

Condominium Management Authority - 2014

The audit of financial statements of the Condominium Management Authority for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary 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 and Section 21 of the Common Amenities Board Law, No. 10 of 1973. My comments and observations which I consider should be published with the annual report of the Authority in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

The 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 that 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 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 judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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 financial statements. Subsections (3) and (4) of 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 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 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 Condominium Management Authority as at 31 December 2014 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 Accounting Policies

The following deficiencies were observed with respect to the policy on the provision for bad debts and doubtful debts.

- (a) The basis for the provision for bad debts for the debtors in the age analysis ranging from 04-05 years, had not been disclosed in the financial statements.
- (b) Even though the provision for bad debts of 50 per cent had been made for the debtors older than 05 years in the age analysis, providing 0.1 per cent, 0.5 per cent, and 1.0 per cent for bad debts with regard to debtors in the age ranged 1-2 years, 2-3 years, and 3-4 years respectively, had been observed to be non-prudent.
- (c) None of the debtors older than 10 years as at 31 December of the year under review could not be seen in the Authority. However, it was stated in the accounting policy that 100 per cent for bad debts would be provided in that regard.

2.2.3 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Due to over- computation of gratuity by a sum of Rs. 2,951,460 for the year under review, the expenditure and the provision for the year had been over-stated by that amount.
- (b) A sum of Rs. 61,088,018 saved from the money received from the Treasury for urgent and essential repairs of the housing schemes during the year under review, had been shown under “provisions” in the statement of financial position as at 31 December of the year under review instead of being shown as Treasury imprests.
- (c) Even though the Authority had earned an operating profit of Rs. 10,449,154 during the year under review, the financial statements had not disclose any information relating to the computation of taxes.
- (d) The financial statements had not disclose any information relating to the balance of Rs.2,500,000 in the Bonus Share Account by the end of the year under review.

- (e) Other expenses amounting to Rs. 54,423 had also been included in the financial expenses.
- (f) The following accounting deficiencies were observed in the preparation of cash flow statement for the year under review.
 - (i) As adjustments valued at Rs. 26,806,383 made for the preceding years had been stated as long term loan adjustments under the cash flows generated from the financing activities, the cash flow generated from the financing activities that had been shown in the cash flow statement, had been over - computed by that amount.
 - (ii) As provisions relating to the debtor balances written off from the books during the year under review, had been made in the accounts, and the bad debt valued at Rs. 2,840,620 that had been debited to the account, had been shown as a cash outflow under the operating activities in the cash flow statement, the net cash flow generated from the operating activities during the year under review, had been under- computed by that amount.
 - (iii) The sum of Rs. 10 million received from the Treasury for operating activities, and the expenses incurred there from had been considered in the computation of operating profit. However, it had been shown in the cash flow statement as a cash inflow from the financing activities.
 - (iv) Although the increase in the trade debtors, employee loans and receivable balances was Rs. 2,096,688 during the year under review, the said value had been shown as a sum of Rs. 3,960,495 under the changes in working capital in the cash flow statement. Hence, the net cash flow generated from the operating activities, had been under-computed by a sum of Rs. 1,863,807.
 - (v) The net cash flow generated from the operating activities, and the net cash flow generated from the investment activities , had not been separately shown in the cash flow statement.
- (g) The gratuity amounting to Rs. 157,989 payable to an officer who retired by the end of the year under review, had not been accounted as an accrued expense by removing it from the Gratuity provision for Account.
- (h) As over provision for depreciation , made due to an erroneous computation on the fixed assets for the previous year, had been set off against the provisions for depreciation to be made for the year under review, the profit of the year under review had been over-stated by a sum of Rs. 2,935,540.
- (i) Provisions for bad and doubtful debts for the year under review had been overstated by a sum of Rs. 3,552,990 due to computational errors.

