

## **Condominium Management Authority - 2023**

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### **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 2023 comprising the statement of financial position as at 31 December 2023 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 2023 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Preparation of Financial Statements**

### **1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards**

<b>Non-compliance with Reference to Related Standards</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) Although value of the property amounting to Rs. 1,888,677 out of the property and plant worth Rs. 2,939,171 received from the Ministry in 2021 should have been adjusted to the surplus of the preceding year, it had been adjusted as non-operating income in the year under review contrary to Section 07 in Sri Lanka Public Sector Accounting Standard 01. As a result, the income for the year under review had been overstated by that amount.	In the future, government grants will be accounted for in the relevant year itself.	Sri Lanka Public Sector Accounting Standards should be adhered to.
(b) Although the allowable withholding tax amount of Rs. 7,482,162, deductible from the income tax payable for the year under review, had been deducted and Rs. 28,624,788 was recorded as a liability, the relevant details for this calculation had not been disclosed in the financial statements through notes to the accounts as per Sri Lanka Public Sector Accounting Standard No. 1.	The revised income tax calculation report has been submitted.	Sri Lanka Public Sector Accounting Standards should be adhered to.
(c) Contrary to Section 69 of the Sri Lanka Public Sector Accounting Standard No. 07, property, plant and equipment worth Rs. 1,299,247, purchased during the current year, had been entered in the office supplies stock account. As a result,	Asset classes are expected to be revalued during the year 2024.	Sri Lanka Public Sector Accounting Standards should be adhered to.

the value of property, plant and equipment had been understated, while the stock had been overstated by that amount.

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| (d) | Contrary to Section 81 of the Sri Lanka Public Sector Accounting Standard No. 07, the Authority had removed an amount equal to the expenditure from the revaluation reserve and adjusted it as non-operating income in addition to the profit generated from the sale of fixed assets cost of Rs. 729,019 in the year under review. As a result, the income for the year under review had been overstated by Rs. 729,019, and consequently, the surplus for the year under review had also been overstated by that amount. | An amount equal to the disposal expenditure was removed from the revaluation reserve and adjusted to the profit. | Sri Lanka Public Sector Accounting Standards should be adhered to. |
| (e) | Contrary to Section 74 of Sri Lanka's Public Sector Accounting Standard No. 19, the authority had stated the difference amounting to Rs. 9,711,030 in the employee benefits provision account as an overprovision for employees' benefits. As a result, operational expenses had been understated and net surplus had been overstated by that amount.  | Action will be taken according to the accounting standards in the year 2024.                                     | Sri Lanka Public Sector Accounting Standards should be adhered to. |

### 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) Although an amount of Rs. 3,368,815 had estimated by the Authority as compensation payable to the officials had been included in the employee salaries and wages for the year under review, it was not stated as a non-cash changes in the cash flow statement. As a result, the net cash flow generated from	Provisions will be made for the current services expenses and interest expenses in the actuarial assessment report of the gratuity from the year 2024 onwards.	Financial statements should be prepared accurately.

operating activities had been overstated by Rs. 3,368,815.

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| (b) | An amount of Rs. 138,977,248 had been adjusted in the non-cash changes of the cash flow statement as non-operating income and the overprovisions for gratuity and depreciation of fixed assets included therein had been re-adjusted in the non-cash changes, resulting double counting of Rs. 3,955,836. As a result, the net cash flow generated from operating activities had been understated by Rs. 3,955,836. | The corrected and revised cash flow statement has been submitted.                                    | Financial statements should be prepared accurately. |
| (c) | The land and the building of the Kataragama Tourist Bungalow, owned by the Urban Development Authority, had been accounted as assets of the authority costing to Rs.1,520,000 and Rs. 6,700,000, respectively.  | Actions will be taken by the authority to obtain ownership of the Kataragama Bungalow in the future. | Financial statements should be prepared accurately. |
| (d) | The release of Rs. 30,481,887 from fixed deposits had been adjusted in the investment activities. As a result, the net investment activities had been overstated by that amount.  | The corrected and revised cash flow statement has been submitted.                                    | Financial statements should be prepared accurately. |
| (e) | According to the schedule, the value of the 04 fixed deposits invested by the Authority during the year under review had been recorded as Rs. 506,686,029, but it had been shown as Rs. 508,254,487 in the final accounts, as a result a discrepancy of Rs. 1,568,458 had been observed.  | This error has been corrected for the previous year through JE-43 in 2024.                           | Financial statements should be prepared accurately. |
| (f) | The entertainment expenses of Rs. 1,391,557 deducted in calculating the Authority's surplus, a sum of Rs. 265,095 in amortization of intangible assets, Rs. 38,400 in fines and revenue, Rs.  | The revised income tax calculation report has been submitted.  | Financial statements should be prepared accurately. |

