

Condominium Management Authority - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Condominium Management Authority for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance statement, 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 Financial Act No.38 of 1971. My comments and observations which I consider should be report 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 2021, 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 responsibility, under those standards are 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 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 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 skepticism 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 Company 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 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

Entities are 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 (SLPSAs)

| Non – Compliance with reference to the relevant standard | Management Comment | Recommendation |
|--|---|---|
| (a) Because the Cash Flow Statement has not been prepared in accordance with Sri Lanka Public Sector Accounting Standard No 02, the net cash flows generated from operating activities and used in investing and financing activities as shown in the Cash Flow Statement are Rs.2,497,310 and Rs 1,667,782 respectively were shown less in the Cash Flow Statement. | Correct the mistake and submit the revised Cash Flow Statement. | Should be complied with Sri Lanka Public Sector Accounting Standards. |

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|-----|---|--|----------------------------------|
| (b) | Cost of Rs 11,219,837 in assets which were fully depreciated but already in use were not disclosed in the financial statement in accordance with Sri Lanka Public Sector Accounts Standards No 07 and in accordance with the provisions of Accounting Standard No 3, the estimated error that had been made on the effective life of these assets had not been reviewed and adjusted in the financial statements. | Most of the assets other than the currently used assets have been disposed and the remaining assets will be recalculated in 2022 and mentioned in the financial statement. | The standard should be followed. |
| (c) | In order to comply with Sri Lanka Public Sector accounting standards in the year 2019 the Authority's vehicles cost had been recalculated for Rs 62,390,000 and while it was delayed until the year 2021 to adjust the recalculated value in the accounts, there were no depreciation adjustments for the period related to the years 2019, and 2020 for these vehicles in the financial statements. | Recalculated values in 2021 were accounted. | The standard should be followed. |

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

| Audit Observation | Management Comment | Recommendation | |
|-------------------|---|---|--|
| ----- | ----- | ----- | |
| (a) | A balance of Rs 5,940,770 out of the balance of Rs 7,782,979 due on December 31 of the year under review for the maintenance of pumping stations in Gampaha and Negombo hospitals, which was not within the scope of the Authority, remained unpaid for more than 05 years. | The Secretary of the Line Ministry has informed the Secretary of the Ministry of Health to obtain the arrears amount related to the Negombo Hospital. Accordingly discussions are ongoing. It is scheduled to leave the maintenance activities from 30/09/2022 after receiving the relevant arrears amount from Gampaha Hospital. | Arrangement should be made for immediate recovery. |
| (b) | As at December 31 st of 2021 in the total debtor balance of Rs | Since it is not possible to recover the balance of the tranquilant | Action should be complied with the |

4,335,030, there is Rs 1,244,093 to be collected from the General Secretariat of the Parliament for the Madiwela Parliament Housing Complex tranquilant solution fees from 159 Condominium properties Rs 2,671,161 and Rs 419,775 also existed for the recovery from 53 residence of Jalthara Government Employees Housing Complex and in that debtor balance, the sum of receivable balance brought forward from more than 05 years was Rs 3,090,936.

solution of debtors . Further steps are expected to be write – off them from the books and an internal committee will be appointed for the remaining debtors.

Circular.

1.7 Non – Compliance with Laws,Rules, Regulations and Management Decisions etc.

| Reference in Laws,Rules,Regulations etc. | Non – Compliance | Management Comments | Recommendation |
|---|--|---|--|
| (a) Paragraph 8.2.2 of Public Enterprises Circular PED/12 dated 02nd June ,2003 (6.2 of the Guidelines on Public Enterprises with effect from 2021/11/17 as amended) and Section 11 of the Finance Act No 38 of 1971. | Although additional funds of a Public Corporation should be invested under the approval of the Minister of Finance, the authority had not dealt with 05 fixed deposits of Rs 463,238,430 invested in the year under reviewed according to the rules. | The Finance Minister will be informed and the approval will be taken in the future. | Action should be complied with the Circular. |
| (b) 3.2 of chapters 3 of the operations manual for state – owned enterprises issued by public enterprises Circular 1/2021 dated 16/11/2021. | According to the strategic plan and action plan of the organization approved by the | A system for measuring employee performance is to be planned by | Action should be complied with the Circular. |

Director General of the Department of Public enterprise, the methods prepared to measure employee's performance should be ensured, but the authority had paid Rs 8,062,180 as incentives for the year under review without any evaluation method.

the finance division and forwarded to the Development of public enterprises.

2. Financial Review

2.1 Financial Result

The profit before tax of the authority in the year under review was Rs 206,261,702 and the corresponding profit before tax in the previous year was Rs 44,534,661. There for, an improvement of Rs 161,727,042 in the financial result was observed. The reasons for the improvement had been mainly a tributed the increase of operating income by Rs 167,774,162.