- (j) Only the linear item of Property, Plant, and Equipment should be stated on the face of the statement of financial position whilst relevant items should be shown in the financial statements as a detailed note. Nevertheless, the Authority had presented fixed assets as 06 additional linear items, and transfers of reserves valued at Rs. 23,658,765 and capital transfers valued at Rs. 2,262,663 had not been adequately disclosed.
- (k) Adjustments of Rs. 37,255,538 stated in the statement of changes in equity as being made to the Accumulated Fund, had again been shown on the face of the statement of financial position in detail.
- (l) The statistical information reported in the financial statements should be presented in a along with the comparative figures of the preceding year. However, the Authority had not included the corresponding changes in equity for the year ended 31 December 2013 along with the statement of changes in equity presented as at 31 December 2014.
- (m) The rectification of errors relating to the preceding years should be adequately re – stated in the financial statements retrospectively. However, action had not been taken in such a manner with regard to taxes totaling Rs. 18,132,818 with regard to the preceding years, and outstanding employee trust funds amounting to Rs. 18,705,203 that had been shown as salaries and allowances for the year under review. Instead, those sums had been adjusted to the profit of the year under review.
- (n) A sum of Rs. 9,125,215 which had been saved from the money granted to the Authority by the Treasury in 1999 for paying compensations to the employees who retired voluntarily, had been included in the income of the year under review without Treasury approval, and hence, the profit of the year had been over-stated by the same amount.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The total of the balances receivable from 04 debtors brought forward over a period of more than 05 years, amounted to Rs. 4,301,290 and action had not been taken to recover those balances.
- (b) A sum of Rs. 2,133, 646 remained recoverable to the Authority as arbitration fees since the year 2006, but action had not been taken to recover the said money.
- (c) A sum of Rs. 621,435 that remained recoverable since 2009 from the Gampaha hospital, had not been recovered even up to 30 June 2015.

- (d) Action had not been taken even by the end of June , 2015 to pay a sum of Rs. 9,604,028 from the withholding tax aggregating Rs. 12,391,260 and payable to contractors for the contracts completed in the years 2012 and 2013.
- (e) No action whatsoever had been taken by the Authority relating to security deposits of more than 2 years amounting to Rs. 1,502,212, retention money amounting to Rs.5,946,862, and tender deposits amounting to Rs. 81,400.

2.4 Non-compliances 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 (amendment) Act No. 24 of 2003

(i) Section (e) of Paragraph 05

After the Condominium Management Corporation was established, the Authority should have managed and administered its activities. However, according to the information furnished by the Authority, issuance of condominium certificates from 2005 up to the year under review had been commenced though, the total number of certificates issued as at 31 December of the year under review was 813. Furthermore, the number of Management Corporations , and committees expected to be registered during that duration was 1,080. Nevertheless, the number of Management Corporations , and committees established by the end of the year under review , was 829 only.

(ii) Section (g) of Paragraph 05

Even though action should be taken to transfer the maintenance of common amenities of condominium properties to the Local Authorities, action had not been taken even up to the end of the year under review for the transfer of the common amenities of the Maligawatta and Jaltara Housing Schemes by the Authority. The Chairman of the Authority had made the following explanation in that connection.

Action should be taken to transfer the maintenance of the common facilities of condominiums such as, common roads, and parks, to the Local Authorities in terms of Section (g) of the Act. However, the transfer of maintenance of common facilities relating to housing schemes in Maligawatta, and Jaltara had been turned down , as the Local Authorities did not have adequate funds.

(b) Establishments Code
of the Democratic
Socialist Republic of
Sri Lanka

- (i) Section 6.1 of Chapter VIII For officers drawing monthly salaries, the overtime should be equal to one eighth of a day's salary. However, the Authority had paid overtime based on various rates. Accordingly, the payment made in excess of the approved amount , was Rs. 2,332,888.
- (ii) Section 9.2 of Chapter VIII Although holiday pay (1/30) , and overtime should not be paid contemporaneously for the same working hours, the Authority had paid both allowances contemporaneously to the Grades such as, Office Assistants, Accounting Officers, Trustees, Management Assistants, and Labourers for the same working hours. Thus , the holiday pay , paid in addition to overtime , amounted to Rs. 869,711.
- (iii) Section 15.10.1 of Chapter XII No-pay leave should not be approved for an officer requesting for no-pay leave to proceed abroad for a job until he settles his outstanding loan balances in full. However, no-pay leave had been approved for a driver of the Authority without recovering his loan balance amounting to Rs. 74,262 in the year under review. Hence, the loan balance remained unrecovered since October of the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the surplus of the Authority for the year ended 31 December 2014 amounted to Rs.10,449,154 as against the deficit of Rs.8,961,997 for the preceding year. Accordingly, as compared with the preceding year, an improvement of Rs.19,411,151 in the financial results for the year under review was observed. The improvement had been caused by the increase in the income from the issue of certificates for the condominium properties by a sum of Rs. 67,105,814 in the year under review as compared with the preceding year.

