

Condominium Management Authority

1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the Condominium Management Authority. as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

The following observations are made.

Accounting Standard

Sri Lanka Accounting
Standard 9

Sri Lanka Accounting
Standard 16

Non-compliance

According to the Standard, all inflows and outflows of cash should be recorded. But the cash flow of Rs.42 million received as grants from the Treasury had not been included in the cash Flow Statement.

Even though a provision of Rs.18,102,966 had been made as at the end of the year under review for payment of gratuity, that had not been invested to cover the liability while only an investment of Rs.1,297,780 had been made.

1:2:2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The difference of Rs.54,195 between the Stocks Ledger and Stocks Account of the Main Ledger had been debited to the Profit and Loss Account through the Stocks Adjustment Account without identifying the balance.
- (b) The Value Added Tax amounting to Rs.190,433 received in connection with the construction work completed under the Provincial Councils Funds and amount not paid to the contractors, had been brought to account as a service charge income.
- (c) According to Note No. 7 to the accounts, the policy on making provision for bad and doubtful debts had been changed in the year under review and no provision for bad and doubtful debts had been made for debtors old between one year to 04 years amounting to Rs.7,253,690.

1:2:3 Going Concern of the Authority

The net assets of the Authority for the year under review and the 02 preceding years represented negative values amounting to Rs.31,794,284, Rs.12,841,863 and Rs.12,869,156 respectively. The deterioration of the net assets by 147 per cent as compared with the preceding year and the current ratio remaining at 1:2.07, 1:1.9 and 1:2.8 indicates that the going concern of the Authority without financial assistance of Treasury provision is questionable.

The General Manager of the Authority informed me that this status has changed due to the voluntary retirement of 125 employees in the year 2009 with provisions obtained from the Treasury and that a change in the status could be expected from the result of Treasury provisions for the salaries in respect of the year 2012.

1:2:4 Unexplained Differences

The following account balances could not be accepted in audit as those did not agree with the balances confirmed by the external parties.

Item of Account	Balance as at 31 December 2011 According to Accounts	Balance According to External Evidence	Evidence	Effect on the Accounts of the Authority
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	Rs.	Rs.		
Clients Debtors – National Housing Development Authority	--	1,910,914	Final Accounts 2011 of the National Housing Development Authority (Draft)	Debtors understated by a sum of Rs.1,910,914
Customers' Advances National Housing Development Authority	1,229,974	8,863	Final Accounts 2011 of the National Housing Development Authority (Draft)	Overstatement of creditors by a sum of Rs.1,221,111.

1:2:5 Accounts Receivable and Payable

The following observations are made.

- (a) The balances receivable from 05 clients debtors brought forward over periods exceeding 05 years totalled Rs.3,643,158 and the Authority had not taken effective action for the recovery of those debts.
- (b) The Authority had not taken steps to settle the advances amounting to Rs.104,453 obtained from clients, a sum of Rs.9,350,215 payable to the Ministry of Construction, Engineering Services, Housing and common Amenities, sundry advances amounting to Rs.223,014 and Goods and Services Tax amounting to Rs.15,733,971 brought forward over periods exceeding 05 years.

1:2:6 Lack of Evidence for Audit

Four balances of accounts totalling Rs.41,497,720 could not be satisfactorily verified in audit due to the unavailability of confirmation of balances.

1:2:7 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions -----	Non-compliance -----
(a) Common Amenities Board Law No. 10 of 1973 Common Amenities Board (Amendment) Act, No. 24 of 2003 – Section 5, Paragraph (e)	Even though the Authority should ensure that Management Corporations of Condominium Properties or Semi – Condominium Properties are functioning properly, and should manage and control the affairs of the said Management Corporation, the number of condominium certificates issued and the number of Management Corporation registered from the year 2005 to 30 June 2012 had been only 555 and 204 respectively.
Section 5, Paragraph (g)	Action had not been taken to transfer the maintenance of common amenities of Condominium Properties to the Local Authorities.
(b) Inland Revenue Act, No.10 of 2006 Section 114	Pay As You Earn Tax amounting to Rs.26,921 relating to the first quarter of the year under review had been paid by the Authority instead of being recovered from the officers.

1:2:8 Transactions of Contentious Nature

The following observations are made.

