

National Building Research Organization – 2016

The audit of financial statements of the National Building Research Organization comprised with the Statement of Financial Position as at 31 December 2016 Statement of Financial Performance, Statement of Changes of Equity and the Statement of Cash Flow for the year then ended and a statement 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. A detailed report in terms of Section 13(7) (a) of the Finance Act was issued to the Director General of the Organization on 04 July 2017.

1.2 Responsibility of the Management for the Financial Statements

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 control as the management determines is necessary to enable the preparation of financial statements and are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

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 Auditing 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 Establishment of the National Building Research Organization

The National Building Research Organization had been established by the decision of the Cabinet of Ministers according to the Cabinet Memorandum No. 93/340/173 of 29 September 1993 to establish a separate institution to perform the functions vested with the institutions such as State Engineering Corporation and Soil Research Laboratory of the Department of Buildings, etc. The Organization is not incorporated under a Parliamentary Act and therefore, the validity of the certificates issued by the Organization is remained questionable. Further, the opportunities on follow up actions to be taken by the Organization against the persons involved in constructions made in the risky areas was limited.

1.5 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

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 2016 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

2.2.1 Sri Lanka Public Sector Accounting Standards

Action had not been taken to disclose the matters relating to the classes of Property, Plant and Equipment, as required by the paragraph 86 of the Sri Lanka Public Sector Accounting Standard -07.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Provision for income tax for the year under review amounting to Rs. 21,000,000 had been shown in the financial statements as financing costs instead of being shown separately.
- (b) Provisions had not been made in the financial statements for audit fees payable for the year 2016.

2.3 Accounts Receivable and Payables

The following observations are made.

- (a) An aggregated amount of Rs. 630,082 had been remained as receivable to the Organization from 05 Pradeshiya Sabhas on reports issued on assessment of landslide risks, since 2014 upto 2016. Out of that, a sum of Rs. 478,690 had remained outstanding over a year and a proper procedure had not been adopted by the Organization to recover the dues in timely manner.
- (b) Action had not been taken to recover the balances of tender deposits and tender guarantee deposits aggregating Rs. 585,727 as at 31 December 2016. Out of that, the balances aggregating Rs. 414,160 had remained outstanding over 02 years.
- (c) Eventhough a balance amounting to Rs. 5,919,636 had been continuously shown in the financial statements of the Organization since 2009, as receivable from the Urban Development Authority, such a balance had not been shown as payable in the financial statements of the Authority. Thus, it evidenced that the recoverability of the respective balance was remained in doubt.
- (d) Action had not been taken to recover the balances aggregating Rs. 2,495,265 shown under the sundry debtors in the financial statements since 2012.
- (e) Action had not been taken to settle the debit balance aggregating Rs. 3,803,935 remained in the Value Added Tax Control Account over a year as at 31 December 2016.

2.4 Non - Compliance with Laws, Rules Regulations and Management Decisions

The following instances of non- compliance were observed.

Reference to Laws, Rules Regulations and Management Decisions	Non- Compliance
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| (a) Financial Regulation of the Democratic Socialistic of Republic of Sri Lanka Financial Regulation 835 (2) (d) | An office building had been procured during the year under review by the Research Organization on lease basis in Pamankada area and an assessment report had not been obtained thereon. |
| (b) Public Finance Circular No 03/2015 of 14 July 2015 | The approval of the General Treasury is required to be obtained in any instance exceeding the financial limits stipulated in the Circular. However, the advances had been made in 05 instances without obtaining the required approval. |

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operating result of the Research Organization for the year under review amounted to a surplus of Rs. 47,920,494 and the corresponding surplus in the previous year amounted to Rs. 53,547,989 thus there was a deterioration amounting to Rs. 5,627,495 of the financial result. When compared with the previous year, the decline of consultancy income by Rs. 8,559,890 had resulted to decrease the above mentioned operating results. The income of the Landslide Research and Risk Management Division and Human Settlement planning and Research Division had been increased during the year under review by 83 per cent and 159 per cent respectively when compared with the previous year, whilst income of the Environment Studies and Services Division, Geotechnical Engineering and Research Division and Building Material Testing and Research Division had been decreased by 12 per cent, 60 per cent and 62 per cent respectively.

