

1.1 Qualified Opinion

The audit of the financial statements of the National Building Research Organization for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 the Finance Act No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Organization as at 31 December 2019, and of its financial performance and 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 based 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 Organization’s 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 Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization’s financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Institute 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 Institute.

1.4 Scope of Audit

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 Research Organization's 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 Organization, and

whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Organization has complied with applicable written law, or other general or special directions issued by the governing body of the Institute
- 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 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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Accounting Policies

Audit Observation	Comments of the Management	Recommendation
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According to the accounting policy of the Organization in relation to making allocations for doubtful debts, 25 per cent allocations should be made for doubtful debts in respect of the debts older than 10 years. Nevertheless, allocations for doubtful debts of Rs.1.39 million had not been made for the debt balance of Rs.5.55 million that remained outstanding for more than 10 years.	Action will be taken to adjust the allocation for doubtful debts relating to the debtors balance of the year 2009 from the year 2020.	Allocations for doubtful debts should be made in accordance with the accounting policy.

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although buildings had not been obtained on rent for the maintenance of “Risk Minimization through Stabilization Methods Projects” implemented with the involvement of the Organization, a sum of Rs. 1.81 million had been deducted from the building rents of the Organization as an expenditure incurred on that project and shown in the financial statements. As such, the building rent pertaining to the year under review had been understated by that amount in the financial statements.	In searching for a suitable place to maintain the project office of the Risk Minimization through Stabilization Methods Projects, the suppliers had presented bids at high amount as Rs.500,000 per month for that purpose. Therefore, our Organization has made arrangement to provide a place to maintain the relevant office at a low price as Rs.150,000. Action has been taken to obtain a rent therefor with the approval of the Project Director.	Without offsetting the recovered rent against the paid rent, income and expenditure should be separately stated in the financial statements.
(b) In terms of Paragraph 48 of Sri Lanka Public Sector Accounting Standards 1, income and expenditure should not be offset against each other. Nevertheless, Rs.15.31 million received from the General Treasury for research and development activities had been offset against the other expenditure balance totalling Rs.27.87 million and the difference of Rs.12.56 million only had been stated as the other expenditure in the financial statements.	Expenditure on research and development has been considered as a capital expenditure and eliminated from the expenditure. Action will be taken to deduct the expenditure from the relevant point in future.	Provisions in the standard should be followed in the preparation of financial statements.

- (c) In terms of Paragraph 76 of Sri Lanka Public Sector Accounting Standard 1, the assets which are expected to be realized within a period of one year should be stated in the financial statements under the current assets. Nevertheless, the fixed deposit value of Rs.463.89 million of the Organization invested for more than a period of one year had been stated in the financial statements under the current assets.
- Action will be taken to correct this error in the year 2020.
- Assets should be classified as stated in the standards.
- (d) A sum of Rs.1.52 million remitted by the district offices of the Organization to the Head Office had been stated in the financial statements under the current liabilities instead of being adjusted to the relevant accounts.
- This situation has arisen due to depositing the funds directly to the account of the Organization without being mentioned any Number or information to recognize those remittance and arrangements have been made to identify these funds as much as possible through the committee appointed to collect money. Accordingly, action is being taken to make due adjustments in the year 2020 for these unidentified remittance.
- A methodology should be devised to recognize remittance made to the Head Office and action should be taken to correctly adjust that remittance in the accounts.
- (e) The budgeted information of the Organization had not been revealed in the financial statements as required by Sri Lanka Public Sector Accounting Standard 15.
- Action will be taken to include the budgeted amounts in a separate column in the year 2020.
- Provisions in the standard should be followed in the preparation of financial statements.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) The contractors who had received construction contracts relating to landsides minimization projects implemented at the Pussala Navodya Vidyalaya and the Badulla Wewerama Hospital premises had abandoned the contract activities in 2016. Action had not been taken even by 31 December 2019 to recover Rs.1.57 million from the security advances given by those contractors and Rs.1.66 million from the performance bonds of those projects to cover the losses caused to the Organization.	Matters relating to the recovery of money from these securities have been discussed with them and future steps are in progress.	Action should be taken to recover the losses caused to the Organization from the relevant securities.
(b) Even though a balance of Rs.5.92 million receivable from the Urban Development Authority had been continuously stated in the financial statements of the Organization since year 2009, that value had not been stated in the financial statements of the Authority as a payable balance. Accordingly, recovery of that amount remained uncertain. Likely, action had not been taken even by 31 December 2019 to recover the tender deposits of Rs.575,722 receivable to the Organization and Rs.477,882 receivable from	It has been stated that letters were referred to the Urban Development Authority, Sports Ministry and the General Treasury through the Secretary to the Ministry in order to recover this amount, but it has not so far been successful and that matters relating to the recovery of money applicable to these securities have been discussed with them and future steps are in progress and that action has been taken to send reminders to the Local Government Authorities to recover that money from those institutions.	A formal arrangement should be made to recover the debts.

