

Condominium Management Authority - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Condominium Management Authority (“Authority”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 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 accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2022 and of its financial performance and its 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 responsibilities, under those standards are further described in the Auditor’s Responsibilities 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 determine 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 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 on the Audit of 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, misrepresentations, 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 auditor's 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 auditor's 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 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 Audit Observations on the Preparation of Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

The Authority is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non- compliance with reference to the particular Standard	Comment of the Management	Recommendation
(a) Even though the Accounting Policies relating to the depreciation of intangible assets should be disclosed in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 1, Accounting Polices relating to the depreciation of the intangible assets amounting to Rs.820,826 of the Authority had not been disclosed.	Policies will be disclosed in the final statement of accounts of the year 2023.	The relevant depreciation policy should be disclosed in compliance with Accounting Standards.
(b) In terms of paragraph 47 of Sri Lanka Public Sector Accounting Standard 3, prior period errors should be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for prior periods presented in which the error occurred. However, adjustments relating to the prior year amounting to Rs.1,691,149 had been made to the Statement of Changes in Equity.	Adjustments are made in preparing the Financial Statements in the year 2023.	The representations relating to the rectifications should be made in the financial statements in compliance with the Accounting Standard.

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| (c) | According to paragraph 65 of Sri Lanka Public Sector Accounting Standard 7, the residual value and the useful life of an asset shall be reviewed at least at the end of each annual reporting date and relevant changes should be accounted in terms of Sri Lanka Public Sector Accounting Standard 3. However, action had not been taken in terms of the Standard regarding depreciated assets but still in use totalling Rs.6,052,525 of the Authority, indicated under Note No. 05 of the financial statement. | Action will be taken to revalue and include the value thereof in terms of the Standard 7. | Action should be taken to depreciate assets in terms of the Accounting Standard. |
| (d) | According to paragraph 44 of Sri Lanka Public Sector Accounting Standard 11, “an inflow of resources from a non-exchange transaction recognized as an asset shall be recognized as revenue”. However, the value of fixed assets of Rs.1,888,677 received by the Authority from the Ministry in the years 2017 and 2021, had not been brought to account accordingly. The said value of assets had been indicated in the statement of financial position of the year under review as a non-current liability and it had not been noted down as a prior year adjustment. | Action will be taken in the year 2023 in terms of Accounting Standards. | Action should be taken on grants in terms of Accounting Standard 11. |

1.5.3 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
The decrease in trade debtors, staff loans and balances receivable by Rs. 2,889,460, had been shown in the cash flow statement under investment activities without considering it as working capital changes.	Adjustments had been made in receipts of interest of cash flow arising from investment activities.	The cash flow statement should be prepared in compliance with Accounting Standards

1.5.4 Documentary Evidences not made available for Audit

	Item	Amount Rs.	Audit Evidence not made Available	Comment of the Management	Recommendation
(a)	Short-term investments	4,483,154	Conformation of balances	Letters have been sent for confirmation of balances.	Action should be taken to make available the confirmation of balances to Audit.
(b)	Creditors balances	294,689	Conformation of balances	Letters have been sent for confirmation of balances.	Action should be taken to make available the confirmation of balances to Audit.
(c)	Balances receivable	387,981	Conformation of balances	Letters have been sent for confirmation of balances.	Action should be taken to make available the confirmation of balances to Audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Observation	Comment of the Management	Recommendation
(a)	A balance of Rs 5,940,770 out of the balance of Rs 8,285,287 receivable as at 31 December of the year under review for the reimbursement of salaries and service charges of employees who have been deployed in the maintenance of pumping stations in Gampaha and Negambo hospitals, which was not within the scope of the Authority, should have been recovered from Negombo Hospital of which maintenance activities were discontinued since the year 2018. However, even though a period over 05 years had lapsed by the end of the year under review, it had not been settled so far.	A committee has been appointed as per a meeting held with the Ministry of Health to obtain the arrears of Rs.5.94 million due from Negombo Hospital. According to the Committee report, the said Ministry has agreed to pay the arrears.	Prompt action should be taken to recover balances receivable.

