

**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 2023 comprising statement of financial position as at 31 December 2023, 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 2023 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 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 in Preparation of Financial Statements**

### **1.5.1 Internal control over the preparation of financial statements**

It is necessary for the organization to maintain a system of "well-designed" internal accounting controls sufficient to obtain reasonable assurance about executing transactions with general and specific authority of management, recording transactions and maintaining accounting for assets as required to prepare financial statements in accordance with applicable reporting standards, getting access assets only with general and specific authority of management, comparing the accountability for recorded assets with existing assets at reasonable intervals and taking appropriate action against them if there are any.

### **1.5.2 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>Recommendation</b>
According to paragraph 49 of Sri Lanka Public Sector Accounting Standard 07, motor vehicles and laboratory equipment which cost Rs.53,474,393 and Rs.375,028,008 respectively had not been taken into account in the audit. Further, the disclosures to be made in respect of recovered assets when a class of property, plant and equipment is stated at repurchased values in accordance with paragraph	Relevant disclosure on the audit has been omitted in the audit report. Actions will be taken to correct the disclosure of fully depreciated remaining assets in future.	Actions should be taken to follow as per the Sri Lanka Public Sector Accounting Standards.

90 and paragraph 92 (b) of the standard, property, plant and equipment whose cost is Rs.160,385,708 fully depreciated but still in use. Disclosures regarding the same had not been given in the financial statements.

### 1.5.3 Accounting deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) As of 31 December 2023, due to accounting as the work in progress in respect of the building costing Rs.735,171,684, which had been completed and put into use, it has resulted in a decrease in the balance of the building and an increase in the balance of the work in progress account.	Although most of the work on the new building was completed, most of the contractors' final bills had not been paid. Therefore, there was no possibility of capitalizing the new building.	Actions should be taken to capitalize the building. If the construction of the building is completed.
(b) As the income of Rs.1,701,593 received for the provision of services was accounted as current liabilities instead of being recognized as income in the financial statements, the liabilities and the surplus of the year had been overstated and understated respectively out of the value in the financial statements.	These remittances are not remittances made from district offices, but remittances related to the main office. Out of this balance of Rs.1,701,593, Rs.1,193,960 has been recognized so far and this has also been stated in the account statements.	Actions should be taken to identify the unrecognized asset receipts properly.
(c) Non-current assets and receivables had been overstated and understated, respectively, due to accounting of Rs.7,038,077 receivables related to projects completed by the organization as work in progress.	The details of the money to be charged in this regard have been sent to the relevant institutions and after getting the agreement of those institutions, we will proceed to issue invoices through the accounting system of the institution.	Arrangements should be made to recover the money related to the completed construction projects.

## 1.6 Non-compliance with laws, rules, regulations and management decisions

Reference to laws, rules, regulations	Non-compliance	Comments of the Management	Recommendation
02 paragraph and 02 annex form of the public Administration Circular No. 02/2018 dated 24 January 2018	A human resource plan had not been prepared by the organization.	The Ministry of Public Services, Provincial Councils and Local Government has been informed to appoint a suitable officer to appoint a steering committee and sub-committees to compile a long-term human resource plan for the public service and accordingly an officer was nominated and sent. The next step in this regard will be taken after consulting the Ministry of Local Government.	Actions should be taken to prepare The Human Resource plan as per the provisions of the circular.

## 1.7 Non-Compliance with Tax Regulations

Audit Observation	Comments of the Management	Recommendation
The payment of tax had been made on cash basis without inquiring and obtaining approval from Department of Inland Revenue.	The National Building Research Organization has since its inception paid the value added tax on a cash basis. they will find out whether an approval has been obtained in this regard and necessary action will be done.	Actions should be taken to inquire from the department of Inland Revenue and obtain the relevant approval .

## 2. Financial Review

### 2.1 Financial Results

The operating result for the year under review was a surplus of Rs.235,379,561 and the corresponding previous year's surplus was Rs. 266,985,727. Accordingly, it was observed that there was a decline of Rs. 31,606,166 in the financial result. This decline was mainly due to the decrease in surplus of project management sector by Rs.5, 453,191 surplus of geotechnical and engineering sector by Rs.4,220,114 and surplus of landslide research and risk management sector by Rs.3,563,199.

### 2.2 Trend analysis of key revenue and expenditure subjects

It was observed there was an increase by 146,130 and 170 per cent in the year 2023 compared to the year 2022 respectively in the surplus in the sectors of environmental studies and services, human settlement planning and research and building materials. It was observed there was a decline of 29,

36 and 28 per cent in the year 2023 compared to the year 2022 in the areas of research geotechnical and engineering, landslide research and risk management, and project management.

