

## Condominium Management Authority - 2019

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### 1.1 Qualified Opinion

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The audit of the financial statements of the Condominium Management Authority for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 the 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 financial statements give a true and fair view of the financial position of the Authority as at 31 December 2019 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### 1.2 Basis for Qualified Opinion

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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 is 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

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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 determines 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 Sub-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)

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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 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 audit 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 audit 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 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;
- 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 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 the Sri Lanka Public Sector Accounting Standard (SLPSAS)**

	<b>Non – Compliance with reference to relevant standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Contrary to SLPSAS – 02, Actual interest income received had been over stated by Rs.30,049,984 and payment of economic service charges had been understated by Rs.335,764 in the cash flow statement. As well, the economic service charges adjusted to the operating activities of the cash flow statement had been understated by Rs.789,688. Thus, the accuracy of the cash flow statement could not be ascertained in audit.	In order to furnish the cash flow statement, the payments made in 2019 had been adjusted to the profit as expenses. Only the payment from the Provisions had been adjusted as the payment of economic service charges.	According to the standard, the cash flow statement should be prepared and presented to audit.
(b)	The fully depreciated property plant and Equipment of the Authority, cost of Rs.32,749,722 that still is in used by the Authority had not been	Action has been taken to make adjustments according to the requirement of the standard and will adjust them in the accounts	According to the instructions given in the standards, required action should be taken relating to the fully depreciated assets

disclosed in the financial statements according to the SLPSAS-7. Further action had not been taken to rectify the estimation error of the useful life the those assets according to the SLPSAS-3.

in 2020.

that is still in use.

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| <p>(c) In terms of the SLPSAS-8, the disclosure had not been made in the financial statements relating to the liabilities connected to 44 court cases filed by the Authority and against the Authority to sue for damages.</p>                             | <p>The Authority had taken actions to appear in the court relating to the cases filed against the Authority. Those court cases were filed relating to the problems connected with the Condominium Properties. Hence, there were no contingent liabilities in that regard.</p> | <p>According to the requirement of the standard, the contingent liabilities should be disclosed in the financial statements.</p> |
| <p>(d) A sum of Rs.950,880 that incurred for purchase of Computer software had not been accounted for as the intangible assets according, to SLPSAS-20. Instead, it had been written-off against the income in the statement of financial performance.</p> | <p>Purchasing of assets such as Computer software will be accounted separately for as intangible assets.</p>                                                                                                                                                                  | <p>The computer software should be accounted according to the requirement of the standards and circular instructions.</p>        |

### 1.5.3 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
<p>The receipts for the Nagamu Purawara Programme for over 5 years amounting to Rs.1,447,729 had been shown under the current liabilities as the advance received from customers, without having a liability for resettlement. Further, a sum of Rs.1,291,521 which had been received for repairing of water pumps belonging to the National Housing Development Authority in the year 2019 had been credited to the office rental account. As a result, the office rental amount and the surplus had been understated and overstated respectively by that amount in the financial statements.</p>	<p>The final bill related to that advance had not been submitted after being certified. Hence, that amount had been carried forward as an advance. As well, the receivable amounts for repairing of water pumps, had been set-off to the rent payables. However, due to receiving of the repairing cost subsequently from the NHDA, readjustments had been made.</p>	<p>Action should be taken to account the Income/ expenditure and assets and liabilities correctly.</p>

#### 1.5.4 Evidence not made available for audit

	Subject	Amount (Rs.)	Evidence not made available	Management Comment	Recommendation
(a)	Economic Service Charges	1,758,947	Supporting documents	Action will be taken to submit relevant documents	Action should be taken to furnish the requested and necessary evidence to examine the items in the Financial Statements.
(b)	Miscellaneous receipts	285,620	Supporting documents		

#### 1.6 Accounts Receivable and Payable

##### 1.6.1 Accounts receivable

Audit Observation	Management Comment	Recommendation
The repairing cost of pump houses at the Gampha and Negambo hospitals of which not come under preview of the Authority amounting to Rs.7,626,364 and the receivables for over 4 years for issuing of Condominium certificates amounting Rs.3,720,537 were included in the debtor balance as at 31 December 2019. Further, out of the total debtors, the unrecovered debtor balance for over 5 years amounted to Rs.7,314,151 or 42 per cent of the total debts.	The receivables from the Gampha hospital is still being recovered and action had been taken to recover the receivables from the Negambo hospital too. Further, the Authority had existed functions carried out at the Negambo hospital. Out of the over 5 years debtor balance, a sum of Rs.807,187 had been received.	Prompt action should be taken to recover the receivable balances.