When reviewing the financial results of the year under review and previous 04 years, the surpluses had been reported during the period from 2012 to 2016. However, the surplus amounting to Rs. 129,665,502 made in 2012 had been continuously increased upto Rs. 335,372,999 in 2016, after readjusting of the cost of remuneration and the depreciation for non-current assets.

4. Operating Review

4.1 Operating Activities

4.1.1 Issuance of Assessment Certificates on Landslide Risks

The following observations are made.

- (a) The issue of Assessment Certificate on Landslide Risk on construction works of the areas vulnerable to landslides is one of the main functions of the Research Organization and 09 sub offices are located in 10 districts for that purpose. The Certificates are issued free of charge on the requests directly made by the Divisional Secretaries to identify landslide risks. However, the Certificates are issued with charges on the requests made by the private parties and Local Authorities. The test checks were carried out on issuance of Certificates by the Regional Offices located in Badulla, Nuwara-eliya and Ratnapura districts and the following observations are made thereon.

- (i) The nature of the investigations and the responsible officers thereon could not be recognized in audit due to lack of records maintained by the officers who involved in field inspections on issuance of the Certificates and the information to be provided by the sub offices on the applications submitted for the Certificates etc,. Further, it was revealed that the labourer attached to the Regional Office in Badulla district had carried out laboratory tests in unauthorized manner and issued reports thereon. Thus, it evidenced that the Research Organization had not concerned about the validity of the reports issued.
- (ii) It was revealed at the test checks carried out at the Regional Office in Badulla district, the Certificates had been issued in 15 instances with delays over 02 months from the date of application received. The Director General had explained that the time taken by the applicants to provide additional information which required to issue of Certificates had resulted to issue the respective Certificates with significant delays.
- (iii) It was observed that the cost estimates valued at Rs. 594,475 prepared in 17 estimates to mitigate landslide risks had remained in the respective files over 02 months without being issued to the concerned parties. Further, the field inspections had been carried out in 02 instances by the officers attached to the Sub-office in Nuwara-eliya, without recovering charges thereon from the private parties. In addition, it was observed that the geological reports had retained in 15 instances in respective files of the Sub-office in Nuwara-eliya without being issued such reports to the relevant parties.
- (iv) The field inspections had not been carried out by the officers attached to the Sub- office in Ratnapura even as at 18 January 2017 on the requests made in 293 instances from the year 2013 to 31 December 2016 by 16 Divisional Secretaries. The Director General had explained that the delays on conducting field inspections had been occurred due to urgent need of responding on the requests made for during the period disasters happened.

4.1.2 Activities to minimize Landslide Mitigation

The following observations are made.

- (a) A sum of Rs. 200 million had been allocated through the Annual Budget Estimates to implement the landslide mitigation activities of 10 government schools and 10 hospitals located in the highlands in the Central Province. However, the Research Organization had planned to implement 12 landslide mitigation projects during the year under review and out of that only one project was located in the Central Province. The physical progress of 08 such projects were remained at 20 per cent below than the expected targets as at 31 December 2016 due to late commencement of the works of such projects. Out of that, the values of the contract of 06 projects which awarded to the outside parties had been increased by 03per cent to 23 per cent range over the engineering estimates of the respective projects.

