Waters Edge Company - 2019

1.1 Qualified Opinion

The audit of the financial statements of Water's Edge Company Limited for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 2019, 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

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka 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 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 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 Internal Controls over perpetration 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 Standards (LKAS)

	Non compliance with reference to LKAS standard	Management Comment	Recommendation
(a)	According to LKAS – 16, the fully depreciated assets, but still in use, should be disclosed in the financial statements, and action should be taken to adjust the reevaluated useful fife of those assets as per the LKAS -8. However, action had not been taken accordingly, relating to the fully depreciated assets, but still in use, amounting to Rs.105.8 million.	We believe that there is no compulsory requirement to revalue the fully depreciated assets. Steps have been already taken to implement a process to identify entire assets belonging to the Company (at the beginning of 2021.) As such, the requirement heighted in this para will be fulfilled.	According to the requirement of the standard, the disclosure should be made relating to the fully depreciated assets in the financial statements.
(b)	A land, extent of 23 acres 01 rod and 9.05 perches had been leased by the Company for Rs.4,275,046,738 for a 99 years lease period and another land, extent of 01 acre, 3 rods and 34.02 perches, had been leased by the	The lands had been leased by the Company for 99 and 20 years lease period in the year under review and the preceding year from the Urban Development	When presenting the financial statements according to the LKAS, the provisions in the standard should be applied.

	Company for Rs.80,000,000 for 20 years period, during the year under review and preceding years, from the Urban Development Authority. However, according to paragraph 24 and 26 of the SLFRS-16, right to use of land on lease basis had not been disclosed in the financial statements.	Authority. Those transactions had accounted by the Company based on the cost concept of the SLFRS – 16. When accounting of those assets, all related direct expenditure had also been added to the value to show in the financial statements.	
(c)	According to the LKAS-8, the estimated useful life of the car parks and road ways had been revised from 5 years to 25 years. However, the approval of the Board of Directors had not been obtained thereto and the effect on financial statements from the changes of accounting policy, had not been disclosed in the financial statements.	This disclosure related to the LKAS-8, to be corrected when preparing the financial statements of the year 2020.	The disclosure relating to effