

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 2024 comprising statement of financial position as at 31 December 2024, 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 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 2024 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

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to relevant standard	Management Comment	Recommendation
Although, in accordance with paragraph 49 of Sri Lanka Public Sector Accounting Standard No. 07, when revaluation of property, plant and equipment is carried out, the entire class of property, plant and equipment to which the asset belongs should be revalued, a motor vehicle costing Rs. 7,000,000 had not taken into account in the revaluation and, contrary to paragraph 15 of the standard, Monitoring Equipment	The company had 36 vehicles and out of those 35 vehicles had been fully depreciated as at 31 December 2024. All of these vehicles were revalued. The remaining vehicle is scheduled to be fully depreciated on 31.12.2025, and arrangements have been made to revalue the vehicle in the year 2025. These monitoring devices are drilled into the ground and	Sri Lankan public sector accounting standards should be followed.

amounted to Rs. 20,591,557 placed underground to had not been accounted for as property, plant and equipment but had been accounted for as an expense. measure the displacement of a landslide. This is used to obtain data relevant to the issuance of early warnings of a disaster. These devices cannot be retrieved or physically verified after being buried underground. Therefore, those equipment cannot be classified as property, plant and equipment.

1.5.3 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) Depreciation of Rs. 18,956,312 for the year 2024 on revalued fixed assets (excluding grants) had been deducted (from non-exchange revenue which adjusted to the profit after tax) without adjusting the profit before tax. As a result, the profit before tax had been overstated by that amount.	The fully depreciated assets were revalued in 2023 and the entire depreciation amount has already been adjusted against the operating profit of previous years.	The total depreciation value for the year 2024 should be deducted from the profit before tax.
(b) The mobile air quality measurement device worth Rs. 30,821,892 which was transferred to the National Building Research Organization on 18 December 2023 by the Vehicle Emissions Trust Fund of the Department of Motor Transport, had not been accounted for as an asset in the year under review.	The ownership of the lorry equipped with this mobile air quality measuring equipment has not been transferred to the National Building Research Organization by the Motor Vehicle Registration Department even as at 31 December 2024. Therefore, it has not been accounted for as an asset of the organization.	Action should be taken to promptly transfer ownership of the asset to the organization by disclosing the asset in the accounts.

1.6 Accounts Receivables and Payables

1.6.1 Cash Receivable

	Audit Observation	Management Comment	Recommendation
(a)	A sum of Rs. 52,403,142 had been due from debtors as at 31 December 2024. Out of this, Rs.27,322,941 or 50.21 percent of the loan balances were more than 3 years old and Rs.30,959,296 or 56.89 percent of the loan balances were more than a year old, and no steps had been taken to recover these balances.	Of this loan balance, Rs. 11.1 million has been received and since it is not possible to recover the loan balance of Rs. 20 million, a committee has been appointed and recommended to write off the loan as per the instructions given by the Ministry's Audit and Management Committee, and the relevant approvals have been obtained.	Steps should be taken to recover and settle this money promptly.

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

	Reference to Laws, Rules and Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Section 371(2)(b) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	(i) While an Accounting Officer can grant an ad-hoc sub-imprestup to a maximum of Rs. 100,000 to staff officers for a specific task in a single instance, contrary to this, the organization had granted Rs. 488,000 as ad hoc sub-impreststo non-staff officers on 18 occasions. (ii) Although the advance was to be settled by the officers who obtained the ad-hoc sub-imprests immediately after the completion of the work, in 40 instances, the settlement of the advances amounting to Rs.1,713,050had been	In some cases, there are occasions when non-staff officers are also given sub-imprests for administrative and other convenience purposes. However, from 20/05/2024, the provision of advance payments to employees below junior managers has been discontinued. Most of the work sites are far from the head office and the work sites are operational for more than a month. Special advances are settled as soon as they return to the head office after completing their work at the work sites. Steps have been taken to	Financial regulations should be followed. Financial regulations should be followed.

delayed for a period ranging from 34 days to 93 days.

minimize this situation by sending text messages to officers who have not settled their advances and informing them through the heads of departments.