the Pradeshiya Sabha in respect of issuing landside risk assessment reports

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| (c) | Although it was not a policy of the Organization to provide services on credit basis, a sum of Rs. 4.08 million and Rs. 23.14 million was respectively remained recoverable as at 31 December 2019 in respect of providing credit services by the two Divisions of Environmental Studies and Services and Geo-technology and Engineering during the year under review. Action had not been taken to recover Rs.37.50 million relating to the years 2018 and 2019. | Even though supply of services on credit basis is not the policy of the Organization, action has to be taken deviating from this policy in providing services to the Government institutions. Most of these debtors are Government institutions. Further, relevant services have been provided subsequent to reaching agreements with these Government institutions. | A formal arrangement should be made to recover the debts, and agreements should be followed. |
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1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
Action had not been taken to settle Rs. 991,152 obtained as the tender deposits from the year 2014 to 2018.	Even though the relevant suppliers were informed to obtain tender deposits, no action has so far been taken to obtain those deposits.	Action should be taken to settle the external liabilities.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 10.1 of Chapter VIII of the Establishments Code as amended by the Public Administration	Approval of the Secretary to the Ministry should be obtained to employ officers in the service for more than 02 days during the weekends	In order to properly accomplish the services during disastrous situations, services relating to the urgent works and counseling and	Provisions of the Establishments Code should be followed.

Circular No.21/2013 dated 09 October 2013. and the public investigation services holidays per month. that can't be delayed and provided on the Nevertheless, without and provided on the being obtained such payment of money, approval, a sum of officers have to be Rs.6.13 million had employed on public been paid to the holidays. Further, officers who had under the provisions served for more than of the delegation of two days and based on powers stated in the the above payment, Financial Regulation sums totalling 135, the authorization Rs.918,920 had been limits for the approval paid to the of payments and Employees' Provident delegation of powers Fund and Employees of the National Trust Fund. Building and Research Organization have been approved by the Interim Management committee held under the patronage of the Secretary to the Ministry of Disaster Management. Arrangements have been made to streamline these payments in future by the internal circular No.03/2020.

- (b) Section 7 of Chapter VIII of the Establishments Code Overtime allowances for duration of 20 hours per month can be paid to the officers who are in the grades entitled to receive overtime allowances and approval of the Secretary to the Ministry should be obtained to pay overtime allowances in excess of the above maximum time limit. Nevertheless, overtime allowances had been In order to properly accomplish the services during disastrous situations, services relating to the urgent works and counseling and investigation services that can't be delayed and provided on the payment of money, officers have to be employed for more than 20 hours per month in additional duties. Under the Provisions of the Establishments Code should be followed.

paid in excess of the maximum limit of time without the approval of the Secretary to the Ministry.

approval of the annual delegation of powers approved by the Interim Management committee of the National Building and Research Organization held under the patronage of the Secretary to the Ministry, the Head of the Institution has been authorized powers to approve overtime up to 100 hours. Arrangements have been made to streamline these payments in future by the internal circular No.03/2020. Action will be taken to limit the continuous performing of duties henceforth.

- (c) Section 13.2 of the Management Service Circular No.02/2016 dated 04 April 2016. Due to paying overtime allowances by determining the allowance to be paid for an overtime hour contrary to the provisions specified in Section 6.1 of Chapter VIII of the Establishments Code, the Organization had overpaid a sum of Rs.8.83 million as overtime allowance, and Rs.1.32 million to the Employees Provident Fund and Employees Trust Fund during the year 2019. From the inception of the institute, its operations have been maintained in accordance with the provisions in Shop and Office Employees Act. Accordingly, payments have been made at 1 ½ hours for one hour of overtime. It is reported that action will be taken as per the Management Circular No.02/2006 from 01.07.2020. Provisions of the Establishments Code should be followed.

