

Condominium Management Authority – 2016

The audit of financial statements of the Condominium Management Authority for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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

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 2016 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 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 02

Adjustments made in the statement of changes in equity for the gratuity and depreciations relating to the year 2015 amounting to Rs.650,410 and Rs.187,907 respectively had been adjusted to the cash flow for the operating activities in the cash flow statement in the year under review .Nevertheless, the prior year adjustments totalling Rs.1,130,822 made in the year under review had been adjusted to the cash flow on the financial activities of the year under review.

(b) Sri Lanka Public Sector Accounting Standard 07

As useful life time of an asset should be reviewed considering as a change of the accounting estimate at the date of the end of the period reported in each year. Nevertheless, the Authority had not taken action in respect of the assets totalling Rs.20.89 million had been fully depreciated but are being further used.

(c) Sri Lanka Public Sector Accounting Standard 09

Even though, the final stock shall be computed and accounted at the lower value of cost or net realizable value, contrary to that ,the Authority had valued the stock on the cost without being computed at the net realizable value by making policy for the stock .

2.2.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) As the office rent which payments were completed in the year 2016 had been re-allocated, the Office Rent Account and the Accrued Office Rent Account had been over computed by Rs.115,802.
- (b) Action had not been taken to pay or bring to account during the year under review under current liabilities the gratuity amounting to Rs.315,418 which had been allocated for an officer retired in the year 2016.

2.2.3 Lack of Evidence for Audit

The Authority had not prepared the Journal Vouchers for the adjustments totalling Rs.262.99 million in the preparation of final accounts.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Out of the debtors balance of Rs.25.83 million as at 31 December 2016, the balance receivable from 08 debtors brought forward over a period of 05 years was amounted to Rs.3.05 million. Further, confirmation of balances had not been furnished to audit for the confirmation of debtors balance.
- (b) Out of the balance amounting to Rs.4.65 million payable to the contractors for the constructions as at the end of the year under review, a sum of Rs.1.37 million had not been settled over a period of 05 years.
- (c) An advance amounting to 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 end of May 2017.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, Non-compliance etc.

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| <ul style="list-style-type: none">(a) Section 5(h) of the Common Amenities (Amendment) Act, No.24 of 2003 | <p>-----</p> <p>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.</p> |
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(b) Inland Revenue Act, No. 10 of 2006

Even though in the calculation of Pay As You Earn Tax, the fuel allowance and the telephone allowance granted for the Government Officers should be added to the income of the recoverable tax, the Pay As You Earn Tax had been computed without being adjusted the fuel allowances and the telephone allowances granted for the officers of the Authority.

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

(i) Chapter II of Section 13.3

An acting appointment should be made as a temporary measure only and until a substantive appointment is made. However, acting appointments had been made for 08 posts of the Authority and the acting period had been extended from 04 months to 05 years as at the end of the year under review. The Authority had paid a sum of Rs.501,097 as acting allowances in the year 2016.

(ii) Chapter VIII of Section 9.2

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 allowances simultaneously for the same duty period to the categories such as Office Assistant, Accounts Officers, Care Taker, Management Assistants and office labourers in terms of the Letter No.CMA/4/1/3/7 (ක. න) dated 29 October 2010. As such, a sum of Rs.1.68 million had been paid as Holiday pay in addition to the overtime.

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

(i) Financial Regulation 371(2) (b) and Public Finance Circular No.03/2015 dated 14 July 2015.

Even though Sub-impressts should be granted only to Staff Officers, contrary to that, sub-impressts totalling Rs.990,008 had been granted to the non-staff grade officers in 87 instances.

(ii) Financial Regulation 571

Action in terms of Financial Regulations had not been taken in respect of security deposits and retention money exceeded 02 years from the completion of the Projects amounting to Rs.655,487 and Rs.3,470,000 respectively.

- (iii) Financial Regulation 757(2) and Paragraph 3 of the Public Finance Circular No.5/2016 dated 31 March 2016. Proper action had not been taken in respect of shortage of 72 items and excess of 62 items in 14 Divisions according to the Board of Survey Reports of the year 2016.

