

## **Condominium Management Authority - 2013**

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The audit of financial statements of the Condominium Management Authority for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 21 of the Common Amenities Board Act, No. 10 of 1973 as amended by the Common Amenities Board Act, No.24 of 2003. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report.

### **1:2 Management's Responsibility for Financial Statements**

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1:3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards, consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Subsections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**1:4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

**2. Financial statements**

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**2:1 Qualified Opinion**

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In my opinion, except for the effect of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the Condominium Management Authority as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**2:2 Comments on Financial Statements**

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**2:2:1 Going Concern of the Institution**

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The net assets of the Authority had shown negative values amounting to Rs.24,750,830, Rs.15,788,833, Rs.31,794,284 and Rs.12,841,863 respectively in the year under review and the 03 preceding years. Even though a sum of Rs.10 million had been received in the year under review for the payment of employees salaries, the net assets as compared with the preceding year had decreased by 56.8 per cent. Similarly, the ratio between the current assets and the current liabilities remained at 1:1.4, 1:1.5, 1:2.1 and 1:1.9. As such the going concern of institution remained questionable despite the receipt of financial assistance from the Treasury.

**2:2:2 Sri Lanka Public Sector Accounting Standards**

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The following non-compliances were observed.

**(a) Sri Lanka Public Sector Accounting Standard No. 01**

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**Presentation of Financial Statements**

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(i) Even though adequate disclosure should be made in the financial statements relating to all components shown in the face of the financial statements, the Authority had not made adequate disclosures in connection with the resources amounting to Rs.23,658,765 and capital transfers amounting to Rs.2,262,663.

(ii) The following matters that should be disclosed in the information published with the financial statements had not been disclosed by the Authority.

- The domicile and legal form of the entity and the jurisdiction within which it operates.
- The description of an Authority's operations and the principal activities.

- Reference to the relevant legislation governing the authority's operations.

(iii) Even though comparative information should be disclosed in the financial statements, the comparative figures had not been disclosed in the statement of changes in equity.

**(b) Sri Lanka Public Sector Accounting Standard No. 02  
Cash Flow Statements**

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Even though short term investments less than three months should be treated as cash and cash equivalents in the preparation of the cash flow statement, seven day deposits amounting to Rs.40,000,000 and savings deposits amounting to Rs.1,016,437 had not been treated as cash and cash equivalents.

**2:2:3 Accounting Deficiencies**

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The following observations are made.

- (a) Provision for depreciation amounting to Rs.2,919,600 had been made in the year under review for property, plant and equipment with zero value.
- (b) The funds required for the payment of employees gratuity had not been disclosed in the financial statements through investments made in that connection. The value of that investment as at the end of the year under review amounted to Rs.2,433,161.
- (c) The depreciation not brought to account relating to a motor vehicle sold in the year 2009 amounting to Rs.476,458 had been included in the depreciation for the year under review. As such the value of the motor vehicles included in the financial statements and the deficit for the year had been understated and overstated respectively.
- (d) The income tax amounting to Rs.920,610 paid for the surplus of the preceding year 2009 had been included in the finance expenditure of the year under review.
- (e) A sum of Rs.499,987 paid by the Authority in the year under review to other institutions had been erroneously debited to the Accounts Payable under the name of Ministry of Housing and Common Amenities. As such the balance of that account had been understated by a sum of Rs.499,987.
- (f) The provision for gratuity amounting to Rs.22,181,496 which should be shown under the non-current liabilities had been shown under the current liabilities. As such the current liabilities and the non-current liabilities as at the end of the year under review had been overstated and understated by that amount respectively.
- (g) The provision for doubtful debts as at the end of the year under review amounting to Rs.3,848,646 had been shown under the current liabilities instead of being deducted

from the debtors balance. As such a clear view had not been depicted in the financial statements.