9,711,030 in employee benefits, and the Rs. 3,368,815 in compensation estimated for officers who were dismissed from the service had not been added back to the profit when calculating taxable income as per Section 10(b) of the Inland Revenue Act No. 24 of 2017. Furthermore, capital grants had been understated by Rs. 3,383,191. As a result, taxable income had been understated by Rs. 11,391,706. Consequently, the income tax for the year under review had been understated by Rs. 3,417,512.

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| (g) | According to the income tax liability calculation, the income tax provision was Rs. 48,016,852, but it had been shown as Rs. 44,106,950 in the statement of financial performance, resulting in an understatement of Rs. 3,909,902 in the income tax provision. | The revised income tax calculation report has been submitted. | The income tax should be calculated correctly. |
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## 1.6 Accounts Receivables and Payables

### 1.6.1 Receivables

Audit Observation	Comment of the Management	Recommendation
(a) The Authority had a total outstanding loan balance of Rs. 13,132,807 as at 31 December 2023, of which Rs. 9,473,681 had remained over 05 years.	A discussion has been requested with the Secretary of the Ministry of Health to recover the outstanding payment from the Negombo Hospital. It has been agreed that the Gampaha Hospital will settle the outstanding amount.	Immediate measures should be taken to collect the receivable balances.
(b) At the end of the year under review, there was a balance of Rs. 22,503,432 in sundry creditors, of which a balance of Rs. 12,430,649 had remained over 05 years.	This creditors' balance includes funds owned by the housing complex, and after the establishment of the management corporations, arrangements will be made for	Action should be taken to promptly settle this.

these funds to be allocated to the management corporation fund.

**1.7 Non-compliance with laws, rules, regulations and 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	Although the appointment to act in a post should be considered as a provisional measure until a permanent appointment is made, the positions of General Manager, Assistant General Manager (Human Resources & Administration), and Assistant General Manager (Operations/Maintenance), who are responsible for the administrative and decision-making activities of the Authority, have been filled by acting officers over two years.	Recruitments related to the vacancies of this institution will be made in accordance with the approval granted at the 2024 Board of Directors meeting.	The guidelines of the Establishments Code should be followed.
(b) Section 6.2 (c) of the guidelines related to public enterprises in Public Enterprises Circular No. 1/2021, dated 16 November 2021.	Although approval from the Minister of Finance should have been obtained for the investment of surplus funds in a state corporation, the Authority had not followed that procedure with regard to the 05 fixed deposits amounting to Rs. 506,686,028, which were invested during the year under review.	A letter has been sent by the Secretary of the line ministry to the Secretary of the Ministry of Finance on 16 March 2023 requesting approval for the investment in fixed deposits.	The instructions of the circular should be followed.
(c) Section 6.2 of Chapter 3 in the Operations Manual of the Public Enterprises Circular dated 16 November 2021.	A strategic plan had not been prepared in accordance with the circular guidelines.	Actions will be taken accordingly for the upcoming year.	The instructions of the circular should be followed.
(d) The National Budget Circular No. 01/2021	Without the approval of the Cabinet, various allowance	In order to achieve the targeted profit of the	The instructions of the circular

dated 21 November 2021 issued by the Secretary to the Treasury. payments made at the ministry or institutional level should be suspended, and new commitments should not be incurred for various welfare, relief, or development programmes. However, the Authority, with only the approval of the Board of Directors, had paid a performance allowance of Rs. 5,000 to the entire staff, amounting to Rs. 3,495,000 for the year under review. Authority, the approved workforce of 130 employees needed to be covered by the 94 staff members. To encourage attendance, a performance allowance of Rs. 5,000 per month has been granted to employees who take 2 or fewer days of leave per month, limited to a year, with the approval of the Board of Directors. should be followed.

- (e) Section (h) of Chapter 05 of the Common Amenities Board (Amendment) Act No. 24 of 2003. Although it is the Authority's objective to delegate the maintenance of access routes to condominium properties, plantations, gardens, playgrounds, and open spaces to local authorities, the maintenance of the Maligawatta and Jalthara housing schemes had not been handed over to the local authorities. Action will be taken to hand over the relevant tasks. Provisions of the Act should be adhered to.

## 2. Financial Review

### 2.1 Financial Results

The operating result for the year under review showed a surplus of Rs. 154,512,945, compared to the corresponding surplus of Rs. 131,059,472 in the previous year. Accordingly, a growth of Rs. 23,453,473 in the financial results was observed. This growth was primarily due to an increase in non-operating income by Rs. 34,222,392.

### 2.2 Trend analysis of major income and expenditure items

- (a) Compared to 2022, the total expenditure of the Authority had increased by Rs. 2,007,356 in 2023. The primary reason for this increase was a rise of Rs. 1,307,230 in operational expenses. This was driven by an increase of Rs. 863,954 in entertainment expenses under supplies and consumer goods, a rise of Rs. 3,019,216 in fuel expenses, and a surge of Rs. 5,152,682 in vehicle repairs and maintenance costs. Additionally, 13 employees of the Authority retired during the reviewed year, resulting in a reduction of Rs. 7,775,009 in salaries and wages compared to the previous year.
- (b) Compared to 2022, the operating income of the Authority had decreased by Rs. 11,561,935 in 2023, while non-operating income increased by Rs. 34,222,392. The decline in operational



income was primarily due to a decrease of Rs. 36,513,214 in revenue from certificates issued for partly constructions with more than 05 units, a decrease of Rs. 973,124 in revenue from certificates issued for completed properties, and a decrease of Rs. 1,994,191 in revenue received from the maintenance of the Gampaha Hospital pump house.

- (c) The increase in non-operating income by Rs. 34,222,392 was primarily due to a rise in interest from fixed deposits amounting to Rs. 32,972,461. Additionally, within this non-operating income, there was an adjustment of Rs. 4,684,855 related to non-cash generated from gratuity overprovision, the revaluation of disposed goods, and the amortization of fixed assets.

### 2.3 Ratio Analysis

At the end of the year under review, the Authority's current ratio was 1.2:1, and the quick ratio was also 1.2:1 and in the previous year, these ratios were 2.1:1 and 2.07:1, respectively.

## 3. Operating Review

### 3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Although primary clearance documents had been obtained for 400 properties, final certification had not been received for those properties during the period from 2013 to 2018. Furthermore, no action had been taken to renew the validity of these properties. Additionally, final certificates had not been obtained for 50 properties that had received temporary condominium certificates, and for 15 properties that had received partial condominium certificates. Out of 65 properties, 20 had not obtained certificate of compliance from local authorities, and which contributed to this issue.	Starting from 2023, steps are being taken to renew the preliminary clearance letters and then issue final certificates for projects that have exceeded three years since the issuance of the primary clearance letters.	A proper procedure should be established to ensure that certificates can be issued within the stipulated time.
(b) Out of the 1,387 complaints received by the Authority, 67 had not been resolved even by 31 December 2023. Among these complaints, 25 were related to unauthorized constructions, and 13 were related to water leaks. Six of these complaints had been pending for 2 to 5 years, creating hazardous conditions for both property and life.	After receiving complaints, the customer service division makes every effort to resolve them. If they are unable to do so, the complaints are referred to the legal department, which works to conclude the investigation within a reasonable time frame.	Action should be taken to resolve the issues immediately.