- (b) A sum of Rs. 11,024,489 had been received in 2015 from the United Nations Development Programme to implement a Community Based Landslide Mitigation Programmes and out of that a sum of Rs. 6,000,000 thereon had been utilized at the end of the year under review. Out of that only Rs. 18,645 had been spent to conduct educational programmes for the members of the Community Organizations and the balance amount of Rs. 5,981,355 had been recovered as the profits and overhead costs of the Research Organization.
- (c) The following observations are made on the Landslide Mitigation Project implemented by the Research Organization.
- (i) It was decided to select a contractor for this Project from contractors registered for civil construction purpose at the Sabaragamuwa Provincial Council through limited calling of bids. However, the selected contractor was a contractor who registered at the Western Provincial Council.
- (ii) Eventhough the allocation had been made for the Project under the Government Budget Estimate for the year – 2015, the works under the contract had been commenced in January 2016. However, the respective area had subjected to landslip in May 2016 due to heavy rains and the contractor had suspended the construction works. Action had not been taken even as at 31 May 2017 to resolve the issues raised in this connection and failed to recover the advance amounting to Rs. 971,200 released to the contractor. It was observed that the Research Organization had not paid attention to minimise such risks by commencing the activities of the project in time.
- (d) It was planned to implement the activities such as mapping of landslide risk areas in 10 districts, collecting of information to create a computerized data base, mapping of urban areas into 1:5000 scale, conducting educational programmes etc, under the Landslide Areas Development Programme during the period from 2016 to 2020. Therefore, the allocation amounting to Rs. 40,000,000 had been made in the Annual Budget Estimate of the Government to implement such activities during the year under review in 02 districts. However, the preparation of maps had been completed as at 31 December 2016 in Badulla and Nuwara-eliya districts only and a sum of Rs.30.15 million had been utilized thereon.
- (e) The activities to establish a Community Based Early Warning System had been commenced by the Research Organization during the year under review. An allocation amounting to Rs. 44,000,000 had been made in the Annual Budget Estimate of the Government thereon. It was revealed in audit that the rain gages procured during the year under review were not automatically operated equipment, eventhough the automatic rain gages were expected to be procured for this purpose. Further, it was mentioned that a sum of Rs. 3,140,000 had been spent to procure such equipment. However, it was revealed in audit that the market value of such equipment amounted to Rs. 487,037 only and balance amount of Rs. 2,652,963 had been charged by the Research Organization, as overhead costs.

- (f) A contract on mitigation of landslide risk of the Kottagahaarawa area in Hali-Ela Divisional Secretariat Division in the Badulla District had been awarded to a private party on 06 October 2015 and expected to be completed by 05 January 2016. However, the contractor had vacated the premises on 05 October 2016 and action had not been taken by the Research Organization to complete the balance works. It was revealed at the site inspection made on 30 November 2016 that the substandard metal had been used for the construction works and quarry dust had been used as an alternative for the river sand. However, the Director General had explained that the contractor was allowed to use quarry dust as an alternative for the river sand due to shortage of river sand in the respective area.
- (g) The land slide mitigation works at Pussala Navodha Vidyalaya in Matale district which commenced on 17 September 2015 had been suspended on 04 March 2016. Further, activities under land slide mitigation project implemented at Wewegama Hospital premises had also been suspended as at 08 April 2016 by the contractor. However, the action had not been taken by the Research Organization immediately to encash the performance bonds and recover the advances made thereon. Further, it was revealed in audit that the contractor selected for the above mentioned projects was not a qualified contractor for the respective works.

4.2 Contract Administration

Eventhough a comprehensive cost estimates as per the paragraph 4.3.1 of the Government Procurement Manual had not been prepared for the proposed building for the Research Organization in Colombo 07, a sum of Rs. 200,000,000 had been released by the General Treasury in 2015 and 2016 to carry out construction works thereon. The following observations are made in this connection.

- (a) Out of the above mentioned allocation, only a sum of Rs.76,630,000 had only been utilized. Further, a sum of Rs.20,505,675 representing 27 per cent of total expenses had been charged by the Research Organization itself as overhead costs.
- (b) The contract for the piling works had been awarded to a private company at an estimated cost of Rs.45,295,494 and a mobilization advances thereon amounting to Rs.9,125,808 had been released on 29 December 2015. However, the construction works had been commenced only on 28 March 2016 after lapse of 03 months period. The Building Plan had been revised after awarding the contract and as a result, the cost of piling work had been increased upto Rs. 66,361,737 representing 46 per cent of the initial estimate.

