

## **Condomonium Management Authority – 2017**

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The audit of financial statements of the Condomonium Management Authority for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 Act, 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**

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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**

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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 judgment, 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. Sub - sections (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 Audit Opinion**

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My Opinion is qualified based on the matters described in paragraph 2.2 of this report.

## 2. Financial Statements

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### 2.1 Qualified Opinion

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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 Condomonium Management Authority and as at 31 December 2017 and their 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

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#### 2.2.1 Sri Lanka Public Sector Accounting Standards

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The following observations are made.

(a) **Sri Lanka Public Sector Accounting Standard - 02**

According to the paragraph 56 of the Standard, the components of the cash and cash equivalents should be disclosed. However, the Authority had not disclosed those components in the financial statements for the year under review.

(b) **Sri Lanka Public Sector Accounting Standard - 07**

According to section 65 of the standard, the useful life of the non-current assets had not been reviewed annually. As a result, the assets valued at Rs.4,624,280 were still in used though those assets had been fully depreciated. Nevertheless, actions had not been taken to rectify this estimated error in accordance with the Sri Lanka Public Sector Accounting Standard 03.

#### 2.2.2 Accounting Deficiencies

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The following observations are made.

(a) The interest on fixed deposits related to the year 2017 amounting to Rs.2,129,270 had not been accounted.

(b) Even though the depreciation of the furniture and fittings that purchased in the year 2017 amounted to Rs.67,390, that amount had been accounted for as Rs.144,330 due to computation errors. As a result, the surplus of the year under review had been understated by Rs.76,940.

(c) In order to implement the programmes, the capital grants amounting to Rs.10,000,000 had been received from the Treasury during the year under review. Nevertheless, the difference between the received amount and the expenditure incurred thereof amounting to Rs.4,511,414 had been shown in the statement of financial performance

as surplus from the project. Purchase of non-current assets for Rs.2,309,950, out of the received grants, had been accounted as an income of the year instead of being accounted under the capital grants.

- (d) Provisions for the rent payables for the years 2015 and 2016 had not been made during the respective years. However, a sum of Rs.9,293,265 that had been paid in that regard during the year under review had been accounted for as expenditure of the year under review instead of being adjusted retrospectively in the financial statements.

### 2.2.3 Unexplained Differences

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The following observations are made.

- (a) According of the financial statements for the year under review, the expenditure incurred for informative programmes of the condominiums as at end of the year under review amounted to Rs.5,488,586 and as per the progress report, the expenditure incurred thereon as at 31 December 2017 amounted to Rs.9,367,000. Thus, a difference of Rs.3,878,414 was observed between two records. The Chairman had informed me on 20 August 2018 that the progress report had been prepared based on the expenditure to be incurred for the year 2018.
- (b) Even though according to the financial statements, the value of the tools and equipment which had been purchased in the year 2017 amounted to Rs.696,017, the value of those tools and equipment recorded in the Fixed Assets Register amounted to Rs.684,326. Thus, the value shown in the Register had been overstated by Rs.11,691.

### 2.2.4 Account Receivables and Payables

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- (a) The debtors balance as at 31 December 2017 amounted to Rs.23,157,468 and debtors balance of Rs.2,930,200, which should be receivable from 6 debtors for over 5 years had also been included thereto. The following observations are made in this regard.
- (i) A sum of Rs.807,187 which had been paid to a private company in the year 1999 to purchase of goods had also been included to the above balance. The payment had been made before receiving of goods and due that reason the Authority had failed to recover the debt for 18 years.
- (ii) A sum of Rs.8,202,098 should be receivable to the Authority as at 31 December 2017 for maintaining of pump houses in 2 Government Hospital and out of that, the receivable amounting to Rs.346,645 was older than 5 years. That maintaining activities were not come under the preview of the Authority and those receivables had been accounted as debtors without being taken actions to recover the dues.

- (b) The payables to the contractors as at end of the year under review amounted to Rs.3,105,915 and a balance of Rs.774,134 which was existed since the year 2012 had included thereto. However, action had not been taken to settle that payables. The Chairman had informed me on 20 August 2018 that actions would be taken to finalize those activities according to the instructions of the Board of Directors.
- (c) The Authority had paid an advance amounting to Rs.350,568 in the year 2011 to remove the unauthorized constructions and that advance had not been settled up to end of the year under review.