(e) Government Procurement Guidelines

- (i) Guideline 2.8.1 (b)

Even though the Technical Evaluation Committee should consist of subject specialist, the Technical Evaluation Committee relating to print the Condominium Guideline was not consist of subject specialist and it had been consisted with Senior Engineering Assistant, Management Assistant (Technical) and Management Information Systems Officer .

- (ii) Guideline 4.2.1

Procurement Plan had not been prepared in detail and procurement activities envisaged at least for a period of three years had not been listed in the Master Procurement Plan.

- (iii) Guideline 8.9.1

Even though it was mentioned that a formal contract agreement should be executed for any Goods or Service contract exceeding Rs.500,000, an agreement had not been executed by the two parties in respect of the printing of Condominium Guideline valued at Rs.1.66 million .

(f) Public Enterprises Circular No.PED/12 of 02 June 2003

- (i) Section 6.5.1

Although the financial statements and the Annual Draft Report of the same year should be furnished to the Auditor General within 60 days from the close of the financial year, the Annual Draft Report for the year under review had not been furnished to the Auditor General.

- (ii) Section 8.2.2

The approval in terms of the Circular had not been obtained in respect of the seven day deposits of Rs.55 million shown in the financial statements.

- (iii) Section 8.3.8

A sum totalling Rs.8.75 million had been spent for the donations in the year under review contrary to the referred Circular.

(g) Public Finance Circular

- (i) Circular No.03/2015 dated 14 July 2015 Even though the imprests obtained should be settled immediately after the completion of the work, a time delay from 17 days to 115 days had been occurred to settle the sub-imprests amounting to Rs.1.39 million obtained in 79 instances . It was observed in audit that the instances of granting imprests again before settlement made for the first imprest.
- (ii) Paragraph 04 of the Circular No.438 of 13 November 2009 A report in respect of all goods disposed in the year 2016 had not been furnished to the Auditor General.
- (iii) Circular No.PF/439 dated 21 July 2009 Even though the tires put into disused without being auctioned and should be handed over to the Department of Coast Conservations under the Ministry of Fisheries and Aquatic Resources ,the Authority had disposed 32 tires during the year under review.
- (h) Paragraph 8.2 of the Scheme of Recruitment of the Senior Managements of the Authority. Even though the age limit of recruitment of the General Manager of the Authority is 45 years, contrary to that a person over 45 years had been recruited.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the surplus of the Authority for the year ended 31 December 2016 amounted to Rs.70.41 million as compared with the corresponding surplus of Rs.21.97 million for the preceding year, thus indicating an improvement of Rs.48.44 million in the financial results for the year under review as compared with the preceding year. Even though receipt of Treasury provisions for the payment of salaries had decreased by Rs.11 million as compared the year under review with the preceding year, the increase of the operating income by a sum of Rs.76.8 million 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 year 2013, surpluses had been earned in other years . 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 improved from the year 2012 to the year 2016, the improvement in the year under review, as compared with the preceding year , was 53 per cent.

3.2 Analytical Financial Review

The following observations are made.

- (a) Due to the income from the issue of certificates for the condominium properties had increased by Rs.83.66 million or 107 per cent as compared with the preceding year, the operating income of the year under review had been increased by Rs.76.8 million or 72 per cent . As such, due to increase of the interest income for fixed assets ,the non-operating income had been increased by Rs.6.16 million or 120 per cent as compared with the preceding year.
- (b) The net assets of the Authority as at the end of the year under review amounted Rs.102.79 million as compared with the net assets of the preceding year amounting to Rs.33.51 million. Accordingly an increase of Rs.69.28 million in the net assets as compared with the preceding year was observed. The main reason for the above increase had been the Authority had received a surplus amounting to Rs.70.41 million in the year under review.
- (c) The current assets ratio as at the end of the year under review had been 1.7:1 and that ratio in the preceding year was 1.2:1. As such, the quick ratio asset in the year under review was 1.6:1 and that ratio in the year 2015 had been 1.2:1.