- (h) Provision for bad debts and doubtful debts had not been made for debtors amounting to Rs.4,760,315 old between 01 year to 05 years as at 31 December 2013.
- (i) Insurance indemnity amounting to Rs.318,779 received during the year under review had been shown under sundry income instead of being deducted from the expenditure relating thereto.
- (j) Other expenditure amounting to Rs.1,010,344 which is not finance expenditure had been included in the finance expenditure.
- (k) Due to the adjustments made in the cash flow statement for the Treasury provision spent on salaries and the leases, the cash flow generated from operating activities and the cash flow generated from investment activities had been understated and overstated by a sum of Rs.7,203,571 respectively.

### 2:3 Accounts Receivable and Payable

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The following observations are made.

- (a) The Authority had not taken effective courses of action for the recovery of the debts older than 05 years totalling Rs.4,046,611 receivable from 06 debtors.
- (b) The Authority had not taken steps for the settlement of liabilities amounting to Rs.24,686,666 older than 05 years payable to various Government institutions.
- (c) Steps had not been taken even by the end of the year under review for the settlement of the balance of the Value Added Tax Payable Account as at the beginning of the year under review amounting to Rs.3,194,996.

### 2:3 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following non-compliances were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>
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(a) Common Amenities Board (Amendment) Act, No. 24 of 2003. (i) Section 5(e)	Even though the functions and the control of the Condominium Properties Management Corporations should be done by the Authority, and though the issue of Condominium Certificates had been done

from the year 2005 up to the year under review, the number of Condominium Certificates issued had been only 705. Even though targets had been set for the registration of 721 Management Corporations during that period only 354 Management Corporations had been established.

(ii) Section 5(g)

Even though action should be taken to transfer the maintenance of common amenities of condominium properties to the Local Authorities, action had not been taken even up to the end of the year under review for the transfer of the common amenities of the Maligawatta and Jaltara Housing Schemes.

(b) Value Added Tax  
(Amendment) Act, No. 6 of  
2005.

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Section 11

Even though the Value Added Tax for a month should be remitted to the Commissioner General of Inland Revenue before the twentieth day of the month following, the value Added Tax amounting to Rs.208,027 relating to January and February of the year under review had not been remitted to the Commissioner General of Inland Revenue.

(c) Financial Regulations of the  
Democratic Socialist Republic  
of Sri Lanka

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Financial Regulation 571

The Authority had not taken action either to credit to the State Revenue or for the refund of security deposits older than 02 years amounting to Rs.100,528, retention money amounting to Rs.116,597 of which the periods for recovery of losses had expired and bid deposits amounting to Rs.68,600.

(d) Public Administration  
Circular No. 41/90 of 10  
October 1990.

The fuel consumption of 08 motor vehicles had not been tested once in 06 months reports thereon obtained.

(e) Government Procurement  
Manual

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(i) Section 2.8.4

Even though at least one member of the Departmental Technical Evaluation Committee should be from the line Ministry or external to the Procurement Entity who is conversant with procurement, such members had not been appointed to the 64 Technical Evaluation Committees which dealt with procurements of the Authority valued at Rs.140 million during the year under review.

(ii) Section 8.12.2

Even though the total sums of the agreements entered into for repair contracts amounting to Rs.5,378,154 had been paid to the contractors, the Certificates of Completion of Works had not been issued even by 31 March 2014.

**3. Financial Operating Review**

**3:1 Financial Results**

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According to the financial statements, the deficit of the Authority for the year ended 31 December 2013 amounted to Rs.8,961,997 as against the net surplus of Rs.16,005,452 for the preceding year. Accordingly, as compared with the preceding year, a deterioration of Rs.24,967,449 in the financial results was observed. The failure of the Authority to achieve 48 per cent of the estimated income of Rs.120 million for the year under review and the reduction of the Treasury provisions by 74 per cent as compared with the preceding year based on the excessive estimate had been the main reasons for the abnormal deterioration of the net result of the operations for the year.

**3:2 Analytical Financial Review**

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The following observations are made in this connection.

- (a) Due to the weak operating performance position of the Authority the net loss of the Authority excluding the receipts from the Treasury during the preceding year as well as in the year under review amounted to Rs.23 million and Rs.19 million respectively.
- (b) The service charges income and the non-operating income as compared with the preceding year had increased by 121 per cent and 165 per cent due to the increase of the interest income on seven day deposits and the non-operating income.
- (c) The income from the issue of Condominium Certificates, which is the main source of income of the Authority, as compared with the preceding year had increased by 28 per cent.

- (d) Even though the income for the year under review, as compared with the preceding year had increased by Rs.22 million or 52 per cent, the financial result for the year amounted to a loss of Rs. 9 million due to the increase of direct expenditure by 249 per cent, the non-operating income by 139 per cent and the increase of maintenance and repair expenditure and the expenditure on the Deyata Kirula Exhibition.
- (e) Similarly, the lack of income earned from the activities of the Authority and the decrease of the Treasury provisions from Rs. 39 million to Rs. 10 million by 74 per cent had an impact on this position.
- (f) The working capital requirement of the Authority had been a problem due to the current ratio being 1:1.4 as at the end of the year under review.
- (g) The deterioration of the total net assets by 825 per cent as compared with the capital employed had been the reason for the capital erosion of the Authority.

#### **4. Operating Review**

##### **4:1 Performance**

The following observations are made.

- (a) The physical progress of the issue of Condominium Certificates during the year under review had been 59 per cent and the financial progress had been 39 per cent.
- (b) The financial progress of the establishment of Management Corporations during the year under review had been 45 per cent. As the renewal of the registration of 45 Management Corporation established in the Housing Schemes of the State Sector had also been included in the performance as the establishment of Management Corporations, the physical progress indicated the high value of 193 per cent.
- (c) Even though targets had been set for the reconstruction of 12 Government Flats Housing Schemes with provision amounting to Rs.178.7 million, the reconstruction of only 02 projects out of that had been completed.
- (d) Even though provision amounting to Rs.3.8 million had been allocated for the reconstruction of the Old Moor Street Housing Scheme and the Saunders Place Housing Scheme no expenditure whatsoever had been incurred thereon during the year.
- (e) Even though targets had been set for the year under review for the issue of deeds under provision of Rs. 50 million under the condominium housing constructed for the people affected by the tsunami disaster, according to the Progress Report for the year 2013, the progress of the issue of deeds had been indicated as 21 per cent. Nevertheless not even a single deed had been issued.

#### **4:2 Management Inefficiencies**

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The following observations are made.

- (a) According to the Value Added Tax control Account, the Value Added Tax payable for the 4 quarters of the year 2013 amounted to Rs.5,774,427 but a sum of Rs.7,199,727 had been paid in the year. As such the overpayment amounted to Rs.1,425,300.
- (b) Even though the gratuity liability as at 31 December 2013 amounted to Rs.22,181,496, the investment made amounted to Rs.2,433,161. As such the management had not taken action to invest the shortfall amounting to Rs.19,748,335. The liquidity and the capacity for the payment of gratuities had become a problems as the Authority did not have money adequately for the investment of that amount.

#### **4:3 Deficiencies in Contract Administration**

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The following observations are made.

- (a) An erroneous payment of Rs.3,839,596 had been made to the contractor during the year under review for 06 items of work in the bills of quantities of 03 Projects not executed.
- (b) A sum of Rs.4.1 million had been paid in connection with three projects without proper certification of bills and without proper certification of work done. The retention money amounting to Rs.410,000 also had not been deducted.
- (c) The value of items of work of the bills of quantities of 04 Engineering Estimates relating to the additional works of the reconstruction of the Dissanayake Watta Housing Scheme computed in excess of the Buildings Scheduled Rates for the year 2011, amounted to Rs.534,150. The rates of 11 items of work under this contract given in the Engineering Estimate did not agree with the rates in the Buildings Scheduled Rates for the year 2011.
- (d) In calling for bids, the Authority had issued the bid amounts by including 10 per cent for additional work in the bill of quantities to be submitted with the application. As such the bidders had been pre-informed of the total value of the contract.
- (e) In order to deviate from the requirement of carrying out the contract procurements of repairs carried out to 12 Housing Schemes at a cost of Rs.139.76 million through a higher Procurement Committee based on the values, those had been awarded to contractors under 60 smaller procurements.
- (f) The payables to the contractors for repair works of the Authority as at 01 January 2013 amounted to Rs.21.90 million and that amount had increased to Rs.50.40 million as at the end of the year under review. Even though these reconstruction works are carried out according to the amount of Treasury provisions received, it is



not possible to rule out in audit that the delay in payments would not result in lowering the performance of the contracts.

#### **4:4 Staff Administration**

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The approved and the actual staff for the year under review had been 139 and 108 respectively and the following observations are made in that connection.

- (a) In accordance with the decision of the Cabinet of Ministers No. 14/0014/517/001 dated 07 March 2014, the Secretary to the Ministry had informed the Authority to re-employ the retired General Manager of the Authority on contract basis for one year with effect from 29 December 2013 and to train a suitable successor to him under his supervision within one year. Nevertheless, a suitable successor had not been identified even by 31 August 2014.
- (b) It is not possible to rule out in audit that the post of the Deputy General Manager (Regulation) and 08 posts of Assistant General Manager of the Authority remaining vacant over long periods had not directly imported the performance of the Authority.
- (c) Adequate efforts had not been taken during the year under review to fill the vacancies in 17 posts in the secondary level and 05 posts in the primary level.

### **5. Accountability and Good Governance**

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#### **5:1 Corporate Plan**

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The Corporate Plan for the years 2012 to 2016 prepared in terms of Section 5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003 had not been updated for the year 2013.

#### **5:2 Action Plan**

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The following observations are made.

- (a) The appointment of administrators to the dormant Management Corporations and the One Stop Shop (Efficient process of plan approval) included in the Corporate Plan for the years 2012 to 2016 approved by the Board of Directors at the meeting No. 86 dated 24 January 2013 for implementation in the year under review had not been included in the Action Plan for the year 2013.
- (b) The extent of achievements of the activities included in the Action Plan for the year 2013 and the performance indications had not been included and as such the performance could not be evaluated.

#### **5:3 Procurement Plan**

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The following observations are made.

- (a) Even though the Procurement Plan for the year under review had been approved at the meeting of the Board of Directors held on 24 January 2013, the approval of the Secretary to the Ministry had not been obtained for the plan.
- (b) The Procurement Plan did not include the following items in terms of the Guideline 4.2.1 of the Government Procurement Guidelines.
  - The procurement activities envisaged for 03 years.
  - Updating of the Master Procurement Plan once in 06 months and
  - Preparation of a detailed Procurement Plan

#### **5:4 Composition of the Board of Directors**

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Out of the 6 ex-officio members appointed to the Board of Directors appointed by the Minister in terms of provisions in the Common Amenities Board Act, No. 10 of 1973 as amended by the Common Amenities Board (Amendment) Act, No. 24 of 2003 for the management and control of the affairs of the Authority, the 4 members representing the Association of lenders granting Housing Mortgage Loans, a member of the Association of Private Sector Developers, a member of the Ceylon Chamber of Commerce and a person with experience in the condominium properties management had not been appointed to the Board of Management of the Authority from the year 2010 up to the end of the year under review.

#### **5:5 Tabling of Annual Reports**

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The Authority had not tabled the Annual Report for the year 2011 in Parliament even by the end of the year under review.

#### **5:6 Budgetary Control**

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Reconciliation of the actual income and expenditure according to the financial statements presented by the Authority with the budgeted amounts revealed variances amounting to Rs.57.32 million and Rs. 18.52 million respectively, thus indicating that the budget had not been made use of as an effective instrument of financial control.

### **6. Systems and Controls**

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Deficiencies in systems and controls observed during the course of audit were brought to the attention of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Contract Administration
- (c) Budgetary Control
- (d) Motor Vehicles Utilization
- (e) Assets Management