

Condominium Management Authority – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Condominium Management Authority for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act, No. 19 of 2018 and the Finance act, No.38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Authority as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor's Responsibility for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Authority is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Authority.

1.4 Scope of Audit (Auditor's Responsibility for the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Authority and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority ;
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to the relevant Standard	Comments of the Management	Recommendation
(a) Contrary to Sri Lanka Public Sector Accounting Standard 2, depreciation on fixed assets amounting to Rs.418,118 and excess provisions for doubtful debts amounting to Rs.704,083 had been included in the cash flow arising from investment activities as receipts of interests and a prior year adjustment value	In adjusting the value of interest income to the cash flow, these values as well have been included and the prior year adjustment value to be adjusted to the profit has been adjusted to the cash flow statement of the year under review.	It should be complied with provisions of Standard.

amounting to Rs.1.99 million had been adjusted as financial activities of the cash flow statement in the year under review.

- (b) In terms of paragraph 65 of the Sri Lanka Public Sector Accounting Standard 7, the useful life of an asset shall be reviewed at least at each annual reporting date and the relevant changes shall be accounted for as changes in Accounting Policies and accounting estimates and the depreciation period should be reviewed. However, action had not been taken in compliance with Standard in respect of assets of the Authority, valued at Rs. 31.42 million fully depreciated but still in use. This asset has been referred to the Chief valuer for valuation. It should be complied with provisions of the Standard.
- (c) Interests on fixed deposits totalling Rs.2.4 million relating to the year 2017 had been brought to account as income of the year under review and no disclosure whatsoever Disclosures on such adjustments are made in preparing financial statements for ensuing years. It should be complied with provisions of the Standard.

had been made thereon in the financial statements in terms of Public Sector Accounting Standard 3.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit observation	Comments of the Management	Recommendation
<p>(a) Debtors balance amounting to Rs.19.93 million as at 31 December 2018, comprised of the balance amounting to Rs.4.02 million receivable from 10 debtors, brought forward over a period of 05 years. Moreover, the sum of Rs.807,187 receivable from a private company included in the aforesaid debtors is an amount paid in the year 1999 for the purchase of goods from the said company. Even though making payments before receiving those goods and failure to recover those moneys over a period of 19 years, was a weak point in the internal control, the Authority had not taken a proper action in that connection. Moreover, A</p>	<p>The Treasury approval had been sought for writing off the mediation fees of Rs.4.02 million older than 05 years from books and action should have been taken to write off money due to failure in recovery of money from Gampaha and Jaltara. Further, action will be taken to recover other moneys.</p>	<p>Prompt action should be taken to recover balances receivable.</p>

sum of Rs.3.71 million receivable for the condominium property for which Certificates of Conformity have not been issued up to now, had been brought to account as debtors since before 04 years.

- (b) Receivables as at 31 December 2018 for the maintenance of pump houses in Gmapaha and Negombo hospitals, not included in the scope of the Authority, totalled Rs.11.24 million and the balance older than 05 years had been Rs.2.62 million.
- Agreements had been entered into in the year 2016 and at present, this receivable. Prompt action should be taken to recover balances. function is carried out on a proper agreement and no outstanding whatsoever was available after the year 2016.

1.7 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section (h) of paragraph 5 of the Common Amenities Board (Amendment) Act, No.24 of 2003	Even though one of the objectives of the Authority shall be to transfer to the Local Authorities, the maintenance of common amenities of the Condominium properties, common amenities of housing	These Local Authorities had hesitated to assume the responsibility of maintenance of common amenities and as such, this transfer has been	It should be complied with provisions of the referred Act.

schemes at delayed.
 Maligawatta and
 Jaltara had not been
 transferred to Local
 Authorities.

- (b) Public Finance Even though Granting of It should be complied
 Circular imprests up to a advances to non- with provisions of the
 No.03/2015 of 14 maximum of staff officers has referred Act.
 July 2015 Rs.100,000 should been
 be granted only to discontinued by
 staff officers for any now. Only
 specific purpose, several instances
 contrary to it, of granting
 advances totalling advances in such
 Rs.840,000 had been a manner,
 granted to 04 considering
 officers. requirements of
 conducting
 programmes
 efficiently, were
 observed. All
 those advances
 have been
 correctly settled
 by now.
- (c) Financial A period ranging Action has been It should be complied
 Regulation 371 (5) from 20 days to 40 taken from with the referred
 (c) days had elapsed for March 2019 to Financial Regulation.
 the settlement of settle them
 imprests totalling completely.
 Rs.927,375 obtained
 at 18 instances.