4. Operating Review

4.1 Performance

According to the Condominium Property Management Act, 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.

- (a) According to the Actin Plan of the year under review and the Report of the Progress Review as at 31 December 2016, the number of registration of targeted management committees was 75. However, the progress was 44 per cent as only 33 Management Committees had been registered.
- (b) Even though plans had been made to take action to remove 75 constructions by giving a reasonable time period for the relevant parties by identifying the unauthorized constructions and holding investigations in the year 2016 and make aware the relevant parties in that connection and recovery of the expenses incurred for the removal ,the number of actual unauthorized constructions removed in the year 2016 was 05. As such, plans had been made for the identification of the unauthorized constructions in the year 2016, senses report in that connection had not been prepared even by the end of the year under review.

- (c) Even though plans had been made to motivate the Management Corporations for insure 80 condominium properties ,only 56 properties had been insured during the year under review and the attention of the management had not been paid for insure the remaining properties. Further, plans had been made for insure the 160 condominium properties according to the Action Plan of the year 2017.
- (d) Even though targets had been set for providing registration certificates for 112 Condominium Housing Schemes on the allocation of Rs.10 million constructed for the people distressed from the tsunami disaster, the Authority had failed to provide even a single certificate out of those targeted.
- (e) Even though plans had been made according to the Action Plan of the year 2015 implementing under 05 steps such as holding scholarly sessions committees ,completion of the amended draft report , furnish to the cabinet approval, publish in the Gazette, furnish to the approval of the Parliament the amendment of the Apartment Ownership Act,No.11 of 1973 and complete in November 2015 . However, plans had been maid again to complete the aforesaid activities in November 2016 according to the Action Plan of the year 2016 as those activities had not been implemented ,only one meeting had been held in December 2016 appointing a scholarly committee as at the end of the year under review .
- (f) According to the Action Plan of the Authority, Target Management Corporation Agent Committee , workshop on the awareness of the Divisional Secretaries in the Colombo District, workshop on the awareness of the agents of the Provincial Councils in the Colombo District and the meeting of the property developers had not been held in the year under review.

4.2 Management Activities

A sum of Rs.2.02 million had been paid in the year 1999 for a Private Company to obtain 750 items out of the 02 category of goods necessary for the Authority and 545 items valued at Rs.1.22 million had been received in the year 2000. Action had not been taken at the end of the year under review to settle the relevant money according to the judicial decree made in respect of the case filed by the Authority in the year 2006 as the remaining goods had not been received.

4.3 Operating Review

The following observations are made.

- (a) Even though according to the Condominium Management Authority Act, No.10 of 1973 the Authority should have been maintained the Management Corporations of the condominium properties actively, out of 872 Management Corporations established by the Authority at the end of the year under review , 427 or 49 per cent were inactive.

- (b) Decision had been made to launch a book named “සහායකයා දේපළ වල සතුටින් හා නිරෝගීව ජීවත්වීමේ රටාව “ written by the Chairman of the Authority according to the 108th decision of the Board of Management dated 25 May 2016 and the printing expenditure of that book incurred by the fund of the Authority and reimbursed . However, the Authority had printed a book in English medium named “Condominium Living The Emerging Trend” incurrin a sum of Rs.1.67 million .The royalty of this book had owned to the Chairman and the Authority had failed to settle the printing expenditure as at the end of the year under review.

4.4 Utilization of Funds

Even though a sum of Rs.80 million had been received from the Treasury in the years 2015 and 2016 for the modernization of the infrastructure of 03 Flats under “Nagamu Puravara”Project, a sum of Rs.32.7 million had been returned to the Ministry without being utilized in any activity due to failure to fulfill the expected objectives properly.

