

Waters Edge Limited - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Waters Edge Limited (“Company”) for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 and the statement of comprehensive income , 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 . 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 Company as at 31 March 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

1.4 Audit Scope

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, 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 Company'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 Company'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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company ;
- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company 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 Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(i) According to LKAS 16, the fully depreciated fixed assets, but still in use, should be disclosed in the financial statements and the estimation error of the useful life of assets should be corrected and, adjustments for the estimated useful life of the assets should be made in the financial statements in terms of the LKAS – 8. However, the audit observed that the Company had not made the necessary disclosures and adjustments regarding the total depreciated assets and had re-accounted for its original cost of Rs.132,141,719.	LKAS -16 does not imply that in event of fully depreciated asset being used in the business, the asset must be revalued and reused. We feel that there is no need for a mandatory revaluation on the utilization of depreciated assets. The Company’s asset valuation process has already begun and it is proposed to take the new valuation into the books of account from the year 2022 after obtaining the relevant approvals.	The Financial Statements should be prepared in accordance with the Sri Lanka Accounting standard.

- (ii) The Company had leased a land over 23 acres from the Urban Development Authority (UDA) for a period of 99 years with effect from 17 June 2019 for a contract value of Rs. 4,275 million and the annual lease premium is Rs. 43.48 million without taxes and another land about 2 acres for a period of 20 years with effect from 14 September 2018 for a contract value of Rs. 80 million and the annual lease premium is Rs.4 million. However, the right of use of those lands on lease and the financial liabilities thereon had not been disclosed in the financial statements, according to paragraph 24 and 26 of the SLFRS- 16.
- During the year under review and last year the 99 years lease basis was 23 acres 1 rud 9.05 purchase at Rs.4,275,046,738 and 20 years lease basis was 1 acres 3 rud 34.02 purchase at Rs.80,000,000 obtained by the Urban Development Authority and the Company had accounted for the relevant process in terms of cost concept under Sri Lanka Financial Reporting Standards – 16. However, when including these assets in the financial statement, all the direct expense related to it are included.
- The Financial Statements should be prepared in accordance with the Sri Lanka Accounting standard.
- (iii) The related party transaction with the line ministry amounted to Rs. 642,533 had not been disclosed in the Financial Statements as per the provisions of the LKAS – 24.
- Agree, Related party transactions should be disclosed in the financial statements.
- The undisclosed debt of Rs.642,533 is due to the Company from the Ministry of Megapolice and Western Development. However, so far the Company's financial statements have only submitted balances to debtors belonging to the Urban Development Authority. Accordingly from the year 2021, the debtors balances applicable to the Line Ministry will also be disclosed under the related parties of the Company.

- (iv) The Company had purchased the orchid plants in 2019 at a cost of Rs.14.7 million and planted them at the premises of the Company for commercial purposes. However, no revenue had been generated from the orchid plants and plants had not maintained properly since certain plants are not in good condition. However, no disclosures had been made, as required by the LKAS – 41.
- At the beginning of the Orchid Project, it was decided to sell some of the plant grown under this project, but it did not work. Also, these plants were used only for decorative purposes. Decorating adds a significant indirect value. Due to the above, there is no need to identify this project as a separate biological asset.
- Disclosures should be made as per the LKAS 41.

1.5.3 Accounting Deficiencies

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(i) The Railway Restaurant constructed by the Sri Lanka Land Development Corporation (SLLDC) had been transferred to the Company for operation on 28 February 2018. According to the SLLDC financial statements and relevant document available in the Company, the amount payable to the SLLDC as at the end of the year under review was Rs.122.1 million which comprise capital portion of Rs.88.4 million and interest portion of Rs.33.7 million. However, no provision had been made in this regard in the financial statements of the Company.	The Railway Restaurant was handed over to Waters Edge in February 2018, but the parties had not reached a formal agreement on the payments until the end of 2020. Therefore, the transaction was limited to a disclosure as there was no proper understanding and legal obligation on the value to be paid to the land Reclamation and Development Corporation of Sri Lanka in connection with this transfer. However, a legal agreement regarding the restaurant is currently being worked out and the value to be paid is being negotiated in a conciliatory manner. Accordingly, this obligation will be duly accounted for once a formal agreement is reached.	Action should be taken make a provisions for payable.

