

## **National Building Research Organization – 2017**

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The audit of financial statements of the National Building Research Organization for the year ended 31 December 2017 comprised with the Statement of Financial Position as at 31 December 2017 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.

### **1.2 Responsibility of the Management 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 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**

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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 Research Organization is not incorporated under a Parliamentary Act and therefore, the validity of the certificates on construction activities issued by the Research 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**

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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 2017 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 Sri Lanka Public Sector Accounting Standards**

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As required by the paragraph 48 of Sri Lanka Public Sector Accounting Standards -01, the assets and liabilities and revenues and expenses should not be set off against each other unless in the instances it is necessary or permitted by Sri Lanka Public Sector Accounting Standards. However, the expenses aggregating Rs. 772.99 million had been set off against the revenues aggregating Rs. 814.73 million earned by 06 divisions of the Research Organization and shown the net result amounting to Rs. 41.74 million in the Statement of Financial Performance.

##### **2.2.2. Accounting Deficiencies**

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The following observations are made.

- (a) Building rent of the entity amounting Rs.520,000 had been treated as the capital cost on constructing of new laboratory building and accounted as the work-in-progress.

- (b) Advances aggregating Rs. 1.65 million received during the year under review from 03 clients had been set off against the value of debtors instead of being shown in the financial statements as the advances received.
- (c) The overhead expenses of Establishment Division of the Research Organization amounting Rs. 19.82 million had been included in the costs incurred on the projects of community based early warning systems, automated rain gages and mapping of landslide risk areas implemented by the Human Settlement Planning and Research Division and Landslide Research and Risk Management Division etc. As a result, the overhead expenses of the Establishment Division had been understated by that amount.

### **2.2.3 Lack of Evidence for Audit**

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The total cost of personnel could not be recognised through the financial statements of the Research Organization, due to lack of a separate Control Account maintained for the purpose of monitoring of cost of personnel and distribution of the costs on salaries and wages among the various divisions of the Research Organization.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Action had not been taken by the Research Organization to recover the balances of tender deposits and guarantee bond aggregating Rs. 570,000 to be recovered as at 31 December 2017. Out of that the balances amounting to Rs. 440,000 had remained outstanding for over 03 years.
- (b) The charges aggregating Rs. 630,000 on issuing of landslide risks assessment reports had remained as receivables to the Research Organization from 05 Pradeshिया Sabhas, since the year 2014.
- (c) An unspent balance of Rs. 1.28 million, out of the fees recovered from the client organizations for the services requested from the Research Organization which were completed at present had remained unsettled and shown as deposits in the financial statements.
- (d) Eventhough a sum of Rs. 5.92 million had been continuously shown in the financial statements of the Research Organization, as a balance receivable from the Urban Development Authority, it was observed that the respective balance had not been shown as a payable in the financial statements of the Authority.

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

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The following instances of non- compliances were observed.

### References to Laws, Rules and Regulations etc,

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### Non- Compliance

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| (a) Financial Regulations No.754 and 756  | Inventory Registers maintained at 02 district offices had not been closed at the year end and actual balances had not been included therein.   |
| (b) Public Administration Circular No. 21/2013 of 13 October 2013                 | The officers had been deployed in the weekend and holidays over 02 days in a month, without an approval of the Secretary of the Line Ministry and a sum of Rs.2.27 million had been paid for that purpose. |
| (c) Paragraph 3.1 of the Management Services Circular No.01/2016 of 24 March 2016 | Allowances amounting to Rs.1.17 million had been paid excessively to 10 officers contrary to the provisions made by the said Circular.   |

## 3. Financial Review

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### 3.1 Financial Result

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According to the financial statements presented, the financial result of the Research Organization was a surplus of Rs. 43.83 million and the corresponding surplus of the previous year amounted to Rs. 47.92 million thus indicated that the deterioration of the financial result by Rs. 4.09 million of the year under review compared with the financial result of the previous year. The declines of the revenue generated from consultancy services by Rs. 3.51 million and the revenue of Geo Technical and Engineering Division by Rs. 11.39 million of the year under review compared with the previous year had caused severely for the above mentioned decrease.