(d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. F.R.104	Due to irregularities caused in the stock control, a difference of Rs. 400,824 was observed between the physical stock value and the balance of the stock control account as at 31 December 2019. Steps had not been taken in terms of this regulation to recover the said loss.	This adjustment is an adjustment made to the stationery stock. As certain release of goods had not been entered in the ledger at the time of issuance of goods, a value greater than the stock value has been shown in the ledger. Action will be taken to submit a reconciliation statement in this connection in future.	Action should be taken to recover the shortage from the relevant parties.
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1.8 Non-compliance with Tax Requirements

Audit Observation	Comments of the Management	Recommendation
According to the Nation Building Tax returns prepared by the Organization, the Nation Building Tax payable as at 31 December 2019 amounted to Rs. 1.12 million, whereas according to the financial statements of the Organization, it had been stated as Rs.2.54 million recoverable from the Director General of Inland Revenue. Similarly, as per the Value Added Tax returns of the Organization, the reimbursable Value Added Tax as at the end of the year under review amounted to Rs. 7.31million, but that value as per the financial statements amounted to Rs.10.06 million.	Arrangements have been made to prepare a reconciliation statement in this regard,	Action should be taken to correctly account for the Value Added Tax.

2. Financial Review

2.1 Financial Results

The operations of the Organization for the year under review had resulted in a surplus of Rs. 55.24 million as compared with the corresponding surplus of Rs. 63.68 million for the preceding year, thus observing a deterioration of Rs. 8.44million in the financial result. This deterioration was mainly due to the decrease in the interest income earned on the fixed deposits.

2.2 Trend Analysis of major Income and Expenditure items

2.2.1 Improvement or Deterioration of Surplus of Each Division of the Organization compared to the year 2019.

As compared with the year 2018, the surplus of the Geotechnical Engineering Divisions and Project Management Division stood at a range from 17 per cent to 20 per cent in the year 2019 while a drawback ranging from 0.50 to 30 per cent was observed in the Environmental Studies and Services Division, Landside Research and Risk Management Division, Human Settlement Planning and Training Division and Building Material Research and Testing Division in the year 2019 compared to the year 2018.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Approval for the Cabinet paper presented relating to the formulation of an Act to confer legal status to the Research Organization had been received on 02 June 2010 and accordingly, the draft Bill had been referred to the Legal Draftsman's Department on 10 September 2012. However, action had not been taken to table the relevant Bill in Parliament even by 31 December 2019.	Due to changing our Line Ministry and the scope in several times, the amended Bills have been sent to the Attorney General's Department through the Legal Draftsman's Department and they are being studied further. It is reported that action will be taken to table the Bill in Parliament once the approval therefor is received.	Necessary steps should be taken to pass the Act expeditiously.

3.2 Underutilization of Funds

Audit Observation	Comments of the Management	Recommendation
A sum of Rs. 7.62 million received from the United Nations Development Programme in the year 2015 for the Landslide Displacement Identification System in order to implement the community based disaster minimization projects had not been utilized for the relevant purpose even by 31 December 2019 and a sum of Rs.5 million received from the General Treasury in the	These funds will be used in accordance with the requirements in future.	Action should be taken to use the grants and provisions for the relevant purposes.

year 2015 for the implementation of a Digital Format Programme had not been utilized even as at 31 December 2019.

3.3 Delays in Projects or Capital Works

Audit Observation	Comments of the Management	Recommendation
<p>(a) For the implementation of landslide risk minimization projects, the General Treasury had provided Rs.200 million for the Organization during the year under review. Out of that amount, a sum of Rs.35 million had been used for the special land testing activities that had been irrelevant to the above matter. Having prepared an estimate at Rs.160.18 to implement 08 projects with the use of remaining amount of Rs.165 million, contracts worth Rs. 132.92 million had been awarded. Even though constructions of these 08 projects should have been completed by 28 February 2020, those works had not been completed.</p>	<p>A sum of Rs.35 million has been used for the special land testing activities with the approval of the General Treasury. Two projects have been completed and the other projects were scheduled to be completed by 31 March 2020. However, the projects could not be completed by that date due to the situation raised in the country and plans have been drawn to complete those works by 15 July.</p>	<p>Action should be taken to prepare estimates for the contracts accurately and to complete the relevant works as planned.</p>
<p>(b) For the contract relating to the construction of new office and laboratory building of the Research Organization, an extension of additional 623 days had been given without acceptable fair reason and liquidated damages of Rs.1.62 million had not been levied in respect of delayed period of 162 days. Even though Rs.43.12 million had been paid for the variations of works included in the Bills of Quantity of the contract,</p>	<ul style="list-style-type: none"> • Constructions of this building are carried out within a limited space and it has found difficult to arrive the trucks with concrete during the daytime owing to the traffic congestion. • Since the approval form the Geological Survey and Mines bureau was not granted to transport soil for back filling, constructions of the building was delayed for about 03 months. 	<p>Action should be taken to recover the liquidated damages for additional time and as the variation is 34 per cent, approval of the Secretary to the Ministry should be obtained. Further, action should be taken to minimize the cost by controlling additional expenses.</p>

approval therefor had not been obtained from the Secretary to the Ministry as required by Guideline 8.13.4 of the Government Procurement Guidelines. As a result of delay in the construction of the building, an additional sum of Rs. 6.36 million had been paid in the year 2019 for the rent and security services of the buildings obtained on rent for the maintenance of several divisions of the Organization and Rs.9.60 million had been paid in relation to the contribution of the officers of the Organization who were involved in the construction activities.

