

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 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1:2 Comments on Financial Statements

1:2:1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Provision for income tax amounting to Rs.5,601,908 for the net surplus of Rs.16,005,452 of the Authority for the year under review had not been made.
- (b) The uncompleted contracts as at the end of the year under review amounting to Rs.23.31 million had not been brought to account as work-in-progress.
- (c) In the computation of the changes in the working capital in the cash flow statement, the lease loan of Rs.2.79 million of the Bank of Ceylon shown as the current liability in the balance sheet, had not been included in the computation of the changes in the working capital.

- (d) According to Note 7 to the accounts, the policy on making provision for bad and doubtful debtors had been changed in the preceding year and provision of Rs.211,639 for the debtors amounting to Rs.7,054,617 old between 01 year to 04 years had not been made.

1:2:2 Going Concern of the Authority

The net assets of the Authority in the year under review and the 03 preceding years had been negative balances of Rs.15,788,833, Rs.31,794,284, Rs.12,841,863 and Rs.12,869,156 respectively. Even though the net assets had increased by 50.3 per cent as compared with the preceding year due to the receipt of Treasury provisions for the payment of employees salaries, in view of the current ratios being 1:1.5, 1:2.1, 1:1.9 and 1:2.8 respectively the going concern of the Authority is questionable despite the receipt of financial assistance from the Treasury during the year under review.

1:2:3 Accounts Receivable and Payable

The following observations are made.

- (a) The balances of 04 client debtors brought forward over periods exceeding 05 years totalled Rs.2,979,472 and the Authority had not taken effective action for the recovery of those debts.
- (b) Action had not been taken even by the end of the year under review for the settlement of advances amounting to Rs.104,453 obtained from the clients, a sum of Rs.9,125,215 payable to the Ministry of Constructions, Engineering Services, Housing and Common Amenities, sundry advances amounting to Rs.223,014 and the Goods and Services Tax amounting to Rs.15,733,971 brought forward over periods exceeding 05 years.
- (c) According to the confirmation of balances, creditor in respect of a credit balance of Rs.177,000 and 03 debtors in respect of debts totalling Rs.31,046 had not agreed with the balances.

1:2:4 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) Establishments Code

(i) Chapter II Section 13.3

Instead of making recruitments for the vacant posts, two officers had been appointed to act without approval for periods ranging from 03 months to 14 months and a sum of Rs.102,560 had been paid in the year under review as salaries.

“The General Manager informed me that action is being taken to obtain the approval of the Board of Directors for the further extension of the services of those officers appointed by the Head of the Institution to cover the duties until recruitments to these posts are made after the improvement of the financial position of the Authority.”

(ii) Chapter xiv
Section 3 and 4

When officers travel for the performance of their duties, the combined allowances for subsistence and lodging should be paid in a manner to incur least cost to the Government, Contrary to that a sum of Rs.49,900 had been paid to several officers to settle their hotel bills.

(b) Public Enterprises Circular
No. PED/12 of 02 June 2003
Section 8.3.4

The Authority had spent a sum of Rs.42,365 in the year under review for the settlement of the telephone bills of 06 non staff grade officers who are not entitled to the residential telephone allowance.

- (c) Financial Regulation 756(4) and Public Finance Circular No. 353 of 31 August 2004. The Secretary to the Ministry should appoint a special Board of 03 qualified persons for the identification of motor vehicles suitable for disposal and the value of the motor vehicle should also be determined by that Board. But such action had not been taken in connection with the disposal of 04 motor vehicles valued at Rs.7,047,495.

1:2:5 Action Beyond Authority

According to the requirements of the Authority for the purchase of motor vehicles the Department of Public Enterprises had approved the purchase of 01 petrol car and 03 diesel double cab motor vehicles by letter dated 17 May 2012. Contrary to that approval 03 petrol cars and 01 diesel double cab motor vehicle had been purchased.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the working of the Authority for the year ended 31 December 2012 had resulted in a surplus of Rs.16,005,452 as against the deficit of Rs.18,952,422 for the preceding year, thus indicating an improvement of Rs.34,957,874 in the financial result. The Treasury provisions received for the payment of salaries in the year under review and the profit from the sale of motor vehicles had directly affected the increase in the surplus.

2:2 Analytical Financial Review

The following observations are made.

- (a) The non-operating income as compared with the preceding year had increased by 301 per cent and the increase of interest on seven day deposits had been the reason for such increase in income.

- (b) The income from the issue of Condominium Certificates which is the main source of income of the Authority, as compared with the preceding year had decreased by 22 per cent.
- (c) The ratio of capital employed in the year under review to the total net assets had been (526) per cent.

3. Operating Review

3:1:1 Performance

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

| Item | <u>Performance</u> | | Percentage of Progress according to the Action Plan |
|--|--------------------|--------|---|
| | Targeted | Actual | |
| ----- | ----- | ----- | ----- |
| Registration of the establishment of Management Corporations and renewal | 250 | 219 | 88 |
| Issue of Condominium Certificates | 116 | 58 | 50 |

The following observations are made.

- (a) Significant variances were observed between the targets of the Action Plan and the achievement of the targets and as such it is not certain whether the Authority makes use of the Action Plan effectively for the achievement of its objectives. In addition, the condominium regulatory conciliation and the operating activities had not been shown as the targets of the Action Plan.
- (b) Even though 659 Management Corporations had been established in the city of Colombo and outside the city of Colombo since the year 2005 to the year 2012, out of those 295 had not been functioning by the end of the year under review. The Authority had not taken action to re-establish those Management Corporations.

- (c) The Management Corporations to be established in the districts outside Colombo had not been identified. Two Management Corporations only had been established in the year under review in the Gampaha District and the Kandy District.
- (d) Even though a total of 365 Management Corporations had been registered in the years 2011 and 2012 out of those 216 had not paid the registration renewal fees even up to the end of the year under review.

3:1:2 Non-achievement of Objectives

Out of the objectives relating to the establishment of the Authority the following objectives had not been achieved even up to 30 September 2013.

- (a) According to Section 5(e) of the Common Amenities (Amendment) Act, No. 24 of 2003, after the establishment of the Management Corporations, the management and control should be carried out. But according to the information furnished by the Authority, the number of Condominium Certificates issued from the year 2005 to the end of the year under review had been 611. Even though the target for the registration of Management Corporations during the period had been 1,110, only 659 Management Corporations had been registered.
- (b) Action had not been taken in terms of Section 5(g) of the above Act to hand over the maintenance of the common amenities of the condominium properties to the Local Authorities.

3:2 Management Inefficiencies

The following observations are made.

- (a) Even though the Authority had undertaken the operations of the water and sewerage systems of the hospitals at Gampaha and Negombo outside its objectives, formal agreements had not been entered into in that connection. The recoverables as at the end of the year from the Hospital at Gampaha amounted to Rs.920,322.

- (b) Even though the Internal Engineering Division of the Authority was available for the contract for the preparation of the Project Report on Development of the Bambalapitiya Housing Scheme Colombo 04 that had been awarded to a external party for Rs.3,500,000.
- (i) Even though justifiable reasons had not been furnished for the extension of the contract period, the period had been extended from 21 October 2012 to 28 February 2013. Nevertheless, that report had not been submitted to the Authority even up May 2013.
- (ii) The mobilization advance that can be paid for this contract according to the instructions of the Procurement Guideline is 20 per cent of the value of the contract. Contrary to that, the contractor had been paid 30 per cent or Rs.1,200,696 as the mobilization advance. An advance guarantee had not been obtained in this connection.
- (iii) A newspaper advertisement had been published for inviting bids for the above contract following the memodology for inviting competitive bids. Even though the last date for accepting bids had been specified as 09 April 2012, without opening the bids in public, contrary to the instructions in the Procurement Guidelines, one bid had been opened on 04 April 2012.

3:3 Transactions of Contentious Nature

Even though a sum of Rs.6,751,832 had been received from the National Housing Development Authority on 08 January 2010 as the Management Corporations Funds for carrying out maintenance works, action had not been taken even up to 31 December 2012 for the establishment of Management Corporations. That amount had been deposited in a fixed deposit in the year 2010 and the balance of that as at the end of the year under review amounted to Rs.7,810,432.

“The General Manager informed me the National Housing Development Authority had not been able to obtain the certificates of conformity for the properties up to date and as such it had not been possible to handover the deeds and in view of that situation even the establishment of the Consolidated Management Corporations had been delayed and as such it had become necessary to further retain the sum of Rs.7,810,432 with the Authority.”

3:4 Uneconomic Transactions

After obtaining the market valuation reports for disposed 03 double cab motor vehicles and one car in the year under review and before the auction, the Authority had spent a sum of Rs.57,787 for carrying out repairs to those motor vehicles.

3:5 Contract Administrations

Treasury provision amounting to Rs.55.5 million had been received during the year in connection with the 7 housing schemes repaired by the Authority in the year under review. Instead of inviting 7 bids valued at Rs.65.22 million by the Authority for carrying out repairs to those housing schemes, the Authority had invited bids by splitting the procurement value into 36 sub parts. It was observed in audit that it had been done with the intention of inviting bids at the departmental level instead of by the Ministry Procurement Committee.

“The General Manager informed me that the tenders were invited under sub-parts with the objective of executing the work more efficiently as the work had to be completed during the specified year and that inviting tenders in that manner enabled inviting tenders by eliminating the provisions such as (administrative work) which should be allowed under large scale tenders”.

3:6 Human Resources Management

The particulars of the staff of the Authority for the year under review had been as follows.

| Category of Employees | Approved Staff | Actual Staff | Vacancies |
|-----------------------|----------------|--------------|-----------|
| Staff Grades | 15 | 07 | 08 |
| Secondary Grades | 71 | 54 | 17 |
| Primary Grades | 52 | 49 | 03 |
| | ---- | ---- | ---- |
| | 138 | 110 | 28 |
| | ==== | ==== | === |

The following observations are made in this connection.

- (a) The post of Deputy General Manager (Regulatory) and 07 posts of Assistant General Managers existing in vacant over long periods had directly affected performance of the Authority.
- (b) Even though there were vacancies in 17 secondary level posts and 03 primary level posts no recruitment had been made in the year under review.

3:7 Motor Vehicles Utilization

The Authority owns a fleet of 08 motor vehicles and the expenditure incurred in the year under review on fuel and repair and maintenance amounted to Rs.2,902,536 and Rs.3,647,808 respectively and as such the average running expenses per kilometer ranged between Rs. 32 and Rs. 36. It was observed that as compared with the preceding year, the average running expenses per kilometer in the year under review had increased.

4. Accountability and Good Governance

4:1 Corporate Plan

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

- (a) Operations of 03 preceding years.
- (b) Goals and targets to be achieved annually.

4:2 Action Plan

Significant variances were observed between the targets of the Action Plan and the achievement of targets. The Management had not paid proper attention to review the achievement of targets, identify weaknesses and take remedial measures. This situation had directly impacted the weak financial position and the going concern of the Authority.

4:3 Composition of the Board of Management

According to the Common Amenities Act, No. 24 of 2003, the Board of Management should comprise 09 ex-officio numbers and 06 members appointed by the Minister. Nevertheless, the Board of Management in the year under review consisted of only two officers appointed by the Minister.

4:4 Budgetary Control

According to the financial statements presented by the Authority, significant variances between the budgeted and in actual amounts were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

The following observations are made in this connection.

- (a) Reconciliation of the service charges income received on the execution of projects with the budget revealed that the actual service charges had deteriorated by 48.26 per cent.
- (b) Reconciliation of the income from the issue of Condominium Certificates with the budget revealed that the actual income had deteriorated by 65 per cent.
- (c) Reconciliation of the budgeted expenditure with the actual expenditure revealed that the actual expenditure had been less than the budgeted expenditure in the ranges of 16 per cent to 84 per cent and the budgeted expenditure had not been properly estimated.

4:5 Tabling of Annual Reports in Parliament

The Authority had not tabled the Annual Report for the year 2011 in Parliament even by the end of the year under review.

5. 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 controls.

- (a) Utilization of Motor Vehicles
- (b) Accounting
- (c) Identification of Condominium Properties
- (d) Contract Administration
- (e) Debtors and Creditors Control