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

Reference to Laws, Rules, Regulations etc.	Non - Compliance	Comment of the Management	Recommendation
(a) Section (h) of paragraph 5 of the Common Amenities Board (amended) Act No.24 of 2003	Even though one of the objectives of the Authority is to hand over the maintenance functions of the Condominium Properties to the Local	The relevant Local Authorities had refused to taken over the maintenance functions of common equipment and accessories.	Should be compliance with the Provisions in the related Act.

Authorities, the Common facilities of the Maligawaththa and Jalthara housing schemes had not been handed over to the Local Authorities.

Hence, the handing over activities were delayed.

(b) Establishment Code of the Socialist Republic of Sri Lanka

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(i) Paragraph 13.3 of Chapter II

Even though the appointments for covering of duties should be made on temporary basis until fill the permanent post, duty covering periods for 03 posts of the Authority were ranging from 02 to 08 years. A sum of Rs.315,590 had the duty covering allowances during the year under review.

Action will be taken to resolved this problem in coming years

Appointment for acting posts should be made following the requirements in the Establishment Code.

(ii) Paragraph 1.10.1 of Chapter II and Paragraph 8.3 of the Recruitment Procedure of the Authority

Without being Published the paper advertisements and conducted structural interviews, appointments had been made for 3 posts of Assistant Director (Finance), Customer service officer and Administration officer during the period from 2017 to 2018 and 14 officers had also been recruited for 5 posts in the year 2019.

Action will be taken to report this matter after being conducted on independents examination.

When making the recruitments for the posts of the Authority, the recruitments should be made according to the stipulated procedures.

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

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FR 1646

Even though the summary reports of motor vehicles monthly running charts for each month should be

Action will be taken to avoid the delays in future

Action should be taken to furnish the vehicle running charts to audit following relevant procedures.

furnished to the Auditor General before the 15 of following month, the monthly summaries and running charts relating to the 10 motor vehicles of the Authority had not been furnished to audit as per the stipulated manner.

(d) The Public Enterprises  
Circular No.PED/12  
dated 02 June 2003

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(i) Paragraph 6.5.1

Even though the financial statements and the drafted annual report of a financial year should be furnished to the Auditor General within 60 days after closure of financial year, the draft annual report had not been furnished to the Auditor General.

Comments had not been given.

Action should be taken to furnish the draft annual report and the financial statements to the Auditor General as per the relevant provisions.

(ii) Paragraph 6.5.3

The annual reports including the audit reports had not been tabled at Parliament by the Authority for the years of 2015, 2016, 2017 and 2018 up to 30 June 2020.

The annual reports for the years of 2015, 2016 and 2017 had been sent to the Ministry to obtain the Cabinet approvals. The annual report of the year 2018 is preparing to furnish to the Ministry.

According to the relevant regulations, action should be taken to table the annual reports at Parliament.

(e) Paragraph 2.2 of the  
Public Enterprises  
Circular No.PED 03/2018  
dated 07 December 2018.

Before paying the incentives, calculations of the incentives should be correctly done and the prior approval for the payments should be obtained from the Board. However, after being paid a sum of Rs.1,785,853 as incentives for the year 2019, covering approval had been obtained.

Comments had not been given.

Only after being ensured to follow the all related circular instructions, the incentives should be paid.

## **2. Financial Review**

### **2.1 Financial Results**

The operation of the Authority for the year under review had resulted surplus of Rs.18,186,738 and compared with the corresponding surplus of Rs.140,192,386 of the preceding year, thus indicating deterioration in the financial result by Rs.122,005,648. Decrease of the operating income by Rs.151,451,180 was mainly attributed to the deterioration in the financial results.

### **2.2 Trend analysis of Major Income and Expenditure Items**

- (a) As compared with the preceding year, the income from issuing of Condominium property certificates and miscellaneous operating income were decreased by Rs.149,755,013 and Rs.1,437,360 respectively and decrease of entire operating income amounted to Rs.151,451,180 or 48 per cent.
- (b) As compared with the preceding year, it was observed that 8 expenditure items were increased by the percentages ranging from 40 per cent to 808 per cent.

### **2.3 Ratio Analysis**

The current assets ratio and the liquidity ratio as at end of the year under review were represented same ratio of 12:1 respectively and in the preceding year that ratios were 4:1. It was observed in audit that since the investments made in 3 months fixed deposits amounting to Rs.261 million the current and liquidity ratios were represented higher values and an investment management system had not been implemented with a view to get the maximum advantage to the Authority.