The analysis of the financial results of the year under review and the previous 04 years had revealed that the surplus amounting to Rs. 11.23 million in 2013 had increased up to Rs. 62.75 million in 2014 and declined continuously in the following years up to Rs 43.83 million in the year under review. However, the contribution amounting Rs. 147.68 million made in 2013, after being adjusted the financial results for staff remunerations, taxes paid to the government and depreciation etc, had been increased up to Rs. 416.76 million in 2017.

The Environment Studies and Services Division and Building Material Division of the Research Organization had generated 90 per cent of revenue from their services provided to the outside entities, out of total revenue amounting to Rs 91.61 million earned during the year under review whilst the 75 per cent of revenue aggregating Rs 586.77 million of Landslide Research and Risk Mitigation Division and Human Settlement Planning and Research Division had comprised with the grants received from General Treasury.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Activities and Review**

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Eventhough the assessment reports on risk of landslides are required to be issued within 02 weeks after receiving applications for the respective purpose, the tests checks made thereon had revealed that delays over 03 month in issuing of certificates by the District Office in Kandy in 14 instances. Further, delays over a month in issuing of respective certificates in 417 instances Could be observed at the District Office in Kegalle. In addition, the field inspections made at the District Office in Kandy had revealed that the certificates prepared thereon had been retained over a month in 50 instances without taking action to respective applicants.

### **4.2 Management Activities**

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The following observations are made.

- (a) The Cabinet Memorandum presented to prepare a parliamentary Act to ensure the legality of the Research Organization had been approved on 02 June 2010 and the draft thereon had been submitted to the Legal Draftsman Department on 10 September 2012. However, respective Act had not been passed by the parliament even as at 31 December 2017.
- (b) A sum Rs. 7.59 million remained unspent at the end of the year under review ,out of the allocations amounting to Rs. 17 million made by the General Treasury to meet the costs on local taxes on payments made under the Land Slide Disaster Mitigation Technical Assistance Project funded by the Japan International Co-operation Agency had been accounted as a revenue of the Land Slide Disaster Mitigation Management Division without obtaining an approval of the General Treasury.
- (c) A sum of Rs. 6.88 million spent by the Research Organization for the purpose of resettlement of the persons displaced due to landslide occurred in Aranayake area had been set off against the grants amounting to Rs.54.60 million received from the General Treasury to carry out special ground surveys without obtaining the approval from the General Treasury.
- (d) The construction works of landslide mitigation projects at the premises of Pussala Navodha Vidyalaya and Wewegama Hospital in Badulla had been abandoned by the respective contractor on 04 March 2016 and 08 April 2016 respectively. However, the action had not been taken to recover the losses incurred by the Research Organization on unrecovered advance balance of Rs. 1.66 million and the value of performance bond amounting to Rs.1.57 million.

### **4.3 Underutilization of Funds**

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The following observations are made.

- (a) As a practice, the balance remained in the Bank Current Account over a sum of Rs. 50 million at the end of each working day are being transferred automatically to a Savings Account maintained by the Research Organization. The balance amounting to Rs. 356.19 million had remained in the Bank Savings Account as at 29 December 2017 whilst balances ranging from Rs. 331.69 million to Rs. 556.97 million had remained in the Account throughout the year 2017.
- (b) A sum of Rs. 11.02 million had been received to the Research Organization in 2015 from United Nations Development Programme to implement a community based disaster mitigation projects. And out of that a sum of Rs. 6.00 million had been utilized in 2016 the balance amount of Rs 5.02 million had remained unutilized even as at 31 December 2017.

### **4.4. Cadre Administration**

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The cadre of the Research Organization comprised with 129 posts of Scientists and out of that, only 115 Scientists were remained in the service as at 31 December 2017. However, the Research Organization had taken action to recruit 36 Scientists on assignment basis, 22 Scientists on daily work basis and 10 trainees. Further, a sum of Rs. 11.07 million had been paid during the year under review as overtime allowances to the officers who were not entitled to receive overtime allowance.

