

## **Waters Edge Recreations Limited - 2021**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Waters Edge Recreations Limited (“Company”) for 14 months ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 December 2021, and of its financial performance and its cash flows for 14 months 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 skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
a) An amount of Rs. 99.12 million had been stated as Value Added Tax liability which was payable by the Company on behalf of Otter Aquatic Club. However, it was not disclosed the legal proceedings which was carrying out for payable Value Added Tax.	Agreed with the observations.	Necessary disclosures should be done.
b) Even though Urban Development Authority had been informed to pay the lease rent as per the property valuation done by the chief valuer for Otter Aquatic Club amounting to Rs.14,600,000 for the years 2020 and 2021 and for 80 Club amounting to Rs.4,000,000 for the year 2021 where the total amounting to Rs.18,600,000, such institutes had paid only Rs. 3,777,419 and only the same amount had been accounted in Financial Statements. Therefore, lease rent and liability were understated by Rs. 14,822,581 in year under review.	Waters Edge Recreation Ltd. had informed Urban Development Authority that it was not adequate to settle the proposed monthly valuation by Chief Valuer amounting to Rs.4,000,000 and Rs. 2,000,000 respectively by the income earned from monthly sales of foods and beverages and membership fees which was taken by Otter Aquatic Club and 80 Club. As per the said notice, Urban Development Authority had requested from the chief valuer to reconsider the monthly valuation of Otter Aquatic Club and proposed reasonable fee. A request to reduce the monthly value of 80 Club had been also made to Urban Development Authority by Waters Edge Recreation Ltd. According to the Appeal for said valuations, Waters Edge Recreation Ltd. had accounted	The expenses should be properly identified and accounted for.

for the preparation of financial Statements of Otter Aquatic Club and 80 Club amounting to Rs.200,000 Rs.500,000 respectively.

- c) The depreciation of Fixed Assets for the accounting period was understated by Rs. 1.63 million and accordingly, the loss before tax had been understated by the same amount. Necessary adjustments are to be done in Financial Statements ended 31 December 2022. Relevant calculations should be accurately done and accounted for.
- d) Even though it was not entered into an agreement with Eighty Club, income from restaurant and other income amounting to Rs.16.77 million and total expense amounting to Rs. 20.94 million had been included when preparing the financial statements for period under review according to the Board decision on 25 February 2022. As a result of that, the Company incurred a loss of Rs. 3.92 million. However, the membership fee for the relevant period (approximately 420 members) had not been considered as income. The discussions have been already commenced on recognizing the assets or liabilities of Eighty Club and the party who should bear its legal obligations, conditions of conducting the Eighty Club in future by Urban Development Authority, Waters Edge Recreation Ltd. and Eighty Club. According to the progress of such discussions, it was proposed to entering into agreements. Until entering into agreement with such tri parties, it was not able to include the said assets in Financial Statements of Waters Edge Recreation Ltd. Spending should be done with the proper approvals and agreements and responsible parties should ensure proper accounting of State Properties.
- Further, the assets or liabilities of Eighty Club had not been recorded in the books of the Company. Urban Development Authority had informed to pay rent for utilization of the property of the Club. Further, it was observed that an amount of Rs. 411.42 million had been spent by Urban Development Authority for the renovation of the building of, supply of kitchen equipment and furniture before the acquisition of the Club. Therefore, it was observed that the Company had not followed an acceptable basis on consolidation of income and expenses of the Club and had not been done the necessary disclosures in the Financial Statements in this regard.
- e) It was observed that Remote Motor Boat (Jet Key) which was not owned by the Company and parked at the premises had been recorded in Financial Statements as Motor Vehicle amounting to Rs. 2 million. Further, the said vehicle was parked idling without utilizing and an amount of Rs.16,607 had been provisioned as depreciation for the period under review. Even though the fixed assets were classified and transferred when Otter Aquatic Club was acquired by Waters edge recreation entity, there was no adequate facilities within the premises of Otter Aquatic Club to utilize this Jet Key. Arrangements are being made to inform the Urban The Company should be responsible for the assets within the entity premises.

Development Authority to take appropriate action regarding this machine.