### 3. Operational Review

#### 3.1 Management inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the Cabinet Memorandum that had been proposed to prepare a bill for granting legal status to the organization was approved on 12 October 2021, the Bill prepared accordingly had been sent to the Attorney General's Department by the Legal Draftsman's Department on 26 September 2022, It had been unable to pass a Bill for granting legal status due to the delay in preparing the Bill and submitting it to the parliament for approval despite the fact that 31 years have passed since the establishment of the National Building Research Organization.	The approval of Attorney General's Department has received to the draft bill to grant legal status to the National Building Research Organization. The Bill and the Cabinet Memorandum have been submitted to the Defence Secretary on 21 February 2024 for approval by the Honourable Minister. After obtaining the approval of the Honourable Minister, it will be presented to the cabinet of Ministers and presented to the Parliament the same.	Necessary measures should be taken to pass the Act as soon as possible.
(b) Although an amount of Rs.9,815,793 had been paid to the insurance company for a group life insurance and medical insurance scheme that was being implemented for the officers of the organization since 2013, the necessary approval to implement an insurance scheme had not been taken. Further, 23 employees of the organization had reimbursed Medical bills of Rs.1,820,000 having prepared fake bills and forged official seals on 29 occasions under the group life insurance and medical insurance scheme. Although the organization had collected an amount of Rs.440,000 from six officers who had obtained insurance compensation by preparing false documents, they had not dealt with those officers	As soon as the information regarding this fraudulent act was revealed, an investigation was conducted and statements had been recorded from all. A group of employees agreed to pay the fraudulently obtained money and are currently repaying it. The Criminal Investigation Department has started an investigation regarding this incident. Actions will be taken on the instructions received accordingly.	Arrangements should be made to obtain the necessary approval to implement an insurance scheme. Furthermore, Actions should be taken to act regarding the officers who prepared fraudulent documents and received insurance compensation in accordance with the provisions of the Establishments Code.

according to the provisions of Chapter XLVIII of the Establishments Code.

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| (c) | Three officers who scored the highest marks in the initial interview had deprived of the opportunity to get promoted to the post due to an unapproved procedure external to the initial recruitment procedure prepared for recruitment to the post of Senior Scientist - AR 2 and conducting 02 interviews in violation of the provisions of the recruitment procedure.                               | In this regard, the Chief Internal Auditor has given a report and further action is being done in this regard.   | Actions should be taken to act as per Recruitment procedure.         |
| (d) | Although the Audit and Management Committee on 28 December 2021 had recommended that the relevant allowances should be paid with the approval of the Management Committee and the approval of the Management Services Department when paying the allowances for the project services, an amount of Rs.1,927,035 had been paid as allowances for the project services without obtaining such approval. | A stipend will be paid to the posts of engineers and geologists performing the services by the contracting entity. these allowances have been paid to the relevant officials in the year 2023 subject to the approval given by the management committee to pay allowances based on the payment of 1/3 of the salary for providing expert services in this consultancy service. | The relevant approval should be obtained and payment should be made. |

### 3.2 Operational inefficiencies

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	330 automatic rain gauges were installed to receive data for issuing landslide early warnings in 14 prone districts, of which only 251 rain gauges were connected to the Emergency Operations Centre of the Disaster Management Center for issuing landslide early warnings. Since information is currently receiving from only 198 rain gauges the rest of the rain gauges were either inactive or not receiving information.	332 automatic rain gauges have already been installed in 14 landslide-prone districts identified by the National Building Research Organization at places with high landslide risk. All these rain gauges are more than 05 years old and by 22 April 2024, nearly 100 rain gauges remained inactive. Landslide Warning Notices are issued as Landslide early warnings using different methods depending on the prevailing situation.	Automatic rain gauge system should be properly maintained.