## **3. Operational Review**

### **3.1 Identified Losses**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Out of the fees to be charged for the issuing of completed Condominium certificates, 1/3 of the chargeable fee should be recovered when issuing of primary plan finalizing letters. However, the fees to be charged when issuing of the above letter amounting to Rs.2,907,375 had not been charged up to end of the year under review for the	Action to be taken to report that matter after being conducted an independent examination.	The recoverable income should be correctly calculated and accounted and action should be taken to recover the receivable income.



amendments made for 23,259 square meters in a Project in the year 2015. That amount had not been accounted for as receivable income too.

### 3.2 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Sums of Rs.4,706,069 and Rs.4,344,448 had been incurred by the Authority for renovations made to the rented office building in the years 2018 and 2019 respectively. However, either necessary actions had not been taken to recover the expenditure incurred for the renovations or to set – off to the manual rent payments.	Actions have been taken to amend the rent agreement.	The conditions applicable to building renovations should be complied with the agreement and the agreement should be amended including correct and formal conditions.
(b) The amendments scheduled to be made to the Common Amenities Board Act No.10 of 1973 which had been included to the Action plans prepared for the preceding years too, with the target time frames, had not been completed up to end of the year under review. As a result, the Authority had failed to perform its functions efficiently according to the current requirements.	Amendments of the Act, scheduled to be completed in the year 2020.	Prompt actions should be taken to amended the Act According the current requirements.

### 3.3 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) The payables to the Management Corporations by the Authority as at end of the year 2019 amounting to Rs.1,080,532 had been deposited in a current account and accounted as bank balances. However, action had not been taken to account the related	The income of the “Swayan Saviya” Project which was commenced to strength the Management Corporations in the year 2012 had been deposited in that account and action should be taken to	Actions should be taken to settle the liabilities after being correctly identified and if there are non – liable balances action should be taken to writ-off the balances after being

liability thereon. Further, even though a sinking fund amounting to Rs.13,563,311 related to the Edmonton Housing Scheme had been accounted for as the creditors, action had not been taken by the Authority to settle the liabilities of which some balances were over 5 years or to correctly identify the liability in order to take necessary actions.

released that money to the Management Corporation. After legally establishment of the Management Corporation of Edmonton Housing Scheme, the sinking fund to be released to that Management Corporation.

examined.

- (b) Even though it had been targeted to earn a sum of Rs.2.77 million during the year under review from registering of Management Corporation Committees and renewing them the actual income was only a sum of Rs.1.76 million and the progress of income collection was 64 per cent.

Due to the Easter Sunday terrorist attack and the situation existed in the country, it was unable to achieve the targets.

Necessary actions should be taken to earn the targeted income.

- (c) Even though the Authority had planned to examine 140 Condominium Property Complaints in the year 2019 in order to give 100 directives thereon during the year under review, only 87 solutions had been given out of 159 received complaints as at end of the year.

The other complaints have been examined.

Giving the solutions to the complaints received by the Authority is one of the primary functions of the Authority. Hence, prompt action should be taken thereon.

### 3.4 Procurement Management

Audit Observation	Management Comment	Recommendation
<p>Even though non – current assets amounting to Rs.5,843,297 had been purchased during the year under review, a detailed procurement plan for the year 2019 in terms of Section 4.2.1 of the Government Procurement Guideline dated 25 January 2006 had not been prepared by the Authority.</p>	<p>Action has been taken to prepare correct plan for the year 2020.</p>	<p>Action should be taken to prepare a Procurement Plan according to the Provisions in the said Guideline and Procurement activities should be implemented according to the plan.</p>

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

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

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
According the financial statements presented by the Authority, the variances between 21 per cent to 96 per cent were observed when compared the budgeted amounts with the actual amounts. Hence, it was observed that budget had not been used as an effective tool of management control.	Due to the prevailing situation in the country in the year 2019, the estimated income could not be collected. As well, due to the purchase of new assets and conducting of repairing activities, the maintenance expenditure was increased.	The budgetary controls should be formalized and the procedures that required to strength the make use budget as a management control tool.

##### **4.2 Sustainable Development Goals**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) According to the “Agenda” of the united Nation’s Sustainable Development goals 2030, the every public institution should be performed their activities accordingly. However, the authority had not taken action to identify the indicators to evaluate achievement of the sustainable development goals for the year 2019.	Indicators to evaluate the sustainable development goals have been prepared and submitted to the secretary to the Ministry.	Attention should be drawn to comply with the Agenda of the united Nation’s sustainable development goals.
(b) Due to not formulating of a proper coordinating system with the other institutions when preparing to achieve the sustainable development goals, preparing of plans for achievement of goals and the process of preparation activities were in a weaker position.	Indicators to evaluate the sustainable development goals have been prepared and submitted to the Secretary to the Ministry.	Necessary action should be taken to perform the activities related to the sustainable development process, coordinating with other related institutions.