### 1.5.2 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
<p>Three lands out of 51 lands which included in the Cabinet Memorandum dated 20 October 2020 to obtain the approval of Cabinet Ministers in order to acquire the lands for the proposed Urban Development Projects had been acquired to redevelop and open for general public. Accordingly, operation and management of assets had been transferred to the Company as per the Tri-party agreement dated 06 June 2021. However, as per the Clause 3.1 of the agreement to get the Tri-party facilities, utilization of this property had been restricted to the members of Otter Aquatic Club, their guests and authorized persons of Urban Development Authority. Further, Urban Development Authority had spent an amount of Rs.411.42 for renovation of building of Club and procurement of equipment in the years 2020 and 2021. However, the properties of Club had been utilized only by the members. Though the purpose of transferring these 2 Club to Urban Development Authority was to develop them and open to the General Public, it was observed that such Club were maintained to get benefitted only the members contrary to the regulations of cabinet memorandum. the Company had not prepared any plan to open the Club for general public.</p>	<p>Eighty Club and Otter Aquatic Club had been opened mainly for the utilization of members only in present. However, it was proposed to open this Club to the general public as per the letter dated 20 October 2020 which sent to Eighty Club by Urban Development Authority as per the Cabinet decision no. 20/1607/306/035. Further, it was informed the Waters Edge Recreation Ltd. that a proposal as the above had been sent to Otter Aquatic Club by Urban Development Authority.</p>	<p>It should be performed as per the Cabinet decisions.</p>

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation	
a) Public Enterprise Circular No. PED/12 dated 02 June 2003	8.2.3. Paragraph	Even though the approval for establishment of Waters Edge Recreation Ltd. should be taken from Finance Ministry through the relevant Ministry, without performing as accordingly, Waters Edge Recreation Ltd. had been established only as per the approval of Line Ministry and Board of Directors of Waters Edge Ltd.	Waters Edge Recreations Limited had been incorporated on 12 November 2020 and the foundation of this incorporation was the successful continuation of the Operations and Administration of Otter Aquatic Club and Eighty Club which were acquired by Urban Development Authority. Urban Development Authority and Ministry of Housing had informed in writing to register the said Company as a fully owned subsidiary of Waters Edge Limited and the Board of Directors of the said Company had also been recommended by Urban Development Authority and Ministry of Housing.	It should be performed as per the circulars.
b) Treasury Circular No. 842 dated 19 December 1978	A register of fixed assets had not been maintained for the all fixed assets utilized by the Club as per the Circular.	A register is been maintained for fixed assets in Otter Aquatic Club and due to the unavailability of agreement on legal right for the fixed assets in Eighty Club, the Company had not been maintained a register of Fixed assets. It is expected to maintain and update such register after legitimate agreement.	It should be performed as per the circulars.	

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 11,000,061 as per the presented Financial Statements of the above Company which had commenced its operations on 21 October 2020.

## 3. Operational Review

### 3.1 Idle or underutilized Property, Plant and Equipment

Waters Edge recreation Limited is a Company which had a legal entity under the Company Act and should be act with accountability on its financial operation and administration. However, as per the (b) 1 and 2 of Articles of Association of the Company, the objectives of the Company were stated as conducting sports locally and internationally, supply of hotels and apartments and accommodation facilities, weddings, conferences, meetings including other functions with supply of food and beverages. Even though the investments in lands, buildings and other businesses were made for the purpose of achieving the said objectives of the Company, it was observed that the assets within the premises of Otter Aquatic Club had been idling and the details are as follows.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
a) A very minimal income of Rs.175,790 from September 2020 to December 2021 had been earned for Basket Ball playground within the premises of Otter Aquatic Club and Director General of Sport Development Department had inquired to modify by the funds of Sport Development Department and to utilize for practices of National Basket Ball team. However, according to the letter no 53/2/29 of Director General of Urban Development Authority dated 27 September 2021, it was informed that the necessary measures had been implemented by the authority to call development proposals relating to the development of the premises of Otter Aquatic Club. But, during the physical inspection on 17 August 2022, it was observed that any development had not been carried out.	It was caused to earn lesser income due to the dispersion of Covid 19 pandemic over the country during this time. Even though the urban Development Authority had decided to call development proposals for Otter Aquatic Club, the current progress of such had not been informed Waters Edge Recreation Entity. However, development had been suspended due to the above process. The final decision of this development process would be taken by the Director General of the Urban Development Authority.	Arrangements should be made to get maximum effectiveness and efficiency in utilization of the assets owned by the Company.
b) It was observed that a land plot of approximately 2 perches in extent near to Tennis Ground had been abandoned without utilizing. Even though such land plot was owned by the entity, it	As per our concern, this Tennis Ground and the 2 perch land nearby was included in proposed Mixed Development Projects implemented in future by Urban Development	The properties of the Company should be utilized to derive income.

