

## **National Building Research Organization - 2014**

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The audit of financial statements of the National Building Research Organization for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 13(1) of the Finance Act, No. 38 of 1971. My comments and observations, which I consider should be published with the annual report of the Organization in terms of Section 14 (2)(c) of the Finance Act, appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal controls as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements 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 Organization's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Building Research Organization as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Accounting Deficiencies**

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- (a) Out of the proceed received from the General Treasury during the year under review for Geo-instability Rectification Project and other proceeds received during the year under review and previous year for mapping of landslide locations, a sum of Rs. 7,608,061 unspent for intended purposes had been accounted as an income of the year under review.
- (b) A sum of Rs. 4,188,200 received from the Ministry of Disaster Management to assist beneficiaries to construct 06 model houses tolerant for Tsunami and floods etc. had been treated and accounted as the income received for the year under review. However, a sum of Rs. 561,456 payable under this Project to outside parties had not been accounted as payable.
- (c) The Capital Grants amounting to Rs.160,207,591 received from the Government of Sri Lanka and other entities had comprised with the Recurrent Grants amounting Rs. 80,055,432 received for mapping of landslide risk areas and research purposes.
- (d) The balance of prepayments as at 31 December of the year under review amounting to Rs. 20,949,289 had included the staff loans and advances aggregating Rs. 17,923,326.

#### **2.2.2 Lack of Evidence for Audit**

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Evidence such as progress reports, certified bills etc relating to the amount of Rs. 132,182,194 shown as the value of work- in progress under Geo Technical, Engineering and Research Division, Project Management Division and Landslide Research and Risk Management Division was not made available for audit.

#### **2.2.3 Accounts Receivable**

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A sum of Rs. 5,554,149 recoverable from the Urban Development Authority remained outstanding for over 05 years and another sum of Rs. 6,411,229 receivable from Disaster Management Centre for landslide research activities carried out in 2010 had remained outstanding for over 04 years.

## 2.3 Non- Compliance with Laws, Rules Regulations and Management Decisions

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The following instances of non- compliances were observed in audit.

### Reference to Laws, Rules and Regulations

### Non- Compliance

- (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Financial Regulation 371(2)

The advances granted for various purposes should be settled immediately after the completion of the intended purposes. However, contrary to the above requirement, advances aggregating Rs.1,130,523 obtained in 32 occasions had been settled with delays ranging from 01 to 05 1/2 months.

The advances aggregating Rs. 101,850 granted to 10 officers in 12 occasions during the year under review had remained in hands for the period ranging from 01 month to 02 months period without using for intended purposes. Further, a fresh advance should be obtained after the completion of the purpose for which the first an advance was obtained, it was observed in audit that advances had been obtained in 12 occasions without settling the first advance obtained.

The advances for suppliers should not be exceeded 20 per cent of the value of the transaction, instances of granting 50 per cent advances over the value of transaction had been observed in 09 occasions.

- (b) Treasury Circular No. IAI/2002/02 of 28 November 2002

The Register of Fixed Assets for computers, accessories and software had not been maintained in updated manner.

## 3. Financial Review

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### 3.1 Financial Results

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The operating result of the year under review amounted to a surplus of Rs.62,748,371 and the corresponding surplus in the previous year amounted to Rs. 11,227,959. Therefore, it was indicated a growth of Rs. 51,520.412 in the financial results as compared with the previous year. The main reason for the increase of the financial result was the increase of revenue by

Rs.53,482,172, eventhough the operating expenses of the organization had increased by Rs. 5,618,367.

#### **4. Operating Review**

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##### **4.1 Performance**

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The mission of the Organization is to minimize the risks on disaster and promotion of research and development activities by providing technical support for the purpose of secured environment. The key functions of the Organization are mapping of landslide in disaster risk zones, conducting of land slide risk mitigating projects and issuing landslide risk assessment reports. The matters observed in audit in this connection are given below.

##### **(a) Project on Mapping of Landslide Disaster Risk Zones**

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The following observations are made.

- (i) It was scheduled to prepare maps during the year under review to cover 2,277.5 square kilometres in Kurunegala, Kandy, Kegalle and Hambantota districts into 1;10,000 scale to identify the landslide risks, delimitate the risk zones and to identify other related risks etc,. However, maps to cover 1,027 square kilometres had not been completed by the end of the year under review.
- (ii) The activities of mapping of 1,387 kilometres in Gampaha district under 1:50,000 scale had been initiated from previous year. However, such activities were not included in the Action Plan for the year under review. Further, the performance in this regard at the end of the year had not been submitted for audit.

##### **(b) Issuing of Landslide Risk Assessment Reports**

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According to the information presented by the Organization for audit, a Landslide Risk Assessment Reports should be obtained directly or through the respective Local Authorities by the parties who expected to construct buildings in the landslide risk areas, before the commencement of development activities. For that purpose, offices had been established by the Organization in 10 Districts. According to the information relating to the issue of Landslide Risk Assessment Reports collected from Landslide and Research Division and the District Offices, a sum of Rs.25,729,474 had been earned from issuing such reports.

The following observations are made in this connection.

