Waters Edge Limited- 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Waters Edge Limited ("**Company**") and its subsidiary ("**Group**") for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the profit and loss statement, 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 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 Company as at 31 December 2021 and its financial performance and 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 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 Company's and Group'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 intends to liquidate the Company and Group or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Company and the Group are 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 and the Group.

1.4 Scope of Audit (Auditor's Responsibility for the Audit of the Financial Statements)

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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group'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 and Group'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. However, future events or conditions may cause the Company and the Group 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 the Group and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company and the Group has complied with applicable written law, or other general or special directions issued by the governing body of the Company and the Group

- Whether the Company and the Group have performed according to its powers, functions and duties; and

- Whether the resources of the Company and the Group 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

Company is 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 Standards

	Non-compliance with reference to the relevant Standard	Comments of the Management	Recommendation
(a)	**Sri Lanka Accounting Standard – 1**		
i	In terms of paragraph 32 of the Standard, income and expenses shall not be offset unless required or permitted by an Accounting Standard. Even though the total income comprising the income from home deliveries of food, rent income from telephone towers installed in the Company premises and sundry income from banquets amounted to Rs.18.6 million, in indicating the said income in the financial statements, the relevant total income had been indicated as Rs.9.1 million, after deducting relevant expenses of Rs.9.52 million.	All income had been set off against each other due to the identification of the relevant transactional relationship, materiality of income and the relevant business unit separately.	Accounts should be prepared in accordance with provisions of the Accounting Standard.
ii	In terms of paragraph 55 of the Standard, additional line items, headings and subtotals should be presented separately in the statement of financial position when such presentation is relevant to an understanding of the Entity's financial position. However, the value of work-in-progress amounting to Rs.515.75 million had been included in the item of property, plant and equipment and indicated in the statement of financial position of the year under review.	Action will be taken in the year 2022 to indicate the value of work-in-progress as line items separately in the balance sheet of the financial statement.	Action should be taken to indicate the value of work-in-progress separately in accordance with provisions of the Accounting Standard.

(b)	**Sri Lanka Accounting Standard - 9**		
	An impairment test had been carried out with regard to the debtors' balance amounting to Rs.47.31 million recoverable from third parties to the Company as at 31 December of the year under review and accordingly, provision for impairment had been made for Rs.21.40 million representing 45 per cent of total debtors. It included provision for impairment of Rs.1.74 million for debtors less than one month. However, after the impairment, a sum totalling Rs.1.68 million had been recovered from 07 debtors. Further, bases relating to computation of economic factors based on testing of provision for impairment, had not been made available to Audit.	Provision has been allocated in terms of recommendations of IFRS. Overall debtors consisted of debtors of the public sector ranging from 75 per cent to 100 per cent.	Accurate policies should be prepared as per guidelines set out in the Standard on the impairment and action should be taken accordingly.
(c)	**Sri Lanka Accounting Standard 16**		
i	In terms of paragraph 30, when measuring the value of stock balances of Bearer plants, it should be carried at its fair value less any accumulated depreciation and any accumulated impairment losses. However, according to a project proposal to be executed by the Company, with the intention of earning income, the stock balance of Orchid plants costing Rs.14.76 million, imported in the year 2019 and planted on the Company premises, had been shown in the statement of financial position as at 31 December 2021 without making provision for depreciation and impairment. Further, it was observed at the audit inspection carried out that the said project had not been executed as proposed and the Orchid plantation was at a feeble level due to improper maintenance of these plants.	At the beginning of the said Orchid Project, these plants were solely used for decorative purposes and the objective of the said Project was to use them for ceremonies held at the hotel premises and apply as a strategy to attract customers and thereby popularize the reputation of the Waters Edge among customers. All transactions relating to this Orchid Project had been brought to account and all disclosures have been made as per Sri Lanka Financial Reporting Standards. As such, there is no need to identify this Project as a biological asset in terms of LKAS 41. Moreover, it is intended to earn an additional income through this Orchid Project in future.	The stock of plants purchased for a project should be brought to account in terms of provisions of the Accounting Standard.
ii	In terms of paragraph 36 of the Standard, assets belonging to one class of assets should be reported either based on the cost model or on	Action will be taken to disclose in the balance sheet as separate line items.	In terms of provisions of the Accounting Standard, each class