- (b) The balance totalling Rs.3,971,005 receivable as at 31 December 2022 comprised of Rs.882,922 due from the Parliament Secretariat for maintenance of Madiwela Parliament Members Housing Complex, Rs. 2,668,305 as arbitration fee due from 159 condominium properties and Rs. 419,775 due from 53 residents of the Government Employees Housing Scheme, Jaltara. The said debtors balance comprised of receivable balances totalling Rs.3,088,083 which had remained unrecovered for over a period of 05 years.
- As arbitration debtors balances could not be recovered, a committee headed by the General Manager (Legal) has been appointed for making recommendations to eliminate the said balances from books. Further action will be taken according to the said committee report.
- Recovery of loan balances should be expedited.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Management	Recommendation
(a) Section 13.3 of Chapter II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	An acting appointment should be made as a temporary measure only and until a substantive appointment is made. However, 03 officers of the Authority have been serving on acting basis for over a period of 2 years.	The Secretary to the Ministry has been informed by the letter dated 10 March 2023 regarding vacancies of the Authority.	Action should be taken as per provisions of the Establishments Code.

- (b) Paragraph 6.2 (c) in Guidelines on Public Enterprises of Public Enterprises Circular No.1/2021 dated 16 November 2021
- Even though additional funds of a public corporation should be invested under the approval of the Minister of Finance, action had not been taken accordingly, in respect of 05 fixed deposits of Rs.544,601,929 invested by the Authority in the year under review
- A letter has been forwarded on 16 March 2023 to the Secretary to the Ministry of Finance through the Secretary to the Line Ministry, seeking approval for the investments in fixed deposits.
- Funds should be invested as per circular instructions.
- (c) Operational Manual of the Public Enterprises Circular dated 16 November 2021
- (i) Paragraph 3.2 of Chapter 3
- The performance of employees should be evaluated through methodologies prepared to evaluate the performance according to the Strategic Plan and the Action Plan of the Authority approved by the Director General of the Department of Public Enterprises.
- However, incentive valued at Rs.7,517,703 had been paid for the year under review by the Authority without following such evaluation method.
- The draft of the sectorial performance indicators prepared in the year 2022 for the evaluation of performance of employees, has been forwarded by seeking the approval of the Department of Public Enterprises through the Secretary to the Ministry of Housing.
- Performance should be evaluated in terms of circular instructions.

- (ii) Paragraph 1 of Chapter 5 Even though key performance indicators should be identified in the preparation of the Strategic Plan of the Authority, approved by the Director General of the Department of Public Enterprises, the relevant indicators had not been identified even by the end of the year under review. Formal sectorial performance indicators are being prepared obtaining a consultancy service therefor in the year 2023. Action should be taken to identify performance indicators as per circular instructions.
- (d) 5 (2) of the Joined Housing Rights Act, No. 11 of 1978 As Certificates of Conformity had not been obtained from Local Authorities for 70 condominium properties for which semi or temporary condominium certificates had been obtained for the period from 2010 to 2022, the final condominium certificates had not been issued. However, there were 54 properties of which 03 years had lapsed once obtaining semi or temporary certificates. Even though the condominium property could not be occupied without a certificate of conformity, follow up action thereon had not been taken by the Authority. An inspection is carried out regarding 70 properties for which final certificates had not been obtained for the period from 2010 to 2022. It is expected that condominium certificates will be obtained by the end of the year. When issuing condominium certificates, action should be taken in terms of laws and rules of the Act.

2. Financial Review

2.1 Financial Results

The tax before surplus of the Authority for the year under review was Rs.131,259,446 and the corresponding tax before surplus in the preceding year amounted to Rs. 206,261,702. Therefore a deterioration amounting to Rs.75,005,256 of the financial result was observed. The reason for the deterioration is decrease in the operating income by Rs.154,280,446 had mainly attributed.