- (i) It was observed in audit that people living in the villages around the areas with landslide risks were not adequately made aware of the necessity of obtaining such certificates and Grama Niladhari in respective areas had not taken action to maintain co-ordination in this regard with the general public. According to the explanation made by the Director General of the Organization in this connection, the Organization cannot be intervene on

such activities as the legal authority had not been vested to the Organization to take action against such unauthorized constructions.

- (ii) A sum of Rs. 25,729,474 had been recovered from the Pradeshiya Sabhas to issue such certificates and out of that a sum of Rs. 1,548,058 had not been remitted even as at 31 December of the year under review, thus indicating that the mechanism established to remit the collections made by the Pradeshiya Sabha had not been properly implemented .
- (iii) The programme for obtaining approvals for constructions and developments in landslide risk areas had been commenced since 2011 and since then 38,070 applications had been received upto the end of the year under review. Out of that the applications of 35,237 had been approved. However, an effective course of actions had not been implemented to follow up on constructions made on rejected applications.

(c) **Activities on Mitigation of Landslide Risks**

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- (i) The activities such as rescue 50 houses facing high risk of land slides, earth filling and construction of a dam to divert debris flowing to some other area and reconstruction of several main roads, etc. had been scheduled to be implemented under Gerandiella Landslide Risk Mitigation Project during the period from 2012 to 2016. The estimated total cost of the Project amounted to Rs. 93,011,363. Works estimated at Rs.30,000,000 were expected to be completed during the year under review and details on physical progress thereon were not made available for audit.
- (ii) The estimated cost of the project for rectification of instable slope of Pessionwatte area amounted to Rs.25,000,000 and a sum of Rs.20,000,000 had been granted by the General Treasury. The expenditure amounting to Rs.6,676,086 had been incurred during the year under review but the activities of the project had been suspended due to the protests of the occupants of the area.

(d) **Research and Development Activities**

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Under the Action Plan of the Organization for the year under review, 19 research and development activities had been identified and a provision of Rs. 12,000,000 had been received from the general Treasury. The following observations are made in this regard.

- (i) Eventhough provisions amounting to Rs. 4,880,000 had been made to Landslide Research and Investigation Dvision, Geo Technical and Engineering Division and Environmental and Services Division to carry out 08 researches, such researches had not been conducted by respective Divisions.

- (ii) A sum of Rs.6,460,062 had been spent exceeding the provision of Rs.3,070,000 made to Human Settlement Planning and Training Division to carry out 07 researches.
- (iii) The development and research activities had not been conducted as planned and as a result, a sum of Rs.2,700,280 had remained unspent as at the end of the year, out of the provisions amounting to Rs.12,000,000 made.

#### **4.2 Personnel Management**

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The following observations are made.

- (a) It was observed that the applications to recruit persons for the 36 vacancies remained over 02 years had been called by the Organization only in October and December of the year under review.
- (b) According to the approved cadre, there were 58 posts of Scientists but only 35 permanent Scientists had been recruited by the end of the year under review. Further, 31 officers had been deployed under contract and assignment basis for the 23 vacant posts. Evidence for the required approval for that purpose was not made available for audit.

#### **5. Accountability and Good Governance**

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##### **5.1 Establishment of the National Building Research Organization**

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This Organization had been established under the decision of the Cabinet of Ministers dated 29 September 1993, to establish a separate institution to perform the functions vested in the institutions such as Building Research Institute, State Engineering Corporation and Soil Research Laboratory of the Department of Buildings, etc. As the Organization is not incorporated under Parliamentary Act as a state owned regulatory body it was observed in audit that action to be taken by the Organization against the persons involved in constructions made in the risky areas had been limited.

##### **5.2 Action Plan**

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It was observed that the Annual Action Plan of the Organization had been prepared to achieve only for the financial targets and not based on physical target expected to be achieved. Therefore physical performance in connection with mapping of disaster risk zones and construction works done etc., to minimize landslides could not be evaluated in the audit.

Further, the Climate Feasibility Programme and Integrated landslide Mitigation Project-01 included in the Action Plan could not be implemented during the year under review.

##### **5.3 Internal Audit**

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The Internal Audit Section of the Organization comprised of one officer and payments made to meet various functions carried out by main Divisions of the Organization, progress

on achievement of the physical performance, etc. had not be examined by the Internal Audit Unit.

#### **5.4 Budgetary Controls**

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Significant variances between the budgeted figures and actuals were observed in audit and it indicated that an adequate attention had not been paid in the determination of financial targets for the Budget and lack of attention on follow up action taken to meet income and expenditure targets. Therefore, it was further observed that the Budget had not been made use of as an effective instrument of management control.

#### **5.5 Achievement of Environmental and Social Responsibility**

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The responsibility of mapping of landslide risk areas by carrying out of studies on land slide occurring in the hill country and issuing of Landslide Risk Assessment Reports on constructions made in such areas is vested in the Organization.

Through the mapping of landslide risk zones, the distribution pattern of risky areas are identified and such maps are used for the activities such as development of policies in national and provincial levels, preparation of development plans, issue of prior announcements of land slide and permits for the construction of building in the risky areas, etc.

#### **6. System and Controls**

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Weaknesses in system and controls observed during the course of audit were brought to the notice of the Director General from time to time. Special attention of the management is needed in respect of the following areas.

- (a) Accounting
- (b) Debtors Control
- (c) Personnel administration
- (d) Project Management
- (e) Budgetary Control