	the revaluation model. However, the values of kitchen utensils which were reported based on the revaluation model and the cost model respectively, had been brought to account as Rs.73.48 million under one-line item contrary to the Standard.		of asset should be selected and brought to account according to one model.
iii	The long-term lease liability should be indicated in the financial statements against the right of use of assets on a discounted interest rate selected in terms of paragraph 26 of Sri Lanka Financial Reporting Standard 16. However, the lease liability totalling Rs. 4,161.9 million had not been presented in the financial statements by the Company as per the requirement of the Standard.	This Company had brought to account the relevant process based on assets obtained from the Urban Development Authority as per the cost concept set out in Sri Lanka Financial Reporting Standard 16.	The long-term lease liability should be reported according to provisions of Financial Reporting Standard.

1.5.3 Accounting Deficiencies

	Audit Observations	Comments of the Management	Recommendation
(a)	As per the agreement entered into in the year 2019 between the Urban Development Authority and Waters Edge Limited, the land of about 23 Acres in extent together with properties including buildings standing thereon, had been vested on 99-year lease basis for the value of Rs. 4,087.56 million, which was the valuation of the Chief Valuer. Moreover, 03 buildings which were developed at Company's expenses on the approval of the Authority and identified as fixed assets in the financial statements before entering into the said agreement, had been included in the valuation. When eliminating the value of those buildings from the valuation, for avoiding the said error of double computation, only the internal valuation of Rs.642.50 million of those buildings had been eliminated instead of identifying and eliminating the valuation of the Chief Valuer.	Had not commented.	The value of investment properties and fixed assets should be presented accurately obtaining accurate valuations.
(b)	The Company had recognized in the year 2021 that the accrued expenditure allocated in excess was Rs.13.34 million for the year 2020 due to failure in allocating accrued expenditure on realistic estimates. Even though the said over provision should be debited to the Accrued	Provision made to the Accrued Expenditure Account in the year 2020, had been adjusted to the relevant Expenditure Account in the month in which the	Provision for accrued expenditure should be made on realistic estimates and over or under provision should be brought to

Expenditure Account and adjusted to the prior year profit in the year 2021, the said expenditure had been credited to the relevant Expenditure Accounts for the year under review. As such, the total expenditure of the year 2021 had been understated by Rs.13.34 million. Moreover, the over provision made for accrued expenditure in the year 2021, had been recognized in the year 2022 as Rs.9.47 million and the said over provision had been adjusted to the expenditure of the year 2022. As such, expenditure of the year under review had been understated by Rs.3.86 million as the net result whilst the profit had been overstated by the same amount.	expenditure was recognized in the year 2021 and accrued expenditure of the year 2021 has been credited to the Accrued Expenditure Account and debited to the Expenditure Account at the end of the year.	account as prior year adjustments.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
A debtors balance of Rs.47.31 million had remained as at 31 December 2021 and it consisted of loan balances totalling Rs.16.44 million older than 180 days, receivable from 20 institutions by which hall facilities were provided for functions. Further, balances remained outstanding for a period between 01 and 07 years, receivable from 4 Government institutions totalled Rs.16.2 million.	It is expected to be recovered. Moreover, it is proposed to report on unrecoverable balances to the Board of Directors and to take proper action thereon.	Action should be taken to recover balances receivable, expeditiously.

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
A trade creditors balance of Rs.169 million remained as at the end of the year under review and of the aforesaid sum, a creditors' age analysis had been submitted only for creditors who had remained up to 160 days. As such, the outstanding period of creditors' balance of Rs.25.8 million, older than 160 days remained as at the end of the year under review and exact remaining time of those could not be identified.	Had not commented.	Creditors' age analysis for all creditors should be prepared accurately.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Sections 9.2 (d) and 9.3.1 of Public Enterprises Circular No. PED/12 of 02 June 2003 and Management Services Circular No. 30 dated 22 September 2006	Approval for the organization chart and the staff of the Company had not been obtained from the Department of Public Enterprises of the Treasury. Moreover, the approved cadre should be prepared and registered in the Department of Public Enterprises of the Treasury and even though a Scheme of Recruitments and Promotions of the Company should be prepared and concurrence of the relevant Ministry and the Department of Public Enterprises should be obtained, it had not been done so and approval of the Department of Management Services as well had not been obtained therefor.	It is intended to take action to obtain the approval from the Department of Public Enterprises of the Treasury.	Action should be taken in terms of circular instructions. The organization chart and the Scheme of Recruitments and Promotions of the Company should be prepared and approved in terms of circular instructions.
(b)	Paragraph 8.2.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003	Waters Edge Recreations Ltd. had been established only on the approval of the Board of Directors of Waters Edge Ltd. without obtaining the approval and recommendation of the Ministry of Finance through the relevant Ministry.	Had not commented.	Subsidiaries should be established in terms of circular instructions.
(c)	Cabinet Decision No.20/1607/306/ 035 of 20 October 2020	The Urban Development Authority had been granted approval through the Cabinet Decision for necessary action to redevelop lands and property owned by the Government and to open them to the public thereafter while maintaining Otters Aquatic Club and the 80 Club. Of that, the Urban Development Authority had spent a sum of Rs.411.42 million for redevelopment of the 80 Club. However, action had not been taken for providing the benefits of those institutions to the public and instead of that, providing benefits had been limited to the existing membership, that is, only for 4,691 members.	Had not commented.	In terms of the Cabinet decision, action should be taken to redevelop properties and open to the public.