### 2.2.5 Lack of Evidence for Audit

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The following observations are made.

- (a) The conformation of balances for the debtors balances amounting to Rs.23,157,468 as at end of the year under review had not been furnished to audit.
- (b) The particulars relating to the unauthorized constructions in the condominium properties as at end of the year under review and information relating to the condition of the properties which were scheduled to be handed over to the Local Government Authorities in terms of Section 5(h) of the Authority's Act had not been furnished to audit.

### 2.3 Non- Compliance with Laws, Rules, Regulations and Management Decisions

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The following non – compliances were observed.

<b>Reference to Laws, Rules and Non – compliance Regulations etc.</b>	<b>Non – compliance</b>
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| (a) Section (h) of paragraph 5 of the Common Amenities Board (Amended) Act, No.24 of 2003 | Even though one of the objectives of the Authority is to handover of maintenance activities of the condominium properties to the Local Government Authorities, the maintenance activities of Maligawaththa, Hibusu Uyana, Ranala, Maththegoda and Jalthara housing schemes had not been handed over to the Local Government Authorities. |
| (b) Inland Revenue Act, No.10 of 2006   | In computing of PAYE tax, the full and telephone allowances should be adjusted to the taxable income. However, the payment of PAYE tax had been computed and paid without being adjusted the fuel allowances.  |

- (c) Financial Regulation of the Democratic Socialist Republic of Sri Lanka
- (i) Financial Regulation 454 (1) Receipt and issue of inventory items should be recorded in the stock register, the General Form 44, and distribution lists should be kept separately for the items issued to the various Division and to officers without being recorded. Although the inventory items had been exchanged between the various Divisions of the Authority, a formal procedure had not been followed for the reporting of those transfers.
- (ii) Financial Regulation 454 (2) The Register for Electrical fittings had not been maintained with regard to the electrical fixtures and electrical accessories in the buildings of the Authority.
- (d) Establishment Code of the Democratic, Socialist Republic of Sri Lanka Paragraph 13.3 of the Chapter II An acting appointment should be made as a temporary measure only and until a substantive appointment is made. However, 04 officers of the Authority had been appointed to cover the duties and the acting duty period of those officers was ranging from 2 to 6 years. A sum of Rs.331,668 had been paid by the Authority as acting allowances for the year 2017. The Chairman had informed me that actions would be taken to fill the remaining vacancies after being made amendments to the recruitment procedure.
- (e) Paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003 Even though the final accounts and draft of the Annual Report should be furnished to the Auditor General within 60 days after the end of the financial year, the drafted Annual Report for the year under review had not been furnished to the Auditor General.
- (f) Paragraph 3.2.5 of the Public Finance Circular No.05/2016 dated 31 March 2016 Even though it had been reported the destructive and disposable items in the report of the Annual Board of Survey, of the year 2017 the disposing activities had not been carried out according to the circular.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements, the surplus of the Authority for the year ended 31 December 2017 had been Rs.98,384,642 and corresponding surplus for the preceding year amounting to Rs.70,410,879. Thus, as compared with the preceding year, the financial result of the Authority had indicated an improvement of Rs.27,973,763. Increase of operational income and non-operational income by Rs.51,934,856 and Rs.9,566,391 respectively had mainly attributed to the said improvement of the financial result.

In analyzing of the financial results of the year under review and 04 preceding years revealed that a deficit had been incurred in the year 2013, but that become surplus in the remaining years. However, after being made adjustments for employee remuneration, Government taxes and depreciation on non-current assets, the entire contribution of the institute had improved by Rs.95,711,528 in the year 2014 to Rs.189,198,902 in the year under review and compared to the preceding year that improvement in the year under review was 30 per cent.

#### **3.2 Analytical Financial Review**

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The following observations are made.