4.3 Human Resources Management

The following observations are made.

- (a) The Research Organization had taken action to deploy officers over the official working hours, due to shortage of officer who possessed expert knowledge and the following observations are made thereon.

- (i) A sum of Rs 6,869,691 had been paid in 2016, as overtime to the officers who were not entitled for overtime payments in terms of the paragraph 4.1 of the Section VIII of the Establishment Code.
 - (ii) According to the provisions made in the Public Administration Circular No. 21/2013 of 13 October 2013, the approval of the Secretary of the Ministry should be obtained to deploy the officers in service more than a day in a month in public holidays or at the weekends. However, the officers of the Research Organization had been deployed in public holidays and weekends throughout the year under review without obtaining such an approval. The allowances aggregating Rs. 1,546,020 and contributions thereon for Employees' Provident Fund and Employees' Trust Fund aggregating Rs. 213,093 had been paid. However, no evidence had been received to audit to confirm the attendance for such special duties at the respective days.
- (b) The Research Organization had entered in to an agreement with the Climate Resilience Improvement Project in 2015 to provide consultancy services to the activities of the Project. However, the approval of the Department of Management Services had not been obtained as required by the paragraph 1.1 of the Management Services Circular No.33 on the officers deployed for the Project activities in addition to the duties attended at the Research Organization. Further, the approval of the Interim Management Committee of the Research Organization had been granted to pay the allowances for 09 Technical officers and other 07 officers in non-technical grades. However, allowances had been paid for 10 Technical Officers and other 16 officers in non-technical grades. Further, an officer who released by the Research Organization in full time basis for the activities of the Project had been paid a sum Rs. 333,678 during the year under review exceeding entitled allowance of 50 per cent as stipulated in the paragraph 4.1.1 of the above mentioned Circular whilst other 02 officers released in part time basis for the activities of the Project had been paid a sum Rs. 121,949 exceeding entitled allowance of 1/3 of the monthly salary stipulated in the paragraph 4.1.3 of the said Circular.
- (c) The approval of the Management Services Department to recruit the Directors for Administrative and Finance Divisions of the Research Organization had been received on 18 August 2016. However, the officers were not recruited even as at 31 May 2017. The respective Divisions of the Research Organization had being functioned under a Director appointed on acting basis over a year.
- (d) The approved cadre of the Research Organization comprised with 104 Scientists and only 77 Scientist in service as at 31 December 2016. However, action had been taken to recruit 38 Scientists and 35 trainees on assignment basis.

5. Accountability and Good Governance

5.1 Action Plan

The financial targets had only been included in the Action Plan of the Research Organization and the physical targets expected to be achieved had not been included therein. Therefore, the physical performances in connection with mapping of disaster risk zones and construction works on mitigating of risks on landslides could not be evaluated in the audit.

5.2 Internal Audit

It was observed that the Internal Audit Section of the Organization comprised with one officer and it was not adequate to implement the audits on activities carried out by the Organization as well as sub offices located in district wise.

5.3 Budgetary Controls

An adequate attention had not been paid in determination of financial targets of the Budget and achieve the targets thereon. The Budget had been revised in September 2016 based on actual expenses incurred and income raised up to July 2016, thus it revealed that the Budget had not been used as an effective instrument of management control.

6. Systems and Controls

The observations made during the course of audit were brought to the notice of the Director General of the Research Organization time to time. Special attention of the management is needed in respect of the following areas of control.

Areas of the System and Control	Observations
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(a) Debtors Control	Follow up action not taken on long outstanding balances and recovery.
(b) Human Resources Management	Action not take to fill the vacancies on Key posts.
(c) Project Management	Lack of preparation of the Estimate and awarding of contract without delays.
(d) Inventory Control	Lack of proper maintenance of Inventory Records.