- (a) Even though a sum of Rs.6,751,832 had been received from the National Housing Development Authority on 08 January 2010 as Management Corporations Fund for carrying out maintenance works, action had not been taken even up to 31 December 2011 to establish the Management Corporations. The money had been deposited in a fixed deposit account without formal approval and the balance thereof as at the end of the year under review amounted to Rs.7,079,043.
- (b) The damage caused to the double cab motor vehicle No. 253-5725 by an accident on 19 February 2011 had been repaired by the Authority at a cost of Rs.142,475. Sri Lanka Insurance Corporation had reimbursed a sum of Rs.95,450 in that connection. Investigations had not been conducted to determine the officers responsible for the loss of Rs.47,025.

2. Financial Review

2:1 Financial Results

According to the information made available, the deficit of the Authority for the year ended 31 December 2011 amounted to Rs.18,952,421 as against the surplus of Rs.27,293 for the preceding year. As compared with the preceding year the net surplus had deteriorated by a sum of Rs.18,979,714.

2:2 Analytical Financial Review

According to the accounts presented, the following observations are made on a reconciliation of the financial results of the Authority as at the end of the year under review and the preceding year.

- (i) The service charges income as compared with the preceding year had increased by 727 per cent and a sum of Rs.42 million had been received from the General Treasury in the year under review for completion of 03 Projects. The increase had been due to the service income received for the execution of those Projects.
- (ii) The major source of income of the Authority is income from the issue of Condominium Certificates and it had decreased by 40 per cent as compared with the preceding year.
- (iii) The Project expenditure had increased by 337 per cent as compared with the preceding year due to the expenditure incurred on the Jana Sevena Project and the establishment of Management Corporations.

2:3 Working Capital Management

The current ratio and the quick assets ration for the year under review had been 1:2.07 and 1:2.09 respectively while those ratios for he preceding year had been 1:1.90 and 1:1.93 respectively. As such the Authority had faced working capital problems.

3. Operating Review

3:1 Performance

The performance of the Authority for the year under review as compared with the targets is given below.

Item	Target	Performance	Percentage of Progress According to the Action Plan
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Establishment, Registration and Renewal of the Management Corporations	240	184	77
Condominium Regulatory Mediation and Operation	160	25	16
Issue of Condominium Certificates	80	72	90

The progress of the Condominium Regulatory Mediation and Operation represented a low value of 16 per cent of the targets.

3.2 Management Inefficiencies

The Authority had not entered into an agreement for the year 2011 for the execution of the operating water and sewage drainage of the hospitals at Gampaha and Negombo undertaken extraneous to its objectives and bills amounting to Rs.1,971,028 and Rs.1,618,465 respectively had been issued during the year under review. Sums of Rs.1,449,653 and Rs.802,749 remained receivable from the Gampaha Hospital and Negombo Hospital respectively.

3:3 Staff Administration

The staff approved for the year under review had been 132 and actual staff as at the end of the year under review, had been 110. Even though 24 officers had been recruited in the year under review non-filling of vacancies in the senior management had directly affected the performance.

3:4 Motor Vehicle Utilization

The Authority had a fleet of 09 motor vehicles and the expenditure during the year under review for fuel and the repair and maintenance amounted to Rs.1,694,432 and Rs.3,437,841 respectively. As such the expenditure on repair and maintenance of motor vehicles in the year under review had been very high and the running expenses per kilometer ranged between Rs. 27 and Rs. 34.

4. Accountability and Good Governance

4:1 Corporate Plan

The following criteria to be followed in the preparation of the Corporate Plan in terms of the Public Enterprises Circular No. PED/12 of 02 June 2003 had not been taken into consideration.

- operations of 03 preceding years
- the number of activities to be executed annually.

4:2 Action Plan

Significant variances between the targets of the Action Plan and the achievement of those targets were observed. The management had not paid due attention to timely review of the position relating to achievement of targets, identify the weaknesses and the possibility of taking remedial measures. This position had directly affected the weak financial position and the going concern of the Authority.

4:3 Compositions of the Board of Management

According to the Common Amenities Board Act, No. 24 of 2003 the Board of Management should comprise 9 ex-officio members and 6 members appointed by the Minister. Nevertheless, the membership of the Board of Management in the year under review had been limited to 8 ex-officio members and 2 members appointed by the Minister.

05. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of systems and controls.

- (1) Motor Vehicle Control
- (2) Issue of Condominium Certificates