2. Financial Review

2.1 Financial Results

The Company had prepared consolidated accounts together with the subsidiary from the year under review and the operations of the Group and the Company for the year under review had been pre-tax losses amounting to Rs.37.73 million and Rs.26.73 million respectively. As compared with the preceding year, the corresponding loss of the Company amounted to Rs.73.68 million. Accordingly, an improvement of Rs. 46.95 million was observed in the financial result of the Company. The increase of sales by Rs. 270.5 million and increase of the cost of sales by Rs.109.47 million and the revaluation loss of Rs.93.82 million had mainly attributed to this improvement.

2.2 Trend Analysis of Major Income and Expenditure Items

Item	2021 Rs. Million	2020 Rs. Million	Difference Rs. Million	Difference as a Percentage-%
Income from customers	1,134.2	863.70	270.5	31
Other Income	22.22	14.8	7.42	50
Administrative Expenses	642.45	609.06	33.39	5
Salaries	188.99	185.07	3.92	2
Bonus	28.74	23.67	5.07	21
Other Expenditure on Human Resources	92.63	78.25	14.38	18
Finance Income -net	14.79	21.13	(6.34)	30
Income Tax	1.83	(11.02)	-	-

(a) As compared with the preceding year, the income received from customers of the Company had increased by 31 per cent.

(b) As compared with the preceding year, the administrative expenses of the Company had increased by 5.48 per cent and the increase in salaries by 2 per cent and expenditure on human resources by 18 per cent had attributed therefor.

(c) The net finance income had decreased by 30 per cent and the decrease in finance income had mainly attributed therefor.

2.3 Analysis of Ratios

Ratio	2021	2020	Difference
Current Ratio	1.17	0.97	0.11
Net Profit/(Loss) Ratio	(2.52)	(7.26)	4.74
Gearing Ratio	3.88	3.60	0.28

(a) The current assets ratio of the Company was 1.17:1 in the year under review and as compared with the preceding year, an improvement of 0.11 was observed.

(b) The net loss ratio of the preceding year was (7.26) per cent and it had decreased to (2.52) per cent) by 4.74 per cent in the year under review.

3. Operational Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
The Company had entered into an agreement in the year 2018 with a locally established foreign private company for constructing, financing, operating, maintaining and managing a leisure park within the Company premises for a period of 15 years. Accordingly, it had been agreed based on the payment of a Sri Lankan Rupee value (According to the exchange rate prevailed in January 2021, under a fixed exchange rate of Rs.153.74 for 1 US$ Dollar) equivalent to US$ 20,000 per year. However, the relevant contractor had paid only a sum of US$ 9.956 or Sri Lankan Rupees 1.53 million to the Company by the end of the year 2021 and the constructions of the leisure park had been abandoned halfway.	Had not commented.	New projects should be implemented by carrying out an independent and acceptable feasible study.

