

## Condominium Management Authority

### 1. Financial Statements

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#### 1:1 Opinion

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So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Condominium Management Authority had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Condominium Management Authority as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

#### 1:2 Comments on Financial Statements

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##### 1:2:1 Non-compliance with Sri Lanka Accounting Standards

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The following observations are made.

Accounting Standard	Non-compliance
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Sri Lanka Accounting Standard 16	Even though the provision for gratuity as at the end of the year under review amounted to Rs.17,282,147 action in terms of the Standard had been taken for the investment of a sum of Rs.1,000,000 only to cover the liabilities.
Sri Lanka Accounting Standard 18	According to the Standard, the Scrap value and the effective life of the assets should be considered in the computation of the percentage of depreciation of computer laser printers, fax machine, telephones etc. It had not been so done.

### 1:2:2 Accounting Deficiencies

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The following accounting deficiencies were observed.

- (a) Short term investments valued at Rs.8,525,406 had not been shown under the current assets of the balance sheet.
- (b) Liabilities amounting to Rs.1,557,961 payable under 10 contracts completed under the Provincial Councils funds during the year under review had not been brought to account.
- (c) The debtors balance of Rs.3,157,476 representing 14 per cent of the debtors balance had been identified by the Authority as irrecoverable. As such, it was not possible to be satisfied in audit with regard to the adequacy of the 3 per cent annual provision made for bad and doubtful debts in that connection.
- (d) A sum of Rs.4,722,340 receivable for the 16 contracts completed in the year under review had not been brought to account.
- (e) Out of a sum of Rs.1,500,000 received in the year under review from the lime Ministry for the "Nagamu Purawara" Programme a sum of Rs.981,500 only had been shown in the balance sheet while the balance sum of Rs.518,500 had not been shown in the accounts.

### 1:2:3 Going Concern

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The net assets of the Authority for the year under review and the 02 preceding years reflected negative values amounting to Rs.12,841,863, Rs.12,869,156 and Rs.6,124,654 respectively while the current ratio amounted to 1:2.5, 1:2.8 and 1:1.7 respectively. As such the going concern of the Authority is questionable. The General Manager of the Authority informed me that the Authority had to resort to recover sundry debtors balances to pay the salaries as the income earned from the operating activities was inadequate to meet the related costs and to stop the settlement of creditors balances since the year 2003 and that such position was the main reason for the fall of the current ratio to an adverse level.

#### 1:2:4 Unexplained Differences

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The client debtors balance receivable from and client advances payable to the National Housing Development Authority amounted to Rs.3,875,150 and Rs.1,585,314 respectively while those balance according to the accounts of the National Housing Development Authority amounted to Rs.2,262,134 and the 20,984,863 respectively. Action had not been taken to identify the differences and make necessary adjustments in the accounts.

#### 1:2:5 Accounts Receivable and Payable

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- (a) The Authority had not taken adequate steps for the recovery of the client debts amounting to Rs.3,672,000 due from 05 service debtors and for the settlement of 04 creditors balances amounting to Rs.25,636,653 brought forward over a period exceeding 05 years.
- (b) Confirmation of balances relating to 03 creditors balances amounting to Rs.12,667,999 and 02 debtors balances amounting to Rs.18,945,075 had not been furnished to audit.

#### 1:2:6 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Financial Regulations (FR) F.R. 104	Action in terms of the Financial Regulation had not been taken on accidents valued at Rs.164,738 caused to motor vehicles during the year under review.
F.R. 225 (1)	Even though every payment voucher should be furnished to audit, the vouchers relating to the payment of holiday pay amounting to Rs. 1,177,209 to the officers from January to December 2010 had not been furnished to audit.

- (b) Public Enterprises Circular No. 118(a) of 03 May 1997
- Even though the staff officers could be paid holiday pay only for one day per month, in addition to that holiday pay amounting to Rs.79,961 had been paid for one holiday.
- (c) Public Enterprises Circular No. PED/12 of 02 June 2003 Section 2.2.1(b)
- Even though the Annual Reports should be tabled in Parliament within the specified period, the Authority had not tabled the Annual Reports for the year 2006 to 2009 up to date.

## 2. Financial and Operating Review

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### 2:1 Financial Results

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According to the financial statements presented, the working of the Authority for the year ended 31 December 2010 had resulted in a net project of Rs.27,293 as against the net loss of Rs.16,768,236 for the preceding year. The net profit for the year under review had been due to the creditors balances amounting to Rs.1,261,729 identified as not payable and excess provisions for accruals amounting to Rs.484,103 being brought to account as income.

### 2:2 Operating Review

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#### 2:2:1 Performance

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The following observations are made.

- (a) In terms of Section 5(e) of the Common Amenities Board (Amendment) Act, No. 24 of 2003, the management and control of the affairs of the Condominium Properties Management Corporation should be carried out. Even though 66 Condominium Certificates had been issued in the year under review, the number of registered Management Corporations of those properties had been only 36. Action in terms of Section 5(g) of the Act had not been taken to transfer the maintenance of the common amenities of condominium properties to the Local Authorities. Action had also not

been taken in terms of Section 5(i) of the Act for the implementation of the Condominium Properties Redevelopment Programme.

- (b) Even though the number of Management Corporations had been 130 the number of Committees set-up in the year had been 15. As such, it was observed that the setting up of Committees for the Management Corporations had been very tardy.
- (c) It was observed that the Authority had failed to achieve its targets adequately. The details are as follows.

Item	<u>Target</u>		Actual Perfor- mance	Progress according to the Action Plan Percentage
	According to Corporate Plan	According to Action Plan		
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Registration of establishment of Management Corporations	290	260	130	50%
Renewal of Registration of Management Corporations	--	30	15	50%
Regulating, Standardization and Operations of Condominiums	200	180	67	37%
Issue of Condominiums Certificates	90	89	66	74%

## 2:2:2 Corporate Plan and Action Plan

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Significant variances were observed between the targets of the Corporate Plan and the targets of the Action Plan. As such it was not possible to be satisfied in audit that the Action Plan had been made use of as a short term plan for the achievement of the targets of Corporate Plan. The effective methodology of timely review of the position on the achievement of targets was not in operation in the Authority. Therefore, the management had not paid its attention to the timely review of the progress of achievement of targets with a view to identifying and

remedying the weaknesses. This position had directly affected the poor financial position and the going concern of the Authority.

#### 2:2:3 Transactions of Contentious Nature

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Contrary to the provisions of Section iii (a) of the Revenue Act, No. 38 of 2006, the Authority had paid the Pay As You Earn Tax amounting to Rs.92,825 for the year under review on behalf of its officers instead of recovering such tax from the officers.

#### 2:2:4 Contract Administration

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Action in terms of Section 3.2.2 (a) of the procurement Guidelines has not been taken in calling for bids for contracts. Authority had called for bids in respect of 37 contracts valued at Rs 7,763,910 by sending letters to a particular group of contractors. Only one bidder per contract had responded as the procurement process had not been given publicity and contracts were awarded to these bidders without competition

### 3. Systems and Contracts

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Special attention is needed in respect of the following areas of Systems and Controls.

- (a) Contract Administration
- (b) Issue of Condominium Certificates
- (c) Payment of Overtime
- (d) Payment of Advances
- (e) Maintenance of Receipt Books