3. Operational Review

3.1 Management Inefficiencies

| | Audit Observation | Management Comment | Recommendation |
|-----|--|--|---|
| (a) | According to the special gazette notification dated 5 th July 2017 the validity period of an initial clearance letter issued for the development of condominium property is only for 03 years but for property owners who have not obtained condominium management certificates despite the validity period of 682 initial clearance letters, issued between 2011 and 2018, the authority had not | For projects that have been issued for more than 03 years after initial clearance letters, before issuing the final certificates the preliminary clearance letter will be renewed and the final certificate will be issued from the year 2022. | A proper system should be prepared to issue certificate within the validity period. |

- made arrangements to charge a late fee.
- (b) According to Section 09 (a) (1) of the Act investigations should be conducted and timely action should be taken regarding complaints received regarding unauthorized construction in a condominium property but no such action was taken regarding 16 complaints received from 2013 to 2021.
- Also in relation to a written complained made by a buyer who has taken part of a condominium property regarding common facilities it should be dealt with in accordance with section 9 (b) of the Act. But 75 complaints received were not dealt with in this way.
- (c) The annual general meeting of the management corporation shall be held in accordance with section 3 (2) of the schedule to the principle statute of the condominium (Amendment) Act No.45 of 1982 under the condominium property Act. and according to its 8(4)(a) , a copy of the audited annual accounts of the corporation must be submitted to the authority. But the annual general meetings of 101 management corporations were not held even after a period of 15 to 37 months. Further more, the authority had not conducted an investigation and supervision regarding the submission of audited annual accounts reports.
- Not commented.
- Complaints regarding condominium properties should be dealt with in accordance with the Act.
- Due to the global pandemic situation all meetings were suspended and meetings could not be held due in travel restriction.
- The Authority shall exercise proper supervision over the management corporation.

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|-----|---|---|--|
| (d) | <p>There was no agreement between the two institutions for the building premises belonging to the National Housing Development Authority, which has been running the office since 1977, and from 2018 to 2020 rents were paid at the rate of Rs 4,848,660 per year.</p> <p>The National Housing Development Authority had informed in a letter dated 27 November 2020 to increase the rent to Rs 8,400,000 from the year 2021, but had not entered into a formal agreement until 21 June 2022.</p> <p>According to the letter, the rental expenses for the year 2021 had been accounted. In addition, Rs 748,871 for tiling the building and Rs 3,384,835 for other maintenance work had been spent in the year under review without any agreement.</p> | <p>The signing of the agreements has been delayed as no final agreement has been reached.</p> | <p>The two parties should promptly reaches agreement.</p> |
| (e) | <p>Even though more than 02 years have passed, there were 02 disciplinary investigations which were not completed and a total of Rs 72,227 had been spent for that. During these disciplinary investigations it was observed that the relevant officers have not been dealt with as per public administrative Circular 27/2019 dated 09th September , 2019.</p> | <p>Disciplinary investigation are underway.</p> | <p>Disciplinary investigation should be completed expeditiously.</p> |

3.2 Management of Vehicle Fleet

| Audit Observation | Management Comment | Recommendation |
|---|---|--|
| (a) Repair work of Rs 251,350 was completed on 23 rd December 2019 for a vehicle that was involved in an accident on 01 st October 2019 and according to the report of F.R.104 (4) the amount should be recovered from the offender, but the amount was not recovered and the vehicle was not released from the garage until 23 rd February 2022. | Arrangement had been made to release it from the garage. | Repairs should be done and the vehicle should be used. |
| (b) According to the final inspection report of a vehicle that was involved in an accident of 8 th of February 2020 it was decided to charge the driver for the repair cost not covered by the insurance but even though more than 02 years have passed, it was kept in the premises of the institution without repair , stating that there are no spare parts. | Not repaired as spare parts are not available . | Repairs should be done immediately. |
| (c) On 19 th December 2019 the estimated repair cost of a vehicle involved in an accident was Rs 2,764,012 and according to the report of FR 104(4) it was decided that the driver was not guilty and should be recovered from the third party while the case in that regard is not over and more than 2 years have passed it was kept in the premises of the institution without repair. | It is possible to get only Rs 5 lacks from the insurance cover and a case has been filed to recover the rest from the third party. Prices are quoted for repairs. | Vehicle repairs should be done as soon as possible. |

3.3 Human Resources Management

Audit Observation

As of the year under review, the approved and actual staff of the Authority were 139 and 115 respectively and 24 vacancies in which 14 staff grade were vacant. The above 07 staff post have been vacant since 2010, but the authority did not take steps to fill those positions until 07 July 2022.

Management Comment

Vacancies are being filled

Recommendation

Immediate action should be taken to fill the essential posts.

3.4 Operational Activities

Audit Observation

According to 5 (e) of the common facilities Board (Amendment) Act No 24 of 2003, the management and control of the management corporation established for condominium properties should be done by the authority but as of 31st December, 2020, 1,079 management corporations had been established under the Authority and as of December 31, 2021 it had reduced to 951. Out of those 951, 557 were non functional and accordingly it was observed that the authority has not made the regulations properly.

Management Comment

Comments had not been given

Recommendation

Should be comply with Authority Act.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation

- (a) Financial targets were not specified in the action plan presented for the year under review and physical targets were only specified as a percentage and no performance report was submitted regarding the achievement of those target.

Management Comment

Comments had not been given.

Recommendation

Action Plan including financial and physical targets should be prepared in a format that enables performance evaluation and accordingly prepared performance reports should be submitted.

4.2 **Budgetary Control**

Audit Observation

- (a) Under 07 revenue the total budgeted revenue of Rs 1,470,000 had not been achieved in the year under review and the budgeted expenditure of 05 vote had increased from 37 percent to 116 percent that is it had increased by Rs 27,492,789. Also Rs 25,900,000 had been spent for 02 expenditure vote which were not included in the budget document in the year under review and Rs. 108,500,000 allocated in the budget for 04 expenditure votes had remained unspent . Thus it was observed that the budget document has not been used as an effective control tool.

Management Comment

There have been variations according to the conditions in the country.

Recommendation

Budget documents should be used as an effective control tool.