3.2 Analytical Financial Review

The following observations are made.

- (a) Although the income for the year under review had increased by a sum of Rs. 48 million equivalent to 77 per cent as compared with the preceding year, the financial result was a profit amounting to Rs. 449,155 after settling the expenditures (before adjusting the grants from the Treasury) The financial result had been low, as expenses too had increased in relation to income. Increase in the expenses had been mainly

caused by the increases in salaries and allowances of employees by 70 per cent, and financial expenses by 140 per cent.

- (b) The service charges income had decreased by 91 per cent , whereas the other operating income had increased by 18 per cent as compared with the preceding year. The increase in the non-operating income had been caused by the increase of the interest income on seven day call deposits.
- (c) Although a favorable balance of Rs. 12,504,708 was indicated in the net assets of the Authority by the end of the year under review, it had become minus values of Rs. 24,750,830, Rs. 15,788,833 , and Rs. 31,794,284 respectively for 03 preceding years. The growth in the net assets had mainly been caused due to a sum of Rs. 10 million received from the Treasury in the year under review as well to pay employee salaries , and adjustments for the preceding years amounting to Rs. 28.80 million.

4. Operating Review

4.1 Performance

The performance of the Authority for the year under review is given below.

<u>Subject</u>	<u>Target</u>		<u>Progress</u>			
	<u>Physical Number</u>	<u>Financial Rs. Million</u>	<u>Physical Number</u>	<u>Percentage</u>	<u>Rs. Million</u>	<u>Financial Percentage</u>
Issue of Condominium Certificates	75	29.42	110	146	98.57	335
Establishment of Management Corporations	50	0.25	45	90	0.09	36
Reconstruction of Government flats	09	122	08	88	7.43	06
Granting Tsunami deeds of transfer	34	100	-	-	-	-

- (a) The physical and financial progress of issuing Condominium Certificates during the year under review had been as high as 146 per cent, and 335 per cent respectively.
- (b) The financial progress of establishing the Management Corporations during the year under review was 36 per cent from the expected target.
- (c) Although it was targeted by the Authority to carry out reconstruction on 09 Government housing schemes with the grants amounting to Rs. 122 million, reconstructions had been commenced with regard to 08 projects during the year , whereas reconstructions of Elpitiwala housing scheme with an estimated value of Rs. 13.48 million, had not been commenced.

- (d) Although the Authority had planned to persuade the Management Corporation to insure 420 condominiums, only 22 of them had been insured during the year.
- (e) Although it was targeted to issue certificates of registration under provisions amounting to Rs. 100 million for 34 schemes of condominiums constructed for the people affected by Tsunami, the Authority had fail to issue even a single certificate during the year under review.
The audit had been informed by the Chairman of the Authority that despite it was planned even in the year 2014 to grant deeds to the people affected by Tsunami, granting of certificates relating to the said property had to be delayed as the Ministry of Lands was unable to conclude the imposition of regulations upon the Land Act.
- (f) Although it was expected by the Authority during the year under review to obtain 40 contracts implemented under Provincial Councils and decentralized funds , the Authority could not obtain even a single contract.

4.2 Management Inefficiencies

The following observations are made.

