

Condominium Management Authority - 2015

The audit of financial statements of the Condominium Management Authority for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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. A detailed report in terms of Section 13(7)(a) of the Finance Act will be furnished to the Chairman of the Authority in due course.

1.2 Management's Responsibility for the Financial Statements

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 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 judgement, 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 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 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 Condominium Management Authority as at 31 December 2015 and its financial performance and cash flow 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 accounting policy adopted for accounting for the Government Grants had not been disclosed in the financial statements.

2.2.2 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 03

When an entity detects errors committed in a preceding period those should be rectified with retrospective effect in the first set of financial statements issued since the detection. Nevertheless, the prior year adjustments amounting to Rs.963,614 made in the year under review had been adjusted to the Accumulated Fund instead of being adjusted with retrospective effect.

(b) Sri Lanka Public Sector Accounting Standards 07

Even though the effective life or the rate of depreciation used in respect of each class of property, plant and equipment should be disclosed in the financial statements, the rate of depreciation used for the tools and equipment costing Rs.1,632,347 had not been disclosed in the financial statements.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) The depreciation on office furniture, equipment and machinery for the year under review had been overstated by a sum of Rs.187,998 and the depreciation on tools and equipment had been understated by a sum of Rs.91,938 due to computation errors.

- (b) The expenditure on gratuity and the provision for gratuities in respect the year under review had been understated by Rs.650,410 due to computation errors.
- (c) Even though a sum of Rs.639,910 withheld on account of the income tax had been adjusted in computation of the income tax payable for the year under review, that amount had been further shown in the financial statements as a tax receivable.
- (d) Even though an advance of Rs.1,866,395 granted to the National Housing Development Authority in the year under review for the transfer of title to the tsunami houses had not been settled that had been shown as an expenditure in the financial statements.
- (e) Government grant of Rs.30,000,000 made available by the Ministry on 31 December of the year under review for carrying out repairs to Government Flats had not been brought to account as an income of the year.

2.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) Loan balances totalling Rs.5,111,256 relating to 08 debtors brought forward over periods exceeding 05 years, mediation charges amounting to Rs.577,464 recoverable since the year 2006 and a sum of Rs.577,936 recoverable from the Gampaha Base Hospital since the year 2009 for the pump house maintenance had not been recovered even by the end of the year under review.
- (c) An advance of Rs.350,568 granted in the year 2011 by the National Housing Development Authority for the removal of unauthorized constructions had not been settled even by the date of audit.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.

Non-compliance

- (a) Section 5(h) of the Common Amenities (Amendment) Act, No.24 of 2003

Even though the maintenance of Common Amenities of condominium properties should be transferred to the Local Authorities, the Authority had not taken action even by the end of the year under review for the transfer of the common amenities of the Housing Scheme at Maligawatta and Jaltara to the Local Authorities.

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

Even though both the Holiday pay (1/30) and overtime cannot be paid for the same duty period, contrary to that the Authority had paid both

Chapter VIII Section 9.2

allowances simultaneously for the same duty period to 42 officers. As such, a sum of Rs.781,564 had been paid as Holiday pay in addition to the overtime.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Financial Regulation 371(2)

Even though Sub-impressts can be granted only to Staff Officers, contrary to that, sub-impressts totalling Rs.469,727 had been granted to the Drivers and Karyala Karya Sahayakas of the Authority from January to December 2015.

Financial Regulation 757(2)

Even though Shortages of 265 items and excesses of 466 items existed according to the Board of Survey Reports, action thereon in terms of the Financial Regulation had not been taken.

(d) Public Enterprises Circulars

(i) Circular No.PED/1/2015 of 25 May 2015, Sections 3.2.1 and 3.2.2

In special instances of inadequacy of the monthly fuel allowance for the performance of duties, the approval in terms of the provisions in the Circular should be obtained. Nevertheless, contrary to that provision, fuel allowances totalling Rs.120,764 had been paid to the Chairman and the General Manager of the Authority.

(ii) Circular No.PED/12 of 02 June 2003, Section 8.3.8

A sum of Rs.3,000,000 had been donated to the Sevana Fund of the National Housing Development Authority without obtaining the prior approval of the Cabinet of Ministers in terms of the Circular.

(iii) Circular No.PED/1/2015 of 25 May 2015 Section 04

According to the provisions in the Circular, the cost of equipment and accessories involved in obtaining residential telephones, mobile phones and Internet facilities should be borne by the officer concerned. Nevertheless, a mobile phone and the accessories required for that costing Rs.105,878 had been purchased for the Chairman of the Authority from the funds of the Authority.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the surplus of the Authority for the year ended 31 December 2015 amounted to Rs.21,968,427 as compared with the corresponding surplus of Rs.10,449,154 for the preceding year, thus indicating an improvement of Rs.11,519,273 in the financial results for the year under review as compared with the preceding year. The decrease of the operating expenditure of the year under review by a sum of Rs.14,476,438 had been the main reason for the above improvement.