- (a) As compared with the preceding year, the project services income and the income from maintenance and repairing activities had been decreased by Rs.11,000,208 and Rs.2,012,857 respectively and the office rent had been increased by Rs.15,136,227.
- (b) The net assets of the Authority as at end of the year under review amounted to Rs.201,174,221 and corresponding net assets of the preceding year amounted to Rs.102,789,579. Thus, as compared with the preceding year, the net assets had been increased by Rs.98,384,642 or 96 per cent.
- (c) The quick assets ratio as at end of the year under review was 3:1 and that ratio of the preceding year was 2:1.

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Activity and Review**

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- (a) The progress of the registration of management corporations and committees relating to state, private and Tsunami Condomonium properties and registration of inactive committees/ activation was about 45 pre cent and achievement of that objective relating to the Tsunami Condomonium properties was at low level. The following observations are made in this regard.

- (i) In order to achieve the objectives of the Authority, 191 informative programmes had been conducted by the Authority to inform the beneficiaries by incurring Rs.8.192 million, but only 46 management committees had been registered. Accordingly, the achieved target was only 45 per cent.
  - (ii) It had been planned to generate revenue of Rs.245,000, Rs.1,120,000 and Rs.350,000 from the state, private and Tsunami Condomonium properties respectively by registration activities of management corporation committees and activate the registrations.  
Nevertheless, none of the income had been earned due to improper establishment of corporations relating to the Tsunami Condomonium properties and only a sum of Rs.95,868 had been earned income from the state sector.
- (b) Even though the Authority had planned to issue 120 orders for complaints during the year 2017, only 82 complaints had been solved.
  - (c) It had been planned to complete the amendment activities of the Common Amenities Board Act No.10 of 1973 and Apartment Ownership Act, 11 of 1973 during the year 2015, but those activities had not been completed within the targeted time period. Hence, the time period has been extended up to the year 2017. However, forwarding of those Acts to the Legal Draftment Department had only been conducted up to end of the year under review.
  - (d) Even though it had been planned to insure 160 condomonium properties and remove 40 unauthorized constructions and to recover the expenditure incurred thereon from the respective parties during the year under review, any property had not been insured. The Chairman of the Authority had informed me on 20 August 2018 that 04 unauthorized constructions had been removed and due to non-performing of the management corporations of the old Government housing schemes towards management of the insurance activities, the insurance activities were inactivated and the insurance activities of the private sector housing schemes had been effectively performed.

## 4.2 Management Activities

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The following observations are made.

- (a) Even though the housing rents amounting to Rs.15,559,519 had been paid by the Authority to the National Housing Development Authority during the year under review, the rental agreements had not been signed up to end of the year under review.
- (b) Even though a sum of Rs.1,202,084 had been incurred by the Authority during the year under review for development activities of the office building of the Authority and for construction of a garage at the office premises, the Authority had not taken actions to recover money from the rent that paid to the Housing Authority or to take action thereon or to sign an agreement.

### 4.3 Operating Activities

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In terms of the Common Amenities Board Act, No.10 of 1973, the Authority should activity perform the management corporations of the condominium properties. However, out of 936 management corporations that had been established by the Authority, 364 or 39 per cent management corporations had become inactive.

### 4.4 Underutilization of Funds

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The annual capital grants received for the conducting of the capital projects of the Authority had not been utilized for the relevant activities in the respective years and those grants had been shown under the current liabilities. Such grants received for the year 2017 and 2016 amounted to Rs.25,421,000 and Rs.42,209,311 respectively. The Chairman had informed me on 20 August 2018 that the contractor had not carried out the relevant works and as a result, the funds had been saved. Actions would be taken to release the funds to the Ministry.

### 4.5 Idle or underutilized assets

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Eighteen litres of paints purchased in the years 2014 and 2015 and 207 electrical and water pipe accessories belonging to 25 categories purchased from he year 2007 up to 2017 had been kept in the stores without being utilized. The Chairman had informed me on 20 August 2018 that those items would be issued according to the requirement.

### 4.6 Administration of staff

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The approved and the actual cadre for the year under review were 139 and 115 respectively and the following observations are made in this regard.

