has also affected the National Building Research Organization, so efforts are being made to manage the existing staff without making new recruitments. Otherwise, it will affect to the financial management of the Organization.