An analysis of the financial results of the year under review and the 04 preceding years revealed that, despite the deficits incurred in the years 2011 to 2013, surpluses had been earned in the years 2014 and 2015. Even though the contribution of the Authority, after the adjustment of employees' remuneration, the taxes paid to the Government and the adjustment of depreciation of non-current assets, had regularly improved from the year 2011 to the year 2015, the improvement in the year under review, as compared with the contribution of Rs.95,680,105 for the year 2014, amounted only to 6 per cent.

3.2 Analytical Financial Review

The following observations are made.

- (a) Even though the income from the issue of certificates for the condominium properties had decreased by Rs.16,000,000 or 17 per cent, the service charges income, as compared with the preceding year, had increased by Rs.15,700,000 or 990 per cent. As such there was no substantial change in the service charges income for the year under review, as compared with the preceding year.
- (b) The net assets of the Authority as at the end of the year under review amounted Rs.33,509,521 as compared with the net assets of the preceding year amounting to Rs.12,504,708. Accordingly an increase of Rs.21,004,813 in the net assets as compared with the preceding year was observed.

4. Operating Review

4.1 Performance

- (a) According to the Common Amenities Board Law, No.10 of 1973, the management, maintenance, control and administration of the Common Amenities of the condominium properties, providing guidance to the Management Corporations for the proper performance of those and in assisting in that connection and the direct intervention in the default of maintenance is the main objective of the Authority. The matters revealed at an examination of the performance of the Authority are given below.
 - (i) Even though the Authority should maintain the Management Corporations of the condominium properties in active operation, out of 666 Management Corporations established by the Authority up to the end of the year under review,

393 Corporations or 60 per cent had been inactive due to the weaknesses in supervision.

- (ii) The physical progress and the financial progress of the issue of condominium certificates during the year under review had been 71 per cent and 39 per cent respectively. Even though plans had been made for inducing the Management Corporations for insuring 100 condominium properties, none of those had been insured during the year under review.
- (iii) Even though targets had been set for providing registration certificates for 112 Condominium Housing Schemes constructed for the people distressed from the tsunami disaster with provisions amounting to Rs.10,000,000, the Authority had failed to provide even a single certificate out of those targeted.
- (iv) Even though a provision amounting to Rs.80,000,000 had been received from the Treasury during the year under review for the completion of the renovation work of the Alokapura, Hilda and Samudra Shakthi Housing Scheme, a sum of Rs.44,576,839 had been spent thereon and the physical progress thereof had been at a low level of 50 per cent.
- (v) According to the Action Plan, the Authority should have taken action to regulate the unregistered Government/Private properties, the appointment of administrators for the inactive Management Corporations, and referring to the attention of the Cabinet of Ministers about the properties not suitable for occupation in order to safeguard the occupants of condominium properties from apparent risks. Nevertheless, the Authority had failed to execute any of those activities during the year under review.

4.2 Management Activities

The following observations are made.

- (a) Action had not been taken either for the settlement or for write back to income the guarantee period expired security deposits amounting to Rs.655,479, retention money amounting to Rs.3,238,050, and refundable tender deposits amounting to Rs.107,300.
- (b) Erroneous payments amounting to Rs.3,839,596 made in the year 2013 for items of work not done according to the bills of quantities in carrying out repairs of buildings of housing complexes pointed out by Audit, had not been recovered from the contractor even by the end of the year under review.
- (c) Even though plans had been made for making the essential amendments to the Common Amenities Board Law No.10 of 1973 and the Apartment Ownership Law, No.11 of 1973 during the year under review, those amendments had not been made even by the end of the year under review.

4.3 Staff Administration

The following observations are made.

- (a) According to the decision of the Cabinet of Ministers No.14/0014/517/001 dated 07 March 2014, the Secretary to the Ministry had been informed to obtain again the services of the retired General Manager for a further period of one year for the Authority with effect from 29 December 2013 on contract basis and to train a suitable successor for appointment to that post under his supervision, that post remained vacant even by 30 April 2016 as action in compliance therewith had not been taken.

- (b) The post of the Deputy General Manager (Regulation) and 07 posts of Assistant General Manager of the Authority remained vacant over a long period.

5. Accountability and Good Governance

5.1 Action Plan

The indicators for the evaluation of the performance of the activities relating to the strategies included in the Action Plan for the year 2015 had not been prepared.

5.2 Budgetary Control

Comparison of the budgeted income and expenditure for the year under review with the actual income and expenditure revealed variances ranging from 18 per cent to 127 per cent, thus indicating that the budget had not been made use of as an effective instrument of financial management control.

5.3 Tabling of Annual Reports

The Annual Reports for the years 2012 and 2013 had not been tabled in Parliament by the Authority 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 notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

- (a) Motor Vehicle Control

Observations

Log Books had not been maintained properly and fuel consumption had not been tested.

(b) Management of Condominium Properties

A methodology had not been followed for the identification of properties constructed in the districts outside the City of Colombo.

(c) Financial Control

Action had not been taken for the settlement of advances brought forward over a number of years.

(d) Budgetary Control

The budget had not been prepared on a realistic basis while formal methodologies had not been followed for expenditure control.