- (ii) The current and non-current assets comprising of office equipment and kitchen equipment valued at Rs.262,284,393 had been handed over to the Company through the UDA by the Asia Pacific Golf Court Company in the year 2009 and those assets are utilized by the Company. However, such assets had not been accounted as assets of the Company. As a result, the assets of the Company had been understated by similar amount.
- The action plan to be followed regarding the assets of the Company at the time of acquisition was not included in the financial statements as per the decision of the Board of Directors. Relevant assets have not been accounted for as it has been started that there is no legal obligation regarding the assets acquired by the institute as per the instructions obtained from the institute of Chartered Accountants of Sri Lanka. However, I hereby inform you that all the relevant assets will be accounted for in the future through the current asset revaluation.
- These assets should be valued and accounted under the assets in the financial statements.
- (iii) The Company had entered into a development agreement with a foreign private Company on 21 December 2017 to construct a children park within six months. The developer had been agreed to take the management of the Children Park for a period of 15 years immediately after the completion of the construction and the developer shall operate, maintain and manage the children park. As per the section 4.1 of the development agreement and in terms of section 5.1.1 of the agreement, a monthly rent amounting Rs.
- The above institution started the restoration work of the children's park in the year 2018 and observed that the construction work was halted from time to time due to various reasons in the country. According to company documents, delays in obtaining construction permits from the Urban Development Authority and subsequent stoppages in April 2019 due to the Easter Sunday attack and the Covid-19 pandemic. It was also observed that there was no commercial process and not enough people came to the children's park. Due to these factors, Extreme Adventure sports has stated that it is difficult to pay the rent
- The amount should be accounted under the receivables in the financial statements on accrual basis.

600,000 should be paid by the Developer to the Company during the management period. However, any amount had not been paid up to end of the year under review. Further, the amount receivable from the developer at the end of year under review amounting to Rs. 10.8 million had not been shown in the financial statements of the Company.

as per the agreement and that relief is required . According to Sri Lanka Accounting standards 15 the rent to be received by the above institution is uncertain amount of Rs.10,800,000 due was not included in the financial statements, However, I would like to state that our Company has taken active measurements to recover all the revenue due from the relevant Company up to the year 2021. I State that after reaching an agreement on the performance liability between the two parties, the accounts will be duly reported.

1.5.4 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
The bad debts amounting to Rs.7,541,733 had been written-off in 2018, only with the approval given by the Board of Directors, without obtaining the approval as per the Circular No.PED/12 dated 02 June 2003.	Comment had not been given.	Bad debt write-off should be done as per the provisions in the PED/12.