- (d) Section 6.5.1 of The Draft Annual The Annual Action should be taken
the Public Report of the year Report will be in terms of provisions of
Enterprises under review had not furnished after the referred Act.
Circular been presented to the the audit report.
No.PED/12 of 02 Auditor General.
June 2003
- (e) Section 6.5.3 of Annual Reports Annual Reports Action should be taken
the Public including audit for the years in accordance with
Enterprises reports for the years 2015 and 2016 provisions of the
Circular 2015, 2016 and 2017 are scheduled to referred circular.
No.PED/12 of 02 had not been tabled be obtained the
June 2003 in Parliament even Cabinet approval
by 30 June 2019 by by forwarding to
the Authority. the Ministry and
the Annual
Report for the
year 2017 is
forwarded to the
Ministry after
completion of
Tamil
Translations.
- (f) Paragraph 02 of Despite having the Out of the said It should be complied
the Public balance of Distress loan, the with the referred
Administration Rs.199,250 of the amount paid later circular.
Circular loan granted in the is recovered as
No.30/2008 of 31 year 2016 to an per the normal
December 2008 officer of the procedure and
Authority without action is taken to
considering the recover the
maximum limit of previous loan
balance of the from 24 months
Distress loan up to instead of

Rs.250,000, a recovering
Distress loan within 60
amounting to months.
Rs.250,000 had been
again granted in the
year 2018.
Accordingly, the
Distress loan
balance of the said
officer as at 31
December 2018 had
been Rs.449,250.

2. Financial Review

2.1 Financial Results

The operating result for the year under review had been a surplus of Rs.140.19 million as compared with the corresponding surplus of Rs.98.38 million for the preceding year, thus indicating an improvement of Rs.41.81 million in the financial result. The increase in the operating income and non-operating income by Rs.78.45 million and Rs.11.29 million respectively had been the main reason for the said improvement.

2.2 Analysis of Tendencies of Main Items of Income and Expenditure

The following observations are made.

- (a) The income from issue of certificates for condominium properties and interest income on fixed deposits had increased by Rs.79.47 million and Rs.9.88 million respectively as compared with the preceding year and the expenditure on maintenance had increased by Rs.7.14 million and the expenditure on office rental had decreased by Rs.9.42 million.

- (b) The net assets of the Authority as at the end of the year under review had been Rs.339.37 million as compared with the corresponding net assets of Rs.201.17 million for the preceding year, thus indicating an improvement in the net assets by Rs.138.20 million or 69 per cent as compared with the preceding year.

2.3 Ratio Analysis

The current assets ratio as at the end of the year under review had been 4:1 while the said ratio of the preceding year had been 3:1. Moreover, the quick assets ratio of the year under review had been 4:1 while it had been 3:1 for the preceding year.

As a sum of Rs.259 million had been invested on triennial fixed deposits, it was observed in audit that the current assets ratio and the quick assets ratio had taken a high value and that the investment is not managed so as to be beneficial to the Authority.

3. Operating Review

3.1 Management Inefficiencies

Audit observation	Comments of the Management	Recommendation
(a) The Authority had renovated the building obtained on rental basis, in which the office is functioned over a period of 40 years, by spending a sum of Rs.4.71 million. No agreement whatsoever had been entered into with the owner of the building for settling expenditure incurred for renovation.	The Authority is functioning in this building and maintenance and renovation activities are carried out by the Authority itself.	In entering into Rental agreements, provisions should be included in agreements in a manner in which responsibilities relating to maintenance of buildings are specifically assigned.
(b) Even though a sum of Rs.6.14 million had been paid as house rents to the Housing Development Authority in the year 2018 by the Authority, house rental agreements had not	Revisions required had been made to the rental agreement and handed over to the owner of the building.	Action should be taken to enter into agreements properly.

been entered into by the end of the year under review.

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| <p>(c) Goods had been issued from stores in stationery request forms and goods issued notes without the approval of the Divisional Head and toners and cartridges of same type had been issued from time to time for same officers without considering the number of copies that can be obtained using toners and cartridges.</p> | <p>Action has been taken to give instructions to avoid the said situation. Special attention has been paid by now on usage of toners and cartridges.</p> | <p>Goods should be issued from stores in a proper manner.</p> |
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3.2 Operating Inefficiencies

Audit observation	Comments of the Management	Recommendation
<p>(a) A sum of Rs.4.28 million had been spent in the year 2018 for conducting awareness programmes relating to the registration of management corporations and committees and renewal and activation of inactive committees relating to the Government, private and Tsunami condominium properties. However, plans of condominium properties had not been registered and</p>	<p>No registration of plans or issuance of deeds for more than 95 per cent Tsunami condominium properties had been carried out. As such, management corporations as well cannot be established.</p>	<p>The process of issue of conformity certificates and deeds should be carried out efficiently and action should be taken speedily to establish management corporations.</p>

deeds had not been issued therefor. As such, management corporations and committees of 95 per cent condominium properties had not been established.

- (b) Amendments to the All draft amendments Amendment to the Act should Common Amenities Board prepared at several times in be speedily completed and Act, No.10 of 1973 had not the year 2017 have been action should be taken to been completed even by the referred to the Legal achieve expected targets. end of the year under Draftsman’s Department. review. Moreover, it had Those activities are still in been expected to be progress. conducted 73 awareness programmes on condominium properties and issued 10,000 copies of statements for awareness on condominium properties. However, only 16 programmes had been conducted and no statement whatsoever had been printed.

3.3 Procurement Management

Audit observation	Comments of the Management	Recommendation
(a) In terms of Guideline 4.2.1 of the Government Procurement Guidelines of 25 January 2006, a detailed Procurement Plan for the	A detailed Procurement Plan had been prepared along with the Action Plan and approval of the Board of Directors has been	Procurement Plans should be prepared in terms of the Circular.

year 2018 had not been obtained therefor.

prepared by the Authority.

- (b) According to revised Procurement Plan of the year 2018, a sum of Rs.110.8 million had been estimated for the purchase of a land for the construction of an office building and for the purchase of 04 motor vehicles. However, those procurements had not been carried out up to the end of the year under review.
- A sum of Rs.75 million have been allocated for the purchase of a land. The Urban Development Authority has been informed with a view to obtaining a state land.
- Action should be taken to carry out the procurement process in a proper and efficient manner.

3.4 Human Resources Management

----- Audit observation -----	----- Comments of the Management -----	----- Recommendation -----
<p>The approved cadre and the actual cadre as at the end of the year under review stood at 139 and 118 respectively. Six officers had been recruited in the year 2018 and in making recruitments to the posts of the Administrative Officer and the Consumer Officer, appointments had been made by conducting interviews only for the said two applicants without publishing newspaper advertisements contrary to the Scheme of Recruitment.</p>	<p>Entire vacancies had decreased up to 13 by now. Action is taken to make formal recruitments in the future for those vacancies.</p>	<p>Recruitments for the staff should be made properly.</p>

4. Accountability and Good Governance

4.1 Budgetary Control

Audit observation	Comments of the Management	Recommendation
According to the financial statements presented by the Authority, variances ranging from 30 per cent to 1,187 per cent were observed between the revised budgeted and the actual amounts, thus indicating that the budget had not been made use of as an effective instrument of management control.	The budget had been made use of as an effective instrument of management control at every possible instance in the year 2018.	The budget should be made use of as an effective instrument of control for achieving the objectives of the Authority.

4.2 Sustainable Development Goals

Audit observation	Comments of the Management	Recommendation
(a) Every Government institution should take action in terms of 2030 “Agenda” of the United Nations for the sustainable development. However, action had not been taken to identify indices for measuring the achievement of sustainable development targets for the year 2018.	A procedure for preparing sustainable development strategies, targets and indices has been already implemented in the Authority and action has been taken to implement sustainable development strategies since the year 2019 so as to reach the sustainable development	Attention should be paid on reaching the sustainable development targets.

targets by the year 2030.

(b) In the preparedness for reaching the sustainable development targets, it was observed that the process of preparing plans and the preparedness for achieving targets was at a weak level due to failure in coordinating with other institutions.

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There should be a proper coordination with other institutions for reaching the sustainable development targets.