- (c) In accordance with Section 3(2) of the principal enactment under the schedules appended to the Apartment Ownership (Amendment) Act No. 45 of 1982, and Section 27(3) of the Apartment Ownership (Amendment) Act No. 39 of 2003, general meetings of the management corporations should be held, and as per Section 8(4)(a), copies of the audited annual accounts of the management corporations should be submitted to the Authority. However, out of the 1014 management corporations currently under the Authority, 586 had not submitted their annual accounts since the date of registration, and out of the remaining 428 corporations, 403 had failed to submit the audited annual accounts for the current year to the Authority. Furthermore, management corporations should be established within 03 months after registering a condominium deed, but during the 2022–2023 period, management corporations had not been established for 39 of the registered properties.
- The management corporations have stated that they do not conduct audits of their annual account reports due to the high cost involved in carrying out such audits.
- Action should be taken to obtain the annual accounts from the corporations.
- (d) Since the issuance of certificates for condominium properties is a key responsibility of the Authority, the relevant files for these certificates should be securely and properly stored. Nevertheless, the files had been piled up in an unsecured manner.
- The space available for storing files is extremely limited, and the records room is currently being reorganized.
- The files should be immediately stored securely.
- (e) Although, under Section 5(2) of the Apartment Ownership Act No. 11 of 1973, no person should occupy a property without obtaining a certificate of compliance, final certificates had not been obtained for 21 condominium properties constructed by the Urban Development Authority at the end of the year under review, and 12,734 families had been living in those apartment buildings. Due to the failure to obtain condominium certificates, it had been impossible to establish management corporations for these housing complexes. As a result, maintenance activities have not been
- Not commented.
- Action should be taken promptly in accordance with the provisions of the Act.

carried out properly, and it had not been possible to provide the deeds to the homeowners. Furthermore, the Authority had not taken any action to examine the common facilities that should be existed in these condominium properties and the failure of the property owners to act in accordance with the Apartment Ownership Act. Therefore, it was further observed that the Authority has neglected its responsibilities.

### 3.2 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
During the year under review, the Authority's approved and actual cadre were 139 and 94 respectively, due to that, 45 vacancies had been observed among the vacancies, such as 14 were in staff grade positions, and 7 of these staff grade positions have been vacant since 2010.	Measures are being taken to fill the vacancies.	Immediate action should be taken to fill the essential positions.

### 3.3 Vehicle Fleet Management

Audit Observation	Comment of the Management	Recommendation
(a) The vehicle numbered KU-1433, which is owned by the Authority, had met with an accident on 14 December 2019, and the estimated repair cost was Rs. 2,559,571. Although four years had passed since the accident, the repairs had not been carried out even by 25 March 2024. Furthermore, no action had been taken to identify the responsible persons and recover the losses associated with the accident.	The Secretary of the Ministry has appointed a committee to re-conduct an inspection as per F.R.104.	Action should be taken to manage the vehicle fleet properly.
(b) According to Public Administration Circular No. 30/2016, dated 29 December 2016, a fuel consumption test should be conducted after 12 months from the previous test, after	The fuel consumption tests are conducted for all vehicles since May 2024.	Action should be taken in accordance with the circular.

driving a distance of 25,000 kilometres, or following a major engine repair, whichever comes first. However, fuel consumption tests for 12 vehicles owned by the Authority had not been conducted since 2019.

#### **4. Accountability and Good Governance**

##### **4.1 Budgetary Control**

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) The budgeted revenue of the non-operational income was Rs. 180,960,000, while the actual revenue was Rs. 138,927,248. This actual revenue included Rs. 1,888,677 as depreciation of non-financial fixed assets, Rs. 2,067,159 as gratuity overprovisions, and Rs. 729,019 as the revaluation amount of disposed goods. Accordingly, the actual non-operational revenue that could be generated in cash was Rs. 134,242,393, which represents a 26 per cent decrease compared to the budgeted revenue.	Not commented.	The budget document should be used as a management tool.
(b) The actual operational revenue of the Authority was Rs. 74,974,714, or 29 per cent less than the budgeted revenue, while the total income was 26 per cent lower than the budgeted amount.	Not commented.	The budget document should be used as a management tool.