- (a) According to the approved cadre, organization structure and recruitment procedure of the Authority, two Assistant General Manager posts for legal activities had been approved. However, only a legal officer had been recruited for one post. The legal service had been obtained from the external legal officer on daily payment basis since the year 2008, instead of being recruited of a permanent legal officer after identifying the requirement and a sum of Rs.554,000 had been paid with the Board approval for the services rendered by the said legal officer in the year 2017. The Chairman had informed that though it recognize necessity for the recruitment of an experienced legal officer for the activities of the field, it was difficult to recruit an experienced legal officer for the salary scales of the Authority. Hence, the service from a temporary lawyer had been obtained with the approval of the Board of Directors.
- (b) The post of Deputy General Manager, 5 posts of Assistant General Manager and 13 other posts of the Authority had been remained vacant for long period of time. Therefore, it can not be ruled out in audit that this position had been directly affected to the performance of the Authority.



## **5. Sustainable Development**

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### **5.1 Achievement of sustainable Development Goals**

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The following observations are made.

- (a) The “agenda” for the United Nation’s Sustainable Development Goals for the year 2030 should be followed by all Public Institutions and Condominium Management Authority was aware about the activities to be performed for the year under review with regard to the scope of the Authority. However, actions had not been taken to identify the performance indicators for the achievement of Sustainable Development Goals.
- (b) Proper maintenance of the Common utilities and common amenities of the Condominium Properties, identification of the guidelines for administration and management functions and monitoring of related activities are the main Sustainable Goals to be achieved by the Condominium Management Authority. However, action had not been taken to develop accurate data base in order to monitor the performance. Lack of qualified officers was the main reasons for this situation.
- (c) It was observed that due to the lack of required coordination between the other institutions in order to achieve the Sustainable Development Goals, the planning process and pre-preparation activities were at weak level.

## **6. Accountability and Good Governance**

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### **6.1 Procurement and Process of Contracts**

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#### **6.1.1 Procurements**

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The following observations are made.

- (a) A detailed procurement plan had not been prepared by the Authority as per 4.2.1 format given in the Government Procurement Guideline dated 25 January 2006.
- (b) In calling bids for renovation of the Kataragama Circuit Bungalow, the documents that indicated in the bid calling register had not been included, in terms of Section 5.2.1 of the Government Procurement Guideline.
- (c) Without being prepared the specifications, 4 printing machines had been purchased by the Authority for Rs.177,390 during the year under review. Further, the recommendation and approval of the procurement and the Technical Evaluation Committees had not been obtained with regard to that procurement.

- (d) Without being made amendment to the approved procurement plan of the year 2017, the procurements, not included to the plan a total of Rs.3,542,806, had been made.
- (e) Even though it had been planned to purchase of a land to construction of the office building through the procurement plans of the year 2017 and 2016, that procurement had not been accomplished up to end of the year under review. This was included to the procurement plan of the year 2018 too.
- (f) In terms of paragraph 5.2 of the Public Finance Circular No.01/2014 dated 17 February 2014, the procurement plan had not been included to the Annual Action Plan.

## 6.2 Budgetary Control

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According to the financial statement presented, variances ranging from 26 per cent to 307 per cent were observed between the budgeted and actual figures, thus observing that the budget had not been made use of as an effective instrument of management control.

## 6.3 Tabaling of Annual Reports

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The Annual Reports for the years 2015 and 2016 had not been tabled in parliament even up to July 2018.

## 7. Systems and Controls

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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.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Management of Condomonium properties	<ul style="list-style-type: none"> <li>- Supervision of the management corporations had not been formally carried out.</li> <li>- Action had not been taken to accelerate the transferring activities of the common amenities.</li> <li>- Records had not been maintained relating to the unauthorized constructions.</li> </ul>
(b) Inprest Control	<ul style="list-style-type: none"> <li>- Delays in settlement of advances.</li> <li>- Before settlement of the previously obtained advances, the advances had been given to the same officers.</li> <li>- The advances had been given to non-staff grade officers.</li> <li>- The advances given the year under review, had been utilized in the year 2018.</li> </ul>

(c) Operating Controls

The procurement files had not been maintained in order to identify each of the procurement separately in an accepted manner.

(d) Inventory Control

The separate inventory registers had not been maintained for each of the Divisions.