## **5. Sustainable Development**

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### **5.1 Achievement of the Sustainable Development**

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The Research Organization had understood about the implementation of the activities under their scope of works related to the “2030 Agenda” on the Sustainable Goals of the United Nations Organization which required to be implemented during the year under review by every state-owned institution. The following observations are made thereon.

- (a) The Director General had informed that, eventhough the Research Organization aware on “2030 Agenda” of United Nations, it was faced with difficulties on recognition of targeted indicators, as the activities under the scope of works of the Research Organization were not directly related to the respective Agenda.
- (b) The activities recognised by the Research Organization to achieve the targets on sustainable development goals had not been included in the Annual Plans of the Research Organization whilst not made financial arrangements in the Annual Budget.

## **6. Accountability and Good Governance**

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### **6.1 Internal Audit**

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The Internal Audit Section of the Research Organization comprised with the Chief Internal Auditor and a female Officer as the Assistant Auditor and as a result, the internal audit functions at the Headquarters and District Offices could not be implemented adequately.

### **6.2 Procurement and Contract Procedures**

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#### **6.2.1 Procurements**

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- (a) The following observations are made on the procedures adopted by the Research Organization to obtain the transport services through hired motor vehicles.
- (i) For the purpose of obtaining the transport services for the period of 01 August 2017 to 31 August 2018, an agreement had been entered into with a private firm to hire 11 motor vehicles at an estimated cost of Rs.36.83 million. However, action had not been taken to obtain a performance bond as required by the paragraph 5.4.8 of the government Procurement Guidelines. As a result, only a sum of Rs. 0.28 million could be recovered, out of the total loss amounting to Rs.1.84 million incurred, due to the violations of the terms stipulated in the contract agreement.
  - (ii) According to the paragraph 1(a) of the bid calling document, the manufacturing year of all hired motor vehicles should be 2005 or thereafter. The service supplier had produced the registration certificates of 05 motor vehicles out of 11 motor vehicles supplied and it was observed that 02 of such motor vehicles had been manufactured before 2005.
- (b) The following observations are made on the procurement procedure adopted on construction of new laboratory building.
- (i) Contrary to the paragraph 7.8 of the Government Procurement Guidelines, the bid evaluation had been carried out only on the bid received with lowest price instead of being evaluated all the bids received before the time and date fixed to accept the bids. The compliance certificate on a building constructed at the Jaffna Municipal Council had not been issued and the members of the Technical Evaluation Committee had taken action to make a physical verification of the respective building, confirm the quality of the construction and recommended to accept the bids. Thus, indicated that the transparency of the process of the technical evaluation had not been ensured.
  - (ii) Eventhough the contract had been awarded on 31 December 2016 the respective agreement had been signed only on 16 February 2017 with the delays in 45 days. According to the contract agreement the construction works were needed to be completed by 12 October 2017, however, the physical progress thereon had remained at 26.75 per cent as at 31 December 2017. The General Treasury had released a sum of Rs. 350 million since the year 2015 up to 31 December 2017 and only a sum of Rs. 121.45 million had been utilized at the end of the year under review.

- (iii) Eventhough the minimum value of an interim payment certificate to be taken for evaluation purposes is determined as Rs. 12.50 million as per paragraph 14.5 of the contract agreement, 06 interim payment bills with the values ranging from Rs.1.39 million to Rs. 6.07 million had been settled during the year under review.
- (c) The following observations are made of the procedure adopted to procure automated rain gages.
- (i) The bid had been called to procure 51 rain gages under the allocations made in the Budget Estimate -2016 and the contract had been awarded on 08 August 2016 to a supplier who submitted the lowest bid valued at Rs. 38.43 million to complete the contract within a year. The Research Organization had informed the need of improvement of these rain gages and an additional cost estimate of Rs. 3.35 million thereon had been presented by the supplier. According to the Expert's instruction of presented by the University of Moratuwa had informed that the unrealistic prices had been included in the additional cost estimate. However, the contract had been awarded to the same contractor, without considering the Expert's views.
  - (ii) The competitive bids had been called to procure another set of 50 rain gages under the allocation made in the Budget Estimate-2017 and over 05 month period had been taken to the evaluation process of said procurement, contrary to the provisions made in the paragraph 5.3.10 and 7.4 of the Government Procurement Guidelines. The Company which submitted lowest bid price had amalgamated with other Company and formed a new Company on 28 August 2018, after the submission of the bids. Therefore, the contract had been awarded to the new Company of which not submitted the bids for the respective procurement.