3.2 Identified Losses

Audit Observation	Comments of the Management	Recommendation
A development agreement had been entered into on 21 December 2017 by the Company on the basis of paying a monthly fee of Rs. 600,000 comprising Rs. 300,000 as rent relevant for the premises and the owner's share of Rs. 300,000 after completing constructions of a children's park. No money whatsoever had been received on this behalf to the Company even up to the end of the year under review and the Board of Directors had granted approval on 08 December 2021 to waive off the monthly rental of Rs.13.5 million receivables by the Company from October 2018 up to September 2021 but not brought to account.	Business activities were not carried out properly during the relevant period and the monthly rental was due. As indicated in Clause 5.2 of the agreement, the portion of income is received only from business activities and moreover, as there is no legal entitlement for recovery of money for the period in which business activities had not been carried out, relevant activities have been carried out on the decision of the Board of Directors.	New projects should be implemented by carrying out an independent and acceptable feasible study.

3.3 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
The Company had spent a sum of Rs.11.46 million in the year 2018 as basic expenditure for commencement of development activities for reconstructing the Ackland House and converting it into a small exotic hotel according to instructions of the parent institute. The legal ownership of that	The project was discontinued as the Company does not hold current legal ownership of the relevant property.	Relevant development activities should be carried out only after obtaining legal ownership of

building and land had not been taken over by the Company and as there is a cultural and archaeological value of the said property, it had been mentioned in the observations of the Minister of Finance for the Cabinet Decision No. CP/16/1939/724/080 dated 26 October 2016 that it was necessary to obtain approval of relevant authorities from the Department of Cultural Affairs and the Commissioner of Archaeology. However, the Company had not taken action to obtain such approval as well. Subsequently, the project had been abandoned and the relevant expenditure had been written off against the profit of the preceding year. Nevertheless, action had not been taken to recover the relevant expenditure from the parent institute.		property.

3.4 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
The cafeteria called Platform Restaurant was being operated under a very low income. Even though the approval of the Board of Directors had been received on 04 August 2021 to convert it into a seafood cafeteria, it had not been implemented even by July 2022.	Action has been taken to temporarily discontinue operations of the said cafeteria due to non-receipt of adequate income as a result of Covid pandemic.	Income generating projects should be efficiently implemented.

3.5 Procurement Management

	Audit Observation	Comments of the Management	Recommendation
(a)	In terms of Section 7.3 of Public Enterprises Circular No.PED/12 of 02 June 2003, assets valued at Rs.13.55 million had been purchased during the year under review without preparing a Procurement Plan.	A Procurement Plan had not been prepared as business activities were crippled due to the Covid pandemic.	Action should be taken in terms of circular instructions.
(b)	According to a Development Agreement entered into between the Company and a private company, works of the Traditional Dancing Theatre constructed in the premises of Waters Edge, had been completed in the year 2017 and the inaugural ceremony held in February 2018. However, it was observed that no commercial affair had taken place in that dancing theatre. According to the agreement entered into, even though the	The dancing theatre constructed by the private company has not been legally vested by the Company and arrangements will be made for vesting.	Projects which can be carried out continuously, should be commenced.

relevant private company should pay a lease rental of Rs.3 million per month to the Company, the lease rental had not been paid for a period of 4 years up to 31 December 2021 and the Company had not accounted that income as well. It was further observed during the physical audit inspection that the dancing theatre had not been maintained properly. Meanwhile, the relevant private company had made a proposal to vest the dancing theatre again in Waters Edge Ltd. Accordingly, the Board of Directors of the Company had granted approval on 28 April 2021 to vest the dancing theatre on valuation of the Urban Development Authority. However, the said vesting had not been carried out even up to 31 December 2022 and the theatre had remained idle. Moreover, the Company had not identified its requirement and prepared a Business Plan for the utilization thereof.

4. Accountability and Good Governance

4.1 Annual Report

Audit Observation	Comments of the Management	Recommendation
Annual Reports had not been furnished from the year of inception of the Company in the year 2009 up to date in terms of Section 6.5.1 of Public Enterprises Circular No.PED/12 of 02 June 2003 and the Annual Report of the Group for the year under review as well had not been prepared.	Has not commented.	The Company should prepare and furnish Annual Reports in terms of circular provisions.

4.2 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
In terms of Paragraph 5(2) of the Public Finance Circular No.01/2014 dated 11 February 2014 and Section 5.1.3 of Public Enterprises Circular No.PED/12 of 02 June 2003, an Action Plan including activities intended to be executed in the year based on the Business Plan of the Company containing expected commercial targets, had not been prepared.	The Business Plan of the Company is prepared by the PWC Chartered Accountants and approval of the Board of Directors for the relevant Business Plan is due.	An Action Plan should be prepared and approved before the commencement of the year.