2.2 Trend Analysis of Major Income and Expenditure Items

- (a) The operating income of the Authority had decreased in the year under review by Rs.154,280,446 representing 45 per cent as compared with the year 2021. The decrease in certified income issued for properties of which constructions have been completed, by Rs.138,089,972 representing 56 per cent and the decrease in the income of condominium certificates (initial clearance) issued by Rs.52,853,747 representing 101 per cent had attributed to this decrease.
- (b) Direct expenses had increased in the year under review by Rs.1,908,287 as compared with the preceding year. The increase in the expenditure on issuing condominium certificates and arbitration fees by Rs. 487,663 and Rs.1,281,594 respectively had attributed therefor.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	According to the Extraordinary Gazette Notification dated 05 July 2017, the validity period of an initial clearance letter issued for development of condominium property is only 03 years. However, the final condominium management certificates had not been obtained for 71 properties for which semi or temporary certificates had been obtained during the period from the year 2011 to the year 2022.	Renewal of initial clearance letter and issuance of the final certificate is implemented from the year 2023.	A proper methodology should be formulated to issue certificates within the validity period of letters.
(b)	Eighty seven complaints received from the year 2013 to the year 2022 to the Authority relating to condominium property, had not been resolved even by 31 December 2022. There were 27 complaints and 22 complaints among these complaints relating to unauthorized constructions and water leakages respectively and it was observed that 10 complaints of those have elapsed 2-4 years and could become a risk	Twenty eight of 87 complaints received to the Authority, have been resolved by April 2023. The remaining complaints have not been resolved for various reasons.	Action should be expedited to resolve complaints received on condominium properties.

to property and life. Of these complaints, over periods of 5 years, 3 years and one year had elapsed after receipt of 4, 39 and 19 complaints respectively. Moreover, there were 15 complaints relating to non-registration of properties and plans. In addition to that, directives had been issued for 5 complaints relating to unauthorized constructions investigated by the Authority. Nevertheless, those directives had not been implemented. Once a complaint is received to the Authority, a notice should be issued to the plaintiff and the defendant in terms of Section 9 a (i) of the Condominium Act. Nevertheless, a period between 3 months and 3 years has been taken to issue a notice relating to 9 complaints received.

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| (c) | According to Section 5(e) of the Common Amenities Board (Amendment) Act, No.24 of 2003, the management and administration of activities of management corporations established for condominium properties should be carried out by the Authority. Accordingly, even though 978 management corporations had been established by the Authority as at 31 December 2022, a number of 457 corporations of them had been inoperative as at 31 December 2022. As such, it was observed that management corporations have not been properly regulated by the Authority. | Meetings could not be held up to September of the year 2022 due to economic and political issues which prevailed in the country. | A proper supervision should be carried out on management corporations in accordance with provisions of the Act. |
| (d) | Even though the office of the Authority is in function since the year 1977, a lease agreement had not been entered into with the National Housing Development Authority therefor. However, it was observed that the annual lease rental had been increased from year 2021 from Rs.4,848,660 to Rs.8,400,000. | The lease agreements are signed after agreeing with the National Housing Development Authority. | An agreement with formal conditions should be entered into. |
| (e) | In terms of Section 3 (2) of the Schedule to the principal statute of the Apartment Ownership (Amendment) Act, No.45 of | As annual general meetings were not held due to economic and political crises which | Action should be taken to call for annual accounts of |

- 1982 under the Condominium Property Act, the annual general meetings of management corporations should be held and according to 8(4)(a) thereof, a copy of audited annual reports of accounts of the management corporation should be submitted to the Authority. Nevertheless, annual reports audited by holding annual meetings of 269 corporations for the year 2022, had not been submitted to the Authority.
- prevailed in the country, the management corporations. submission of audit reports of the relevant year to the Authority has either delayed or failed.
- (f) A sum of Rs.6,800,000 which is the maintenance fund of the Edmonton Housing Scheme for Public Employees, had been deposited in a joint account in the year 2011 on the agreement of both parties until the condominium plan of the said housing scheme is registered and the Management Committee is established. It had been herein agreed by the Authority that it would withdraw from the joint account after assigning the Management Committee with total responsibility of financial administration. Nevertheless, action had not been taken even by the end of the year under review to establish the legal management corporation despite a lapse of 11 years.
- The National Housing Development Authority has informed that condominium property Nos.306 and 308 have been registered by the two relevant plans and issuance of deeds for same are being carried out and legal Management Committee will be established in future.
- The establishment of the Management Committee should be expedited.
- (g) Even though 5 activities relating to the amendment of the Condominium Management Authority Act had been included in the Annual Action Plan – 2022, the Act had not been amended even by the end of the year under review. As such, provisions of the existing Act could not be applied for mixed-use condominium constructions based on global trends.
- The Cabinet Memorandum relating to the amendment of the Act has been forwarded to the Secretary to the Ministry of Urban Development and Housing and amendments will be made after receiving approval.
- Necessary amendments to the Act should be expedited.

3.2 Fruitless Expenditure

Audit Observation	Comment of the Management	Recommendation
<p>A sum of Rs.1.65 million had been spent for publishing a newspaper advertisement on 12 December 2021 and 31 December 2021 to recruit an officer for the post of General Manager of the Authority. Even though applicants had been called for the interview, no recruitment had been made. Despite having appointed an acting officer from 01 January to 30 June 2022, the role of the Chief Executive Officer had not been fulfilled over a period of 06 months as specified in Section 16 of the Act. An acting appointment has been made again on 20 January 2023 and action had not been taken to make a regular appointment. Accordingly, it was observed that the amount spent for the aforesaid newspaper advertisement as a fruitless expenditure.</p>	<p>Interviews have been held on 10 February 2022 and 19 November 2022 after publishing newspaper advertisements. However, according to the approved Scheme of Recruitment, selection and appointment of an officer who has fulfilled qualifications, has failed.</p>	<p>Action should be taken to recruit a General Manager to the Authority according to the Scheme of Recruitment.</p>

3.3 Procurement Management

Audit Observation	Comment of the Management	Recommendation
<p>The Authority had purchased building materials worth Rs.1,209,436 by obtaining quotations from 3 institutions, contrary to the Procurement Procedure and procurement committees and technical evaluation committees had not been appointed. Stationery worth Rs. 591,105 had been purchased from unregistered suppliers and a newspaper advertisement had been published by spending a sum of Rs.114,264 to purchase computer accessories despite the fact that there were 27 registered suppliers.</p>	<p>Purchases have been made in the year 2021 according to minimum quotations of registered suppliers. Essential stationery required for day-to-day activities of the Authority has been purchased from the Sri Lanka State Trading (General) Corporation on a single quotation according to Cabinet Paper No.21/1118/313/036 of 17 June 2021. As the then Acting General Manager instructed to call for</p>	<p>Action should be taken to carry out procurement activities as per the Procurement Plan.</p>

quotations again by mentioning software separately, 04 newspaper advertisements were published to call for quotations again by spending a sum of Rs. 114,264.

3.4 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
The approved and actual cadre of the Authority stood at 138 and 106 respectively for the year under review and the 32 vacancies comprised 14 vacancies in staff posts. Seven of the aforesaid staff posts had been vacant since the year 2010.	The Secretary to the Ministry of Urban Development and Housing has been referred to on 10 March 2023 for obtaining approval of the committee appointed to review the recruitment procedures for filling these vacancies.	Action should be taken to fill essential posts.

3.5 Management of Vehicle Fleet

Audit Observation	Comment of the Management	Recommendation
(a) A sum of Rs.373,060 had been spent by the Authority for repairs of the engine due to an accident occurred to vehicle No.KU – 1233 on 12 May 2021. Only a sum of Rs.67,125 had been received as insurance indemnity and according to the inquiry mentioned in F.R.104, the Driver of the said vehicle had been named as the offender. However, a full report had not been obtained as mentioned in F.R.104 (4), and the Authority had not reimbursed the loss occurred despite elapsing 22 months.	The Driver has been acquitted and discharged from all charges by the formal disciplinary inquiry. A situation has arisen where the loss could not be reimbursed due to the said decision and the agreement of the Board of Directors.	Action should be taken to obtain a full report in terms of F.R.104 (4).

- (b) A vehicle owned by the Authority had met with an accident on 19 December 2019 and repairs to be carried out in that connection have not been completed despite elapsing 3 years. Moreover, action had not been taken to recover the estimated expenditure on repairs amounting to Rs.2,559,571 even by the end of the year under review.
- Only a sum of Rs.0.5 million can be claimed by insurance coverage and action is being taken to recover the remaining amount from the other party.
- Action should be taken to repair the vehicle and to recover indemnity from responsible parties.