4.5 Identified Losses

The Authority had not included the Cost of Living Allowance in the calculation of the Employee Provident Fund and Employee Trust Fund for the period from January 2006 to December 2013 contrary to Section 47 of the Employee Provident Fund Act, No.15 of 1958. As such, action had not been taken to recovery of the sum of Rs.4.47 million which was the employee share included in the outstanding Employee Provident Fund amounting to Rs.11.18 million paid by the Authority from the relevant persons . Further the Authority had to pay a surcharge of Rs.6.36 million for that outstanding money and a sum of Rs.2.94 million had been paid for that purpose in the year 2016.

4.6 Staff Administration

The approved and actual cadre had been 139 and 103 respectively for the year under review. Therefore, the number of vacancies was 36.

The following observations were observed in this connection.

- (a) Even though approval had been granted for two posts of Assistant General Manager for the legal affairs according to the approved cadre, organizational structure and scheme of recruitment of the Authority , a permeant officer had been recruited only for one post. The service of another Legal Officer also obtained on the daily payment basis from the year 2008 and a payment of Rs.443,000 had been made in the year 2016 for the duties of that Legal Officer on the approval of the Board of Directors.
- (b) Even though the post of Town Planner had not been approved according to the scheme of recruitment, a Chartered Town Planner had been recruited on daily payment basis for duties of the Authority as a consultant from the year 2009. Accordingly, the Management had not taken action to revise the scheme of Recruitment considering the service requirements. Although an expenditure amounted to Rs.207,000 had been incurred by the Authority for that Officer in the year 2016 ,written evidences relevant to the performance of that Officer was not furnished to audit.

- (c) The Authority had obtained a service of a Research Officer on the daily payment basis and a sum of Rs.129,000 had been incurred in the year 2016 for that purpose. However, an approval of the Board of Directors or an appointment letter relevant to that appointment was not furnished to audit.
- (d) The post of the Deputy General Manager (Regulation) and 03 posts of Assistant General Manager of the Authority remained vacant over a long period. It cannot be ruled out in audit whether it had directly affected the performance of the Institution.
- (e) Action had not been taken to recruit Officers for 24 Secondary Posts and 06 Primary Posts existed vacant during the year under review.

4.7 Utilization of Vehicles

A sum of Rs.2.47 million had been spent in the year 2016 for the maintenance of 03 cab vehicles obtained at a cost of Rs.8.93 million in the years 1998 and 1999 due to the Authority had not taken action to condemn the old vehicles . A sum of Rs.205,649 had been spent in the year 2016 for the maintenance of the Tractor and the Trailer costing Rs.690,000 purchased in the year 1995 .

5. Accountability and Good Governance

5.1 Action Plan

The following observations are made

- (a) Annual Procurement Plan, Human Resources Development Plan and Internal Audit Plan should be included in the Action Plan in terms of the Paragraph 5.2 of the Public Finance Circular No.01/2014 dated 17 February 2014. However, those had not been included in it.
- (b) Even though plans had been made to complete the amendments of the Condominium Property Management Authority Act, No.10 of 1973 in August 2015 , according to the Action Plan of the year 2016 that period had been extended up to February 2016. However, that activities had not been completed by the end of the year under review and the relevant Act had been referred to the Department of Legal Draftsman.

5.2 Budgetary Control

According to the financial statements presented by the Authority, actual income and expenditure revealed variances ranging from 15 per cent to 87 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 Authority had not tabled the Annual Reports relevant to the years 2013,2014 and 2015 in parliament even at 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

Observations

(a) Management of Condominium Properties

- Proper method had not been followed for the supervision of Management

- Action not taken to expedite the handing over of common facilities of the condominium properties

- Non- maintenance of the reports relevant to unauthorized constructions

(b) Maintenance of Registers

- Inventory Registers had not been maintained

- Registers had not been maintained for telephone, water, electricity and fuel expenses.

(c) Financial Control

- Request and spend of imprest without a proper format and control

(d) Motor Vehicle Control

- The Running Charts relevant to the vehicles had not been maintained properly and not furnished to the Auditor General

- Vehicles had been insured without being asserted the value annually.