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| (b) | Chapter XLVIII of the Establishment Code of the Democratic Socialist Republic of Sri Lanka | 23 employees of the organization had prepared fake bills and fake official seals on 29 occasions and reimbursed medical bills worth Rs. 1,820,000 under group life insurance and medical insurance schemes. Action had not been taken in accordance with the provisions of the Establishments Code regarding six officers who had prepared fraudulent documents and obtained insurance compensation. | Action is being taken in accordance with Chapter XLVIII of the Establishments Code regarding employees who submitted false documents and obtained insurance money. | Action should be taken promptly in accordance with the provisions of the Establishment Code regarding officers who have obtained insurance compensation by preparing false documents. |
| (c) | Section 02 and Annexure 02 of Public Administration Circular No. 02/2018 dated 24 January 2018 | The organization had not prepared a human resources plan as per the provisions of the circular. | The human resources plan could not be completed as all the senior positions in the administrative section of the organization had not been filled properly. The position of Assistant Director of Administration has been filled and the human resources plan is being prepared. | The human resource plan should be prepared as per the provisions of the circular. |

2. Financial Review

2.1 Financial Results

The operating result of the Organization for the year under review amounted to a surplus of Rs.205,652,593 and the corresponding surplus in the preceding year amounted to Rs.235,379,560. Therefore, a deterioration amounting to Rs. 29,726,967 in the financial result was observed. The main reason attributed for this deterioration was decrease in bank interest income included in other income

by Rs. 46,698,876, an increase in salaries and wages by Rs. 96,537,786 and an increase in the cost of supplies and consumables used by Rs. 80,144,515

2.2 Trend Analysis of Major Income and Expenditure Items

Revenues in the sectors of Environmental Studies and Services, Landslide Research and Risk Management, Human Settlement Planning and Research, and Building Materials Research, Project Management, increased by 29, 23, 9, 27, and 124 percent respectively in 2024 compared to 2023. Other revenues decreased by 37 percent, while salaries and wages, supplies, and consumables increased by 27 and 39 percent respectively.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) The Cabinet Memorandum submitted to prepare an Act to grant legal status to the organization had received approval on 12 October 2021 and the prepared draft Act had been sent to the Attorney General's Department on 26 September 2022, but the draft Act had not been prepared and presented to Parliament. Subsequently, a memorandum was submitted to the Cabinet of Ministers on 17 July 2024 and approval was obtained, and the final draft prepared by the Legal Draftsman was published in the Government Gazette on 30 August 2024 and forwarded to the Office of the Leader of the House for presentation to Parliament. Thus, although about 32 years have passed since the establishment of the National Building Research Organization, the organization has not been able to pass an act to grant it legal status.	The final draft bill has been published and issued in the Government Gazette on 30.08.2024 and a new Cabinet Memorandum has been prepared for the approval of the Cabinet to submit to Parliament for the approval of the National Building Research Institute in accordance with the proposed bill and forwarded to the Minister of Defence for signature.	Action should be taken to pass the Act should quickly.
(b) For the construction of the Ratnapura District Office Building, a portion of land in Ratnapura New Town was purchased by paying Rs.7,965,000 to the Urban Development Authority on	The COVID pandemic situation since March 2020 and the severe economic crisis in Sri Lanka in 2022 have adversely affected the	Proper supervision should be carried out to ensure that the construction work is carried out according to the standards as planned,

a 30-year lease basis and the building was constructed at a cost of Rs.54,327,029 from government funds and the building was planned to be completed in 243 days, but this contract was completed with a delay and no liquidity damages were charged. During the physical inspection of the office, titanium-plated parts were broken in many places on the floor of the building, and due to heavy rainfall, water flowed into the office premises, making it difficult to conduct office work and due to water leakage in the building, the walls of the upper floors were cracked, but the retention money was released without taking steps to repair them.

progress of this project. Considering these facts, permission has been granted to extend the contract period and therefore, no action has been taken to charge the liquidity damages. All reported defects were corrected during the building's defect repair period. Therefore, the retention money have been released. The current defects are defects that occurred after the Defect Liability Period and work is underway to correct those defects.

and steps should be taken to have the contractor repair the defects in the building during the repair period. Proper supervision should be carried out to ensure that the construction work is carried out according to the standards as planned, and steps should be taken to have the repairs from the contractor regarding the defects in the building during the defect liability period.

- (c) Although a Certificate of Compliance (COC) must be obtained before a building is put into use after the construction of the building, stating that it complies with the approved plans and regulations, the Certificate of Compliance was not obtained after the construction of the new building worth Rs. 767,995,987 located at the head office of the organization.

Work is underway to obtain the Certificate of Compliance for the new building.

The Certificate of Compliance should be obtained promptly.

- (d) 330 Automatic Rain Gauges had been installed in 14 vulnerable districts to obtain data for issuing landslide early warnings as at 31 December 2024, and 67 Automatic Rain Gauges were inactive on that date. Furthermore, out of the above 251 active automatic rain gauge systems, only 192 systems are currently contributing and issuing landslide early warnings, but no steps had been taken to activate 126 inactive rain gauges.

Most of these rain gauges are now more than 7 years old and their internal electronic components have expired. Accordingly, the rain gauges that are completely obsolete are not subject to annual maintenance as they are costly to repair. Considering these factors, the Climate Resilience Multi-Phase Programmatic Access Project (CresMPA) has planned to replace all rain gauges installed in the 14 landslide-prone districts and the tender has been awarded and about

The automatic rain gauge system must be properly maintained.

- 200 rain gauges have been installed so far. It is expected that all rain gauges will be replaced by 31 August 2025.
- (e) The Landslide Research and Disaster Management Division (LRRMD) of the National Building Research Organization had completed the mapping of landslide zones at a scale of 1:50000 covering an area of 32593 square kilometres in 13 districts in 2022, and on a priority basis, mapping activities at a scale of 1:10000 had been carried out for only 25649 square kilometres, covering 10560 square kilometres as at the date of audit. This was 41 percent as a percentage of the total area selected and 84 percent according to the first priority level. Although the organization had identified 84,755 houses, shops, schools and religious buildings in high-risk areas based on that map, it had not been identified the number of high-risk buildings were located within that area since 15,089 square kilometres out of the 25,649 square kilometres selected on a priority basis had not been mapped at a scale of 1:10,000.
- Unlike 1:50,000 scale maps, the preparation of landslide hazard zone maps at 1:10,000 scale requires a large amount of data to be obtained through field studies, which requires relatively large costs, human resources and time. Therefore, 1:10,000 scale maps covering 10,560 square kilometres of the area identified as the first priority have already been prepared. Maps of the remaining areas are planned to be prepared in the coming years.
- Efforts should be made to expedite the mapping of landslide zones and minimize disaster risks.
- (f) The Treasury allocation of Rs. 236,767,553 provided for the Landslide Risk Mitigation Project, the Sri Lanka Chemical Risk Assessment Project, the Resettlement Program for People Living in High-Risk Areas with Technical Assistance, and the construction of offices with laboratory facilities in Badulla and Kalutara had not been utilized for the relevant activities and had been deposited in fixed deposits as at 31 December 2024.
- Landslide Risk Reduction Project - Balance Rs. 134 million
- The organization received the allocation of Rs. 100 million for the year 2024 only after August 2024. Therefore, all contracts have been awarded and work on 04 contracts has been completed and work on 03 contracts is in the final stage.
- Resettlement Project - Balance Rs.19 million
- This amount has been
- Steps should be taken to carry out the tasks for which the funds were provided as planned.

allocated for the provision of technical services for the resettlement project being carried out by the Disaster Relief Services Centre. Due to the slow pace of the project implementation, there is a low progress in spending this amount.

Construction of District Offices with Laboratory Facilities - Balance Rs.81 Million

The Cabinet has approved the construction of District Offices and the construction of District Offices has been delayed due to the policy decision taken by the government to suspend the construction of new buildings.

Chemical Risk Assessment Project- Balance Rs.2.4 million

A final stakeholder meeting will be organized to conclude this project and to inform relevant officials/institutions, introduce the necessary tools and database frameworks, and present and review the necessary policies and strategies for that purpose.