- (a) Although the gratuity commitments amounted to Rs. 27,329,966 as at 31 December 2014, the value of investment made in that connection was Rs. 3,524,227. Accordingly, the management had not taken any step to make an investment relating to savings amounting to Rs. 23,805,739.
- (b) The Authority had not taken steps even by 30 May 2015 to recover a sum of Rs.3,839,596 paid erroneously in the year 2013 for items of work done contrary to the bills of quantity in repairing the building complex of hosing schemes.
- (c) As the Authority had computed the employees' provident funds from 06 January 2006 to 31 December 2013 in a manner contrary to the provisions in the Employees' Provident Fund Act, the additional cost incurred in that connection by the end of the year under review amounted to Rs. 5,077,920 with a fine of Rs. 6,245,108. Accordingly, the Authority had incurred an overall financial loss of Rs. 11,332,029 as at 31 December 2014.
- (d) Despite it was planned during the year under review to make necessary amendments to the Common Amenities Board Act, No. 10 of 1973 , and the Apartment Ownership Act, No. 11 of 1973, even the approval of the Attorney General's Department in that connection had not been obtained by 30 May 2015.
- (e) Conditions on liquidated damages with regard to the delays in completion of contracts of construction awarded to the State Development and Construction Corporation by the Authority, had not been included in the agreement.

4.3 Operating Inefficiencies

The Authority should maintain the Management Corporations of the condominium properties in an operating condition in terms of Common Amenities Board (amended) Act, No. 24 of 2003. However, of the 628 Management Corporations established by the Authority, 378, representing 60 per cent remained inoperative by the end of the year under review due to inefficiencies in the supervision.

4.4 Un-economic Transactions

Although the Authority had earned an income of Rs. 5,935,126 through the repairing of Government flats during the year under review, Rs. 4,343,255 of that, had been spent on the festivals organized for perplexing the said housing schemes, representing 73 per cent of the income earned.

4.5 Personnel Administration

Approved and actual cadre for the year under review were 139, and 110 respectively. The following observations are made in this connection.

- (a) The Secretary to the Ministry had been informed according to the Cabinet decision No. 14/0014/517/001, dated 07 March 2014 that the Authority should re-employ a retired General Manager for a period of one year on contract basis with effect from 29 December 2013, and once the period of service elapsed, a suitable successor should be trained under his supervision. However, the post remained vacant even by 31 May 2015 due to failure in identifying a suitable successor when his service had ended on 28 December 2014. An officer had been appointed to the post in acting capacity by the Secretary to the Ministry.
- (b) The fact that the post of Deputy General Manager (Regulatory), and 07 posts of Assistant General Manager of the Authority remaining vacant over a long period of time, did not have a direct impact on the performance of the Authority, could not be ruled out in audit.
- (c) Not any attempt had been made during the year under review to fill 18 secondary posts, and 04 primary posts that remained vacant during the year under review.
- (d) Contrary to Section 9.3.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, four officers had been appointed in acting capacity for a period of 01-03 years.

5. Accountability and Good Governance

5.1 Action Plan

The following observations are made.

- (a) The following strategies to be implemented during the year under review and included in the Corporate Plan for 2014-2018 approved at the board of management

meeting No. 91 held on 26 December 2013, had not been included in the Action Plan for the year under review, and none of those strategies had been implemented during the year under review.

- Establishment of a Sinking Fund for operational activities.
- Purchase a land for the construction of a permanent office building for the Authority.
- Protection of stakeholders' rights (those who expect to purchase condominiums)

(b) The following activities to be implemented during the year, and included in the Action Plan for the year under review, had not been implemented even by the end of the year.

- Regularization of unregistered Public/ private properties.
- Appointment of administrators to the dormant Management Corporations
- Establishment of a Condominium Management Services Unit
- Transfer of ownership to the dwellers of Tsunami properties.
- Handover the maintenance of parks, sports grounds , and access roads of the condominiums to the Local Authorities.

(c) Indicators for evaluating the performance , and activities to be implemented with regard to the strategies included in the Action Plan for the year under review, had not been prepared.

5.2 Budgetary Control

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

5.3 Tabling of Annual Reports

The Authority had not tabled the Annual Reports for the years 2012 and 2013 in Parliament even by the end of the year under review.

6. Systems and Controls

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

- (a) Accounting
- (b) Assets Management
- (c) Management of Condominiums
- (d) Control of Advances
- (e) Accounts Receivable and Payable
- (f) Budgeting
- (g) Contract Administration