### **6.2.2. Contract Administration**

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The following observations are made on the procedure applied on selection of sub-contractors for the contracts undertaken by the Research Organization.

- (a) The contracts on 03 landslide mitigation projects implemented in Kegalle district had been awarded to 02 contractors and the respective contracts had been awarded by them to other contractors, without obtaining the permission of the Research Organization. The physical progress on the said contract was observed at a range of 05 per cent to 50 per cent as at 31 December 2017.
- (b) A contract valued at Rs. 21.80 million had been received to the Research Organization from a private entity to carry out a geometric survey for the purpose of constructing a 56 storied building in the City of Colombo. Eventhough it was planned to complete the contract within 90 days by deploying the officers attached the Geometric Technology Division of the Research Organization, action had been taken to call limited bids and awarded the part of the contract to a subcontractor. Therefore, sub contract had been awarded to carry out 23 borehole investigations, out of 46 borehole investigations to be carried out. It was questionable that the procedure applied on granting approvals and implementing of all other procurement activities within a short period of 03 days and the contracts had been awarded after lapse of 47 days from the date of bid opening. However, the sub contract had been awarded after lapse of 114 days from the date of the



commencement of the project eventhough it was planned to complete within 90 days by deploying internal staff of the Research Organization. Therefore, it was observed that the possibility was remained to complete the activities through the internal staff of the Research Organization.

- (c) A contract at an estimated cost of Rs. 20.60 million had been received to the Research Organization to implement a landslide mitigation programme launched by the Ministry Mahaweli Development and Environment at the colonies in Mahaweli areas. Therefore, a sub- contractor had been selected through calling bids to establish an early warning system for the residents in the area under the purview of Divisional Secretariat of Walapane. The bid evaluation had not been carried out during the period stipulated in the paragraphs 5.3.10 and 7.4 of the Government Procurement Guidelines. Further the contract had been awarded to the Company of which not submitted bids as referred in the paragraph 6.2.1 (c) (ii) of this report.
- (d) A contract agreement had been signed on 26 November 2015 to provide consultancy services on landslide mitigation activities of the unstable slopes at the sided of 11 motorways and 18 schools in Kandy District. Eventhough it was planned to complete the works in the year 2017, the related works at 02 schools and 04 motor ways had not been commenced as at 30 June 2018. Further, physical progress on the activities at other 08 schools had remained at a range of 25 per cent to 83 per cent whist the physical progress on the activities of 04 motorways had remained in a range of 45 per cent to 95 per cent.

### 6.3 Budgetary Control

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A proper attention had not been made on preparation of financial targets for the Budget and achieving the targets stipulated therein and amendments to the budget had been made in the month of September based on the actual expenditure and revenues up to August 2017. As a result, it was observed that the Budget had not been utilized as an effective instrument of control.

## 7. Systems and Controls

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The deficiencies observed in audit had been informed to the Director General of the Research Organization through the Audit Queries issued time to time, Further attention is needed to the following deficiencies in systems and controls.

<b>Field of Systems and Controls</b>	<b>Observations</b>
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(a) Maintenance of records at the District Offices	Attendance records, Leave Registers, Visiting Registers, Inventory records etc had not been maintained in updated manner
(b) Settlement of Imprests of the District Offices	Payment Vouchers not used by the District offices and the settlements of imprests had not been made in updated manner.

- (c) Recovery of Debt Balances                      Actions had not been taken to recover the balances of debt over long period.
  
- (d) Procurements Activities                      The procurement activities had not been launched in updated manner to implement the Land slide Mitigation Project.
  
- (e) Issue of compliance certificates by the district offices                      The weaknesses such as lack of document maintaining system to record the receipt of applications and recognizing of delays in issue of certificates, lack of recording system for field tests, the information to be filled in the application forms completed by the sub offices had not been completed.