

Waters Edge Company - 2018

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Water's Edge Company Limited for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and comprehensive 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 2018, 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 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 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 Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) The rent payable to the Sri Lanka Land Development Corporation amounting to Rs.40,412,912 for the Railway Cafeteria, operating by the Company, for the years 2017 and 2018 had not been included in the financial statements of the year 2018. As a result, the profit and trade creditors for the year had been overstated and understated by that amount respectively in the financial statements.	Comment had not been furnished.	The adjustments should be made in the financial Statements relating to the rent payable to the said Corporation.
(b) Agreements had been signed with 2 external Companies to develop a plot of land extend about 2 acres, obtained from the Urban Development Authority on 20 years lease period in the year 2018. However, that had not been disclosed in the financial statements.	Comment had not been furnished.	Nature of the contract obligations of the Company and particulars of lease hold lands should be disclosed in the financial statements.
(c) The land extend of 23 acres, 01 road and 9.05 perches had been vested to the Company for 99 years lease period and Chief Valuer had estimated the value of the land as Rs.4,306,000,000 on 25 May 2016. However, the lease agreement had been signed on 17 June 2019 and the details relating to handing over of assets and settlement of liabilities had not been disclosed in the financial statements.	Comment had not been furnished.	As signing of the agreement and handing over of assets had been taken place in the year 2019, considering the materiality of the transactions, the relevant information should be disclosed in the financial statements.

- | | | |
|--|--|---|
| <p>(d) The current and non – current assets comprising of office equipment and kitchen equipment valued at Rs.262,284,393 which had been handed over to the Company through the Urban Development Authority by the Asia Pacific Golf Court Company in the year 2009 had nighther been inventoried nor accounted after being valued them.</p> | <p>Comment had not been furnished.</p> | <p>Action should be taken to value the entrusted office equipment and other assets and brought to the accounts. As well, action should be taken to disclose the current position of those assets in the financial statements.</p> |
|--|--|---|

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

Audit Observation	Management Comment	Recommendation
-----	-----	-----
<p>(a) The debtor balance of the Company as at 31 December 2018 amounted to Rs.62,690,296 and a provision for doubtful debts amounting to RS.23,716,672 or 39 per cent had been made thereon. However, reason for the allocation of such a significant amount as doubtful had not been explained to audit.</p>	<p>Comment had not been furnished.</p>	<p>The Policy of the Provision for doubtful debts should be disclosed.</p>
<p>(b) Action had been taken to write-off the receivables amounting Rs.7,541,733 including Rs.1,561,148 the receivable from the Land Development Corporation relating to services rendered to that Corporation, as bad debts. The approval of the Board of Directors for the write – off had been given on 14 March 2019. Supplying the services to the Land Development Corporation without having a proper agreement or without obtaining the advances were the main reasons for this situation. As well, another services valued at Rs.5,159,986 had been provided to that Corporation in the year 2018 and out of that, a sum of Rs.3,664,986 had not been received</p>	<p>Comment had not been furnished.</p>	<p>Only after being entered into the formal agreements within the credit limits, rendering of services should be done. Action should be taken to obtain required approvals of before write-off the bad debts.</p>

by the Company up to 31 December up to 31 December 2019.

- | | | | |
|-----|--|---------------------------------|---|
| (c) | Without entering into a formal service agreement, the sales promotion services had been provided to the Lion Bruawary Company on a verbal agreement and out of the receivable for the rendered services, a sum of Rs.3,440,904, had been written-off without obtaining the approval of the Director Board. As well, a provision for doubtful debts had been made for another receivable amounting to Rs.2,000,000. | Comment had not been furnished. | Actions should be taken against the responsible officers after conducting formal investigation with regard to providing of services without entering into an agreement and not taking of prompt actions to recover the receivables. |
|-----|--|---------------------------------|---|