- (b) For the year ended 31 December 2023, 5,388 applications had been received for obtaining landslide test reports from 11 landslide-prone districts and the number of applications to be given further recommendations was 1,545. Also, the number of applications to be further recommended by December 31, 2023 was 2,889 including the applications received last year, which was 43 percent of the number of applications to be given recommendations during the year. The presence of 53 vacancies in 05 senior level positions namely Director, Senior Scientist, Scientist, Manager and Assistant Director (Finance) in the organization had made a significant impact on this situation.
- From 26 September 2023 until the end of the year, due to the heavy rainfall that affected the hilly areas of the island, a large number of landslide prone areas were reported. Emergency response reports containing recommendations for immediate action have been issued to the Divisional Secretaries having carried out fields based on the high demand of those days using limited staff employed by the organization.
- After cancelling the requests for places without landslide risk, arrangements have been made to provide future reports for the requests that were not given recommendations.
- Actions should be taken to check applications given for inspection promptly and reports should be provided.
- (c) Although it is not the organization's job to prepare, sell or distribute rain gauges, raw materials worth Rs.1,502,539 had been purchased and 480 traditional rain gauges had been prepared. The 145 traditional rain gauges installed by the organization covering 03 districts namely Badulla, Kegalle and Nuwara Eliya have not been utilized for obtaining data for about 02 years. . After the audit date of 13 November 2023, 370 rain gauges had been distributed free of charge and 110 rain gauges had been sold for Rs.605,000.
- Conventional rain gauge data cannot be used to issue early warnings from a centralized location. Data from automatic rain gauges are used for that. As a research institute, the National Building Research Organization developed the conventional rain gauges required for this purpose. The aim of the organization is to manage the landslide risk situation of the people through community-based programs with the support of the Disaster Management Center and the communities living in the currently identified landslide risk areas
- Actions should not be taken deviate from the objectives of the organization.

- (d) Rs.125 million had been allocated from the Treasury to fulfill the tasks of the strategy development project for building assessment and quality reporting, which was planned to be completed in 2019 and completed in 2023 and Rs.105 million had been spent by the end of the year under review, the organization had not paid attention on establishing a proper system to maintain the information in respect of the building assessment and quality report issuance, the number of applications, the number of applications examined, the number of reports issued, etc.
- The organization regularly maintains the information related to the amount of requests, the amount of applications checked, the amount of reports issued, etc. related to the building assessment and the issuance of quality reports. However, with the aim of making the collection and maintenance of this information faster and more systematic done through a new software, necessary preliminary actions are currently being taken.
- Actions should be taken to establish a proper information system to maintain the information related to assessment and quality reports in an orderly manner.

### 3.3 Underutilization of funds

Audit Observation	Comments of the Management	Recommendation
Rs.309,847,914 received from the Treasury and other agencies for various purposes was invested in fixed deposits as of 31 December 2023 without being used for related tasks, of which fixed deposits of Rs.160,525,112 remained for a period of 1 to 7 years.	Due to the uncertainty and delay in receiving money from the Treasury for the projects related to the year 2023, the initiation of the projects was delayed and all the projects are planned to be completed in the year 2024.	Steps should be taken to carry out the assigned tasks which were given provisions as planned.

### 3.4 Idle or underutilized property, plant and equipment

Audit Observation	Comments of the Management	Recommendation
The lorry equipped with the mobile air quality monitoring unit worth Rs.41,376,000 received as a donation from the air emission fund to the	Due to the high cost of taking it to other urban areas to measure the air quality and the lack of provision for the same, the relevant unit has been placed in the premises of the	Arrangements should be made to provide services to the Colombo Municipal Council

organization had not provided mobile monitoring service for 4 years and had provided service only to the Colombo Municipal Council premises. Colombo Municipality. Arrangements have been made to measure air quality in the main cities of the 25 districts using this unit in the year 2024. premises and other urban areas.

### 3.5 Procurement Management

Audit Observation	Comments of the Management	Recommendation
(a) Three contractors at a value of Rs.179, 941,637 in the years 2017 and 2019 had been awarded for the works of Aluminum & Steel Work (Partition Work), Design, Supply and Installation of Glass Cutting wall, Glass Facade Including Tempered Doors and Mechanical, Electrical & Plumbing Works of the organization's new building. Although the dates of the contracts were extended in 08 cases, the contractors had failed to complete the contracts even during that period. Although payment was made for the work done value of Rs.164,077,150 for these contracts, the opportunity to charge late charges was lost due to the absence of a condition in the agreement regarding the late charges.	The extension of the contract period has been approved in view of the circumstances beyond the control of the contractors and accordingly no late charges have been levied.	Arrangements should be made to complete construction work as planned and collect late charges.
(b) Procurement process related to supply, installation and installation of fire protection and detection system for the above building without VAT had been awarded to a contractor at a value of Rs.8,281,955. This work, which was supposed to be completed within 30 days from 24 July 2023, could not be completed even though 120 days had passed by the audit date of 24 November 2023. Although the payment had been made for the work done value of Rs.6,811,951, the opportunity to charge late charges had been lost due to the absence of a condition in the agreement regarding the late charges.	The work was supposed to be completed within 30 days, but due to the delay in the completion of some parts of the work of other contractors, it hindered the completion of this contractor's work. Besides the above fact, additional time had to be given due to the fact that additional works had to be done in this contract in addition to the initial plans, due to practical requirements.	Steps should be taken to complete the construction works as per the agreement as planned.