1.5.5 Documentary Evidences not made available for Audit

Item	Evidence not available	Amount	Management Comment	Recommendation
The bad debt provision for the year under review	The customer details to credit policy approved by the Board of Directors of the Company had not been furnished to audit.	Rs. 22,078,073	The outstanding balance of the year is Rs.22,078,073 the majority Consisted of two Government affiliated parties. That is the Department of Ayurveda spent Rs.10,805,048 and the Sri Lanka Land Reclamation and Development Corporation Rs.4,159,986 and the total was Rs.14,965,035. This figure is 68% of the value of debtors over the year. The response from these parties to the recovery of the loan was uncertain, so the money was allocated for it. From 2018, IFRS-09 calculates the provision for impairment loss with respect to debtor balances, and further provisions have to be made for debtors who exceed 365 days. Therefore, the total debtor balance of the year ended 31.12.2020 was Rs.27,842,273 due to 73% of the debtor balance exceeding 365 days which has resulted in such a high percentage .	Action should be taken to reduce the bad debts.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Issue	Management Comment	Recommendation
(i)	A sum of Rs. 16.58 million had been shown as receivable from 04 public institutions in the financial statements of the Company as at end of the year under review. However, such balances had not been shown in the financial statements of the respective in the above institutions.	Agree. Legal action has been taken against the Department of Ayurveda, which is a public sector debtor. The Railway Restaurant has been advised to reduce that amount when entering into agreement with the Land reclamation and Development Corporation.	There should have a proper credit policy to the Company, and follow up actions should be taken to recover debts in time.
(ii)	In November 2017, the Department of Ayurveda held a function at the Company premises and agreed to pay Rs.17,250,000 for the event. However, the Company had not received Rs. 10,843,425 from the Department of Ayurveda by the end of the year under review.	During the discussions held between Waters Edge and the Department of Ayurveda to recover the arrears, the commissioner of Ayurveda had verbally informed the institutions that there were no Treasury Provisions for the relevant year and that action would be taken to obtain the Treasury Provisions in the future. It was stated that the money would be remitted to Waters Edge. However, there have been several written requests and personal discussions for the arrears, but Waters Edge has resorted to legal action to recover the amount as at it felt it was difficult to obtain the amount.	Immediate action should be taken to recover the arrears.

(iii) On 06 November 2016, the Company entered into an agreement with Green Leaves Entertainment (Pvt) Limited to build an outdoor theater. According to the agreement, the contractor is required to pay a minimum monthly rent of Rs.3,000,000 from 01 September 2018. However, the total rental income amounting to Rs.84,000,000 due to the Company had not been received even up to the end of the year under review and this amount had not been shown in the income and debtors in the Company's financial statements of the year under review.

Although a minimum monthly rental income of Rs.3,000,000 should be charged from green Leaves Entertainment (Pvt) Ltd from September 2018, those figures were not recorded in the accounts until December 2020 due to the following reasons. 2019 to 2020 due to Covid – 19 pandemic, the Company's businesses were unable to operate successfully and could not receive rent. All documents for these charges were submitted to the relevant Company on those dates. Also since the year 2020, there have been external complaints about its noise while doing business on the premises. Due to the above reasons at present that Company has informed that it has decided to suspend business activities in the premises. In addition, Green Leaves Entertainment (pvt) Ltd has submitted a proposal to cover the financial costs of its construction from the rental income due to Waters Edge and proposal has been submitted to the Urban Development Authority to obtain accurate valuation. Following these calculations, the accounts will be kept in the future subject to the final decisions and approvals of the Urban development Authority.

Actions should be taken to show the income and debtors in the financial statements.

1.6.2 Related Parties and Related Party Transactions not disclosed

Audit Issue	Management Comment	Recommendation
(i) The related party transaction with the line ministry amounted to Rs. 642,533 had not been disclosed in the Financial Statements as per the provisions of the LKAS – 24.	Agree, The undisclosed debtor balance of Rs.642, 533 is due to the Company from the Ministry of Megapolice and Western Development. However, so far the Company's financial statements have only submitted balances to debtors belonging to the Urban Development Authority. Accordingly from the year 2021, the debtors balances applicable to the Line Ministry will also be disclosed under the related parties of the Company.	Related party transactions should be disclosed in the financial statements.
(ii) Waters Edge is a wholly owned subsidiary of the Urban Development Authority. Waters Edge Recreation Limited was established on 12 November 2020 as a subsidiary of Waters Edge and Otter Aquatic Club was acquired by Waters Edge Recreation on 20 November 2020, only with the approval of Waters Edge's Board of Directors. The land where the Otter Club located belonged to the District Secretariat and when it was acquired by the Water's Edge Recreation Limited, the	The Urban Development Authority does not have the capacity to assist in the operations and administration of the Otters Aquatic club , since the land where the otters aquatic club is located has been acquired by the UDA. So it was decided to setup a Company, Waters Edge recreation Limited, to oversee the operations and management of the Otters Aquatic club. Accordingly, the Urban Development Authority entered in to a three party agreement between Waters Edge	The Company must comply with the Public Enterprises circular.