- had become separated by the wall of Tennis Ground and being idling.
- Authority. Therefore, it was informed Urban Development Authority to consider the said land as well when evaluating the feasibility of proposed Mixed Development Project.
- c) It was observed in physical inspection that the Basement of the Table tennis Yard which had been constructing before transferring the Otter Aquatic Club to Urban Development Authority had not been utilized for any function and been idling by storing redundant items of the entity.
- The agreements were made only for administration and operation of the Club and controlling and maintaining of assets and liabilities which become necessary for the said administration. However, as per our concern, capital expenditure and other expenditure for construction of buildings of Otter Aquatic Club should be made with the sponsorship of Urban Development Authority. Due to the lack of space within the Club, the redundant items of the entity had been stored this premise for now. The actions would be taken in the future to remove the such redundant items from it.
- The Company should perform as per the objectives of establishment of the Company stated in Articles of Association.
- d) An amount of Rs. 167,440 had been received as the income from swimming pools of Otter Aquatic Club for the period of 01 September 2020 to 31 December 2021. Whereas the incurred expenditure on Electricity only was Rs.564,682. Accordingly, the swimming pools had become underutilized as well.
- Waters Edge Recreation Limited had carried out only the administration and operation of the Club and had no commitment to incur capital nature expenditure for the Club. The end authorizer for decision making on capital expenditure would be the Urban Development authority. Excessive consumption of electricity had affected increase of operating expenses and the necessary arrangements would be taken to inform Urban Development Authority regarding the changes to be done or renovations.
- The Company should perform as per the objectives of establishment of the Company stated in Articles of Association.
- e) Even though more income could be earned by modifying the 2 halls in the entity's premises where one spread over 1680 square feet with air conditioning and other spread over 1692 square feet without air conditioning and letting on rent basis for functions, this premise had let for 46 functions and made only Rs. 349,500 as income. However, it was
- Urban Development Authority had been informed regarding the deficiencies in function halls with air conditioning and without air conditioning when the operations of said Club was transferred to Waters Edge Recreation Limited. However, it is expected to present again about restructurings to the Urban Development Authority.
- The Company should perform as per the objectives of establishment of the Company stated in Articles of Association.



observed in the premise that there were no adequate facilities (sanitary facilities, decorations, furniture) for hall to let on rent basis.

- f) The buildings of the entity were not in a useable condition and safely and it was observed that the Main Panel Board and power supply circuits also were in dangerous situation.
- Waters Edge Recreation Limited had carried out only the administration and operation of the Club and had no commitment to incur capital nature expenditure for the Club. Arrangements for modifications and expenditure in capital nature to be made in the premise in Club should have made by Urban Development Authority who has ownership of Otter Aquatic Club. It is expected to take necessary actions to inform Urban Development Authority regarding modifications to be done as mentioned in Audit Query.
- The Company should perform as per the objectives of establishment of the Company stated in Articles of Association.
- g) An income of Rs.18,288,460 was earned for the year 2021 as membership fee from members of the Otter Aquatic Club which conducting as a Club. However, it was observed in physical inspection that the resting hall, bath rooms and toilets which were used by the said members of 4,271 and staff had been broken down which turning into unusable condition.
- The necessary modifications for conducting the Club had been carried out by financial contribution of Urban Development Authority when the Otter Aquatic Club was transferring to Waters Edge Recreation entity and the necessary actions to finish the minor modification which needed to be done further would be taken in future.
- The Company should perform as per the objectives of establishment of the Company stated in Articles of Association.
- h) Even though the land and the premises where Otter Aquatic Club has run with an area of 1.163 hectares in Sarana Road, Colombo 07 was a place that could have been run very effectively and beautifully by prioritizing the sports, it was observed that state properties had become inefficient without proper maintenance due to underutilization.
- Arrangements have been done to inform Urban Development Authority regarding the all modification in capital nature of Otter Aquatic Club. As per my concern, the decisions made on developments in Club premises had been delayed due to the proposed mixed development project. On such delays of making decisions, there also could be a decrease up to some extent in the income to be generated from the entity as per my concerns.
- Arrangements should be made to identify the objectives in establishment of the Company and achieve expected objectives as accordingly.

### 3.2 Procurement Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The Company had procured works and supply amounting to Rs.170.965 million for the year 2021. However, as per the Section 4.2 (a), (b) and (c) of Procurement Guideline, the Company had not prepared a proper procurement plan.	Water Edge Recreation Limited had taken over the responsibility of carrying out the administration and operation of Otter Aquatic Club and Eighty Club and the capital and other expenditure for those had been spent by Urban Development Authority thus far. Therefore, the works and supply for eighty Club amounting to Rs. 170.965 million which carried out by Waters Edge Recreation Limited on behalf of Urban Development Authority and the procurement procedure for such had been done as per guidelines and contribution of Urban Development Authority. Further, it was proposed to form a procurement plan and committees for Waters Edge Recreation Limited in future.	The objectives and activities of the Company should be identified and performed accordingly and acted as per regulation in Circulars.

### 3.3 Human Resources Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
a) According to the Section 9.2 of Public Enterprise Circular no PED/12 dated 02 June 2003, though the approved cadre and organizational chart should be prepared and registered under Department of Public Enterprises, it was not done as accordingly.	It is expected to obtain necessary guidance from relevant divisions for the registration of approved cadre and organizational chart of Waters Edge Recreation Limited under Department of Public Enterprises in treasury.	Action should be taken as per Circulars.
b) As per Section 9.3.1, though a scheme of Recruitment and promotions should be prepared and obtained the approval of Board of Directors and recommendation of relevant ministry and Department of Public Enterprises, it was not obtained as accordingly.	It was expected to prepare a scheme of Recruitment and promotions of Waters Edge Recreation Limited and to obtain and present the necessary recommendation of Line Ministry and Department of Public Enterprises.	Action should be taken as per Circulars.

#### 4. Accountability and Good Governance

##### 4.1 Corporate Plan

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
According to the Section 5.1.1 of Public Enterprise Circular no PED/12 dated 02 June 2003, though a Corporate Plan should be prepared by every public enterprise, such a plan had not been prepared even as at 31 December 2021.	The reasons for non-completion of corporate plan of Waters Edge Recreation Limited were the instability derived from Covid Pandemic over the country and the noncompletion of Tri party agreement to be made during relevant year between Urban Development Authority, Waters Edge Recreation Limited and Eighty Club for future existence. However, after entering into agreements between relevant parties regarding the future existence of Eighty Club as mentioned above, it is proposed to prepare the corporate plan by including operating activities of Otter Aquatic Club and Eighty Club by the Waters Edge Recreation Limited.	Action should be taken as per Circulars.

##### 4.2 Annual Action Plan

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
According to the Section 5.1.3 of Public Enterprise Circular no PED/12 dated 02 June 2003 and the Section 5(2) of Public Finance Circular No 01/2012 dated 11 February 2014, an action plan by including activities which was expected to be performed during the year based on the business plan with commercial targets had not been prepared.	There was not a proper understanding on basic information which were necessary to present expected commercial targets and Company's business plan for the opening accounting years of 2020/2021 of Waters edge Recreation Limited and also the activities and behaviors of Otter Aquatic Club at the beginning of the year. Further, due to the lack of clear understanding on financial downward derived from Covid Pandemic, the reports were not prepared as mentioned above. For the year ended 2022, a report had been presented to approval of the Board of Directors by including the commercial targets which is expected to achieve by Waters Edge Recreation Limited.	Action should be taken as per Circulars.