- While the total plans and the contract were in progress, modern laboratory equipment was purchased and accordingly, necessity for changing the plans appeared from time to time.
- According to the aforementioned improvement, the number of Stiffner Columns had to be increased and therefore, additional time had to be spent to do additional works.
- There was a necessity to expand the space of the auditorium and additional time had to be spent to prepare its plans.
- The construction of the building was also delayed due to the inclement weather.

It has been informed that action was not taken to recover liquidated damages for granting extension for the contract owing to the matters beyond the control of the contractor, approval of the Secretary to the Minister should be obtained as per the provisions in Guideline 8.13.4 of the Procurement Guidelines only if the contract value exceeds by 10 per cent, and that since the all the changes had been done by considering present and future requirements, its long term benefits can be received by the Organization and therefore, it is not a loss to the Organization even if an additional amount had to be incurred for the construction.

4. Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>(a) In calling for bids for the supply of vehicles to the Head Office, the institution which submitted the minimum quotations had been withdrawn from the evaluation process by falsely stating that the above institute was an institute blacklisted. Accordingly, the contract had been awarded to another institution and as a result, Organization had to incur an additional expenditure of Rs.5.47 million per annum. Likely, service of a cab obtained on a monthly rent of Rs.132,000 from the institution providing vehicles to the district offices had been discontinued and a cab had been obtained on a monthly rent of Rs. 185,000 from the institution which provided vehicles to the Head Office and the Organization had to make an additional payment of Rs. 636,000 annually for that purpose.</p>	<p>The tender for the supply of vehicles for the year 2017 had been awarded to the Prime Tours. Due to failure on the part of the above institute to duly supply the vehicles, a decision had been reached to black list the Prime Tours by the Tender Decision No.NBRO/DPC.2017.078 of 01.11.2017 and it has been clearly stated in the tender decision. After the reoval of the double cab provided by the supplier who supplied the vehicles to the district offices, the supplier had not taken steps to provide another suitable vehicle and therefore, at the time of calling for quotations for procuring vehicles to the Head Office, quotations were invited for a double cab and awarded the tender accordingly.</p>	<p>Bids should be evaluated in accordance with the provisions of the Procurement Guidelines on true and acceptable information and supply of goods and services should be done so as to receive maximum economic benefit to the institute.</p>
<p>(b) The Organization had received a contract to carry out a primary geotechnical test on the banks of either side of the Kalani river from Kaduwela to Hanwella and a sub-contractor had been selected by calling for limited bids for carrying out relevant compenetration test. Calling for bids and selection of institutions had not been carried out with transparency</p>	<p>Bids invitations were sent to the relevant institutions through the registered posts and e-mails and it was found difficult to find experienced member with theoretical and practical knowledge to evaluate the bids within the timeframe given by the consultancy firm(Atkins). Any advance was not paid to the selected contractor for the relevant work and it was</p>	<p>Evaluation and award of contracts should be carried out with transparency and appropriate securities should be obtained in every instance. Likely, provisions of the Procurement Guidelines should be abided by.</p>

and an external member had not been appointed to the Technical Evaluation Committee as required by Guideline 2.8.4 (d) of the Government Procurement Guidelines. A performance security in terms of Guideline 5.4.8 of the Government Procurement Guidelines had not been obtained for this purpose and a sum of Rs.1.4 million had been paid in addition to the contract value.

decided not to pay any amount until the final report is handed over on completion of the relevant work. A fundamental study on the geo instability is not carried out by preparing estimates and it was only an estimate prepared on our assumptions mealy based on our knowledge and experience. Therefore, it is unavoidable to occur variations beyond the original estimate on the geological characteristics found in completion of the relevant research.

5. Human Resource Management

Audit Observation	Comments of the Management	Recommendation
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Although the approved cadre of the Organization was 386 as at 31 December 2019, the staff engaged in the service was 459. It was observed that 117 of the above staff were not the officers in the permanent cadre.	The Department of Management Service had approved a cadre of 386 members for the National Geological Survey and Mines Bureau. In addition to the permanent employees served in this staff, employees are recruited on casual basis from time to time for special counseling programmes so as to limit to the relevant purpose. Service of those employees are discontinued at the end of relevant period. However, action has been taken to terminate the service period of these casual employees on 30 June.	Action should be taken to carry out activities obtaining relevant approval in a manner not to exceed the approved cadre .