Urban Development Authority Recreation Limited and the and the Water's Edge Limited offers Aquatic club to determine had proposed to enter into a the future management, lease agreement for the land. In fundraising and trusteeship of the Otters Aquatic Club of the Otter club had been including assets and liabilities. acquired by the Waters Edge Company. However, contrary to section 8.2.3 of the Public Enterprise Department Circular No. PED/12 dated June 2003, Instead of seeking the approval and recommendation of the line Ministry and the Ministry of Finance, the new Company was established and the action had been taken by this new Company to acquire the Otter aquatic club to that Company.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(i)	Paragraph 5(2) of the Public Finance Circular No. 01/2014 dated 11 January 2014 and section 5.1.3 of the public Enterprises Circular No. PED/12 dated 02 June 2003.	An Action Plan should be prepared for the coming year, based on the business plan of the Company including the expected commercial	Agree , A corporate plan was presented annually from 2017 to 2021. The Company did not have a direct action plan for 2020 because of the large fluctuations in macro environmental factors caused by the Covid -19 pandemic, which dynamically	Action plan should be prepared based on the business plan of the Company.

targets. However, affected the operation of the no Action Plan Company.

had been However, from the year 2022 prepared for the an annual action plan is to be year prepared and implemented accordingly.

under review as per the Circular instructions.

- (ii) The public Enterprises Without being Agree, Due to the adverse Company should Circular No. PED/12 prepared a impact of the Covid – 19 be prepared the dated 02 June 2003 procurement plan, pandemic on the Company’s procurement Paragraph 7.3 assets amounting financial and operational plan for to Rs. performance, no programmatic works/goods/ 109,254,182 had refinancing plan was consultancies been procured developed for real estate and and etc. during the year equipment by 2020. However, under review. due to some requirement that arose during the operational activity of the year, Rs.109,254,182 total value of the property plant and equipment were purchased subject to the approval of the relevant Director. In addition, work is underway to prepare a separate procurement plan for the property,plant and equipment from 2022, which will be approved by the Board of Directors.

- (iii) The public Enterprises Circular No. PED/12 dated 02 June 2003 Paragraph 9.2
- The approval for the Organization Chart and cadre of the Company had not been obtained from the Public Enterprises Department of the Treasury.
- Agree, Waters Edge company has developed a set of specific policies for human resource planning, staff recruitment, promotion procedures and so on. This has also been approved by the Board of Directors. However, from the year 2022, actions are being taken to obtain the approval from the line Ministry and the Department of Public Enterprises for this set of Policies relevant to human resource planning.
- The approval for the Organization Chart and cadre of the Company, should be obtained from the Public Enterprises Department of the Treasury.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 73,682,394 and the corresponding profit in the preceding year amounted to Rs.133, 623,893. Therefore an deterioration amounting to Rs. 207,306,287 of the financial result was observed. Decrease of annual sales and the increase of the finance cost were mainly attributed for this deterioration .

2.2 Trend Analysis of major Income and Expenditure items

Compared to the preceding year, The sales revenue of the company was decreased by Rs.448.8million or 34 per cent. Decrease of banquet sales by 50 per cent and hiring income 64 per cent had been mainly attributed to decrease of the sales revenue.

2.3 Ratio Analysis

- a) As compared to the general situation, the current ratio of the Company would be 2:1. However, the current ratio of the Company in the year under review was 0.97:1 and

compared to the preceding year, it was deteriorated by 0.06. As well, the quick ratio of the company for the year under review was 0.90 and in the year 2019 it was 0.96:1.

- b) The net profit ratio of the Company during the year under review was -8.5 per cent and corresponding ratio of the preceding year was 12.22.

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
<p>The Company had acquired 01 acre 03 roods and 34.02 perches extent of land from the Urban Development Authority on a 20 years lease basis on 21 September 2018 for a sum of Rs. 80,000,000 and, the Company had signed a construction development agreement on 26 January 2018 with a foreign private Company to develop the land. However, at present, development work has been abandoned due to problems with the developer regarding the boundaries of the land. Accordingly, as per paragraphs 8.1 and 8.21 of the Development Agreement, due amount from the developer had not been received to the Company even at the 30 April 2021.</p>	<p>Documents for the rent due from this Company have been provided on the relevant dates and our Company is continuously monitoring the arrival process. However, the value of the rent was not recorded in the accounts of the Company due to uncertainties in the collection and payment of the rent. From 2019 to 2020, due to the Covid – 19 pandemic, the construction work of the Company was severely affected. The Company has also requested that the licenses of the Urban Development Authority be renewed after obtaining the new permits and that the Company be given a grace period to settle the lease until then. Due to the above to identify the lease achievements subject to the approvals of the urban Development Authority. Accordingly, I look forward to reporting these figures in the financial Statements.</p>	<p>Action should be taken to resolve the issues in accordance with the agreement and recover the fees due.</p>

3.2 Operational Inefficiencies

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
<p>Significant variances were observed between the budget prepared for the year under review and the actual revenue and expenses. Some variances were ranging from 1082 per cent to 210 per cent. Also no capital expenditure was allocated for capital projects and it was observed that the budget was not made use as an effective management tool.</p>	<p>Agree, The Company's budget presents the highest restaurant and wedding revenue expected by the business. It also includes estimates of the maximum contribution of sales staff. However, due to the adverse environmental variables caused by the 2020 Covid – 19 pandemic, it was observed that the decrease of the sales in that year caused to reduce the actual income of the company. Accordingly, there have been large variances between the actual and the budgeted revenue and expenditure. Capital expenditure was not allocated for capital projects and activities in the budget prepared by the institute and when a capital project is started it is done subject to the approval of a separate board of directors. However, action will be taken to make provision for the capital expenditure for the capital projects to be started by the institute.</p>	<p>Budget should be prepared in realistic manner.</p>

3.3 Transactions of Contentious Nature

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
<p>As per the decision taken by the Cabinet on 08 January 2016, it was decided to transfer the hotel premises including over 23 acres of land to Water's Edge Company and to give shares to the Urban</p>	<p>Although it was decided to transfer the shares of Waters Edge Limited to the Urban Development Authority as per the cabinet decision, the</p>	<p>Decisions should be taken in accordance with the cabinet decisions.</p>

Development Authority for a lump sum payment of Rs. 4275 million based on the valuation made by the government chief valuer. However, on 17 June 2019, the Company signed an agreement with the Urban Development Authority to transfer all the assets of the hotel to Water's Edge Company on a 99-year lease and pay the annual rent of 94 instalments with a grace period of 04 years, contrary to the above Cabinet decision.

Urban Development Authority was informed that no Company could be established under the Authority and the shares of another Company owned by the Authority could not be retained. Due to the above, Waters Edge Limited agreed to pay the value of the above land to the Urban Development Authority under a 99 year lease agreement.

3.4 Procurement Management

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
<p>The cabinet approval had been obtained to construct a hotel building comprising of 48 rooms. The contract had been awarded to private Company on 18 September 2019 for Rs.1288 million by the Board of Directors even without signing the agreement and, an advance payment of Rs.71 million had been paid. However, subsequent bills had not been settled due to the lack of required funds and the construction works had to be terminated without being confirmed the availability of fund before starting the works, as per the Government Procurement Guideline, section 2.5.1 (a), and the losses incurred by the Company from that construction works had not been explained to audit.</p>	<p>Comment had not been given.</p>	<p>Should apply the conditions of the Government Procurement Guideline before commencement of the constructions works.</p>