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| <p>(g) The carrying value of the property, plant and equipment disposed during the year 2024 was Rs. 4,030,677 and the disposal of these assets resulted in a loss of Rs. 3,142,182 to the organization.</p> | <p>The equipment removed included a UT Machine that was over 20 years old and was a fully depreciated asset. However, in the 2023 asset revaluation, it was revalued at Rs.2,800,000. Since it was made of china plates, not iron, it could not be sold for a significant amount.</p> | <p>Values should be calculated accurately when performing a revaluation.</p> |
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3.2 Operating Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	An AC Diesel Generator (80KV A synchronous) worth Rs. 5,000,000 was received from the Industrial Development Board in December 2024 and remained idle due to the fact that the necessary steps had not been taken to make it operational.	These generators have been received as a donation from the Disaster Management Division and the necessary work is underway to install them in the organization's power supply system.	Immediate action should be taken to utilize the asset.
(b)	By the end of the year under review, the organization had invested Rs.674,298,014 in fixed deposits, but without purchasing a land for the NuwaraEliya District Office and constructing an office, a sum of Rs.13,770,000 had been paid as building rent for the NuwaraEliya office.	While the Cabinet has approved the construction of district offices, the construction had to be delayed due to the policy decision taken by the government to suspend the construction of new buildings. However, a request has been made to the Minister of Finance for approval to construct or purchase 02 district offices in the year 2025 and upon receipt of approval, it is planned to take action to construct or purchase the district offices.	Steps should be taken to expedite the construction of district offices as per the requirements.

3.3 Defects in Contract Administration

Audit Observation	Management Comment	Recommendation
Under the Landslide and Rock fall Risk Mitigation Project in Boltumbe Village, Imbulpe Divisional Secretariat, the National Building Research Organization physically inspected 03 drains constructed under an agreement entered into with a contractor on 17 February 2024. That is, although the measurement report of the DS(M)-A drain stated that the length of the drain was 44.5 meters in the measurement sheet physically verified that it was 41.5 meters only. Furthermore, the bottom concrete thickness at the end of the stairs of	When preparing the final bill, necessary amendments will be made based on a measurement inspection and payments will be made. That the contractor has been made to correct the defects in the drains.	Defects and deficiencies should be corrected by the contractor and the construction work of the project should be properly supervised by the organization.

DS (M)-D drain was 90 mm, although it should have been 150 mm, and although 3 reinforcements of 10 mm were to be laid horizontally in the drain, but 2 reinforcements were used, and instead of 12 mm reinforcements, 10 mm reinforcements were used vertically. Furthermore, the bottom of the Y-shaped drain should be concreted with a thickness of 150 mm, but in 05 locations, only 50 mm was used. Furthermore, concrete had been poured on the walls on both sides of the drains without using wooden frames. It was observed that the concrete was not applied according to the prescribed standards, and therefore it was observed as lacked strength.

3.4 Human Resource Management

Audit Observation	Management Comment	Recommendation
There were 49 vacancies as at 31 December 2024 for 05 senior level posts in the organization. Meanwhile, the posts of Director (Administration) and Director (Human Settlement Planning and Training) have been vacant since 2022. Furthermore, the number of vacancies in the four senior-level posts of Senior Scientist, Scientist, Manager (Technical/Laboratory) and Assistant Director (Finance) was 47, while there were 39 vacancies in the posts of Senior Scientist and Scientist. Since the functions of the above senior level positions make a significant contribution to achieving the objectives of the organization, the failure to recruit for those positions had affected the efficiency of the organization.	Steps have been taken to recruit the Director (Human Settlement Planning and Training) post and 07 Senior Scientist posts from the approved posts. The recruitment of 26 scientist posts has been referred to the Prime Minister's Office Review Committee for approval. The recruitment procedure for the post of Director of Administration has been referred to the Department of Management Services for revision. The remaining vacancies will be filled as per the requirements of the institution.	Urgent action should be taken to fill vacancies that directly affect the efficiency of the organization.