1.7 Non – Compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non – Compliance	Comment of the Management	Recommendation
-----	-----	-----	-----
(a) The Public Enterprises Circular No.PED/12 dated 02 June 2003			
(i) Section 5.2.2	Without being provided allocations from the Annual Budget of the Company, for the capital projects various capital projects had been started based on the Director Board approvals obtained in time to time. As such, the value of some capital projects, that had been implemented without following the Circular institutions amounted to Rs.256,628,173.	Comment had not been furnished.	The Capital expenditure should be incurred according to the directions given in the Public Enterprises Circular and as per the budgeted plan.
(ii) Section 4.1	Actions had not been taken by the Board of Directors of the Company	Comment had not been furnished.	This instructions of the Public Administration

to prepare a policy for credit sales and to get the approval for it according to the Circular instructions. Hence, the procedures that should be applied when conducting the credit sales, credit sales limits, approving limits of sales, debt collection procedures were not specifically made available. Thus, rooms to apply the informal procedures when conducting the credit sales were existed. Significant delays in recovering the debts and writing – off of large amounts as bad debts were shown owing to the lack of such a policy.

Circular should be followed.

1.8 Financial Management

Audit Observation

Even though a bank overdraft amounting to Rs.109 million was shown in the statement of financial position as at 31 December 2018, a significant variance was observed between the bank overdraft balance shown in the financial statements and the actual bank overdraft balance due to holding of the written cheques to the suppliers without being handed over to them for a long period. Thus, it was attempted to understated cash and creditor balances as at end of the year.

Management Comment

Comment had not been furnished.

Recommendation

The actual position should be reflected from the financial statements.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a pre tax profit in Rs.169.23 million and corresponding pretax profit of the preceding year amounted to Rs.218.13 million. Therefore, compared to the preceding year, a deterioration amounting to Rs.48.90 million in the financial result was observed. Increase of establishment and administration expenses by 41.15 million and decrease

of net finance income by Rs.17.58 million had been mainly attributed for this deterioration in the financial result.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
<p>(a) In order to purchase orchid plants for the Flora Park Island, the Garden Manager had gone to Thailand and imported 16,000 orchid plants for Rs.8.55 million. In addition, 3,900 orchid plants had been purchased locally for Rs.1.24 million and 6,180 orchid seeds had been purchased for Rs.744,250. The total cost incurred for orchid plants amounted to Rs.10.53 million. However, 1,161 orchid plants belonging to 10 categories died and 4,250 plants not bloomed though imported them incurring a cost of Rs.1.7 million. Although it had been incurred daily expenses for maintain the orchid plantation, it had been failed to maintain the plantation in healthy manner. Therefore, the expenditure incurred for the plantation without conducting a feasibility study had been become fruitless expenditure.</p>	<p>Comment had not been furnished.</p>	<p>The projects should be implemented after being conducted a feasibility study and determined the requirement and the projects should be maintained applying a proper management system.</p>
<p>(b) Without being conducted a proper feasibility study and followed the Procurement guidelines, a sum of Rs.52,890,111 had been incurred to construct Spot Bar Restaurant by assembling several Containers. After being incurred the money for constructions, it had been decided to use that constructions for alternative functions on 03 September 2020, stating that possible protest against the construction, from the general public. However, up to March 2021, that had not been used for alternative function. At the physical examination conducted in 2020, it was observed that the furniture purchased for the Restaurant had been become unusable condition due to leaking of 4 strom water into the Restaurant.</p>	<p>Comment had not been furnished.</p>	<p>Only after being carried out a feasibility study, the project should be implemented.</p>

3.2 Transactions in Contentions Nature

Audit Issue	Management Comment	Recommendation
<p>According to Section 2.5.1 (a) of the Procurement Guideline, the Procurement Committee is responsible to ensure the</p>	<p>Comment had not been furnished.</p>	<p>Without having the required funds, construction works</p>

availability of allocations for respective procurements. However, the contract for construction of luxury hotel, comprising 185 rooms, and a building at an estimated cost of Rs.8,171 million had been awarded without being ensured that availability of required funds. Further, an agreement had not been signed with the construction company and based on the letters furnished by the Urban Development Authority, action had been taken to award the contract and commenced the construction works in November 2014. Subsequently, due to the termination of the construction, the construction company had proceeded a legal case, at the Commercial High Court claiming the unsettled bills amounting to Rs.179,937,010 and the interest thereon and legal fee amounting to Rs.180,600,000.

Due to lack of funds to settle the payments the settlement had not been made up to end of the year under review. Furthermore, action had not been taken to make adjustments or make the disclose in the financial statement with regard to the effect of the legal case.

should not be started and should be not awarded the contracts. Before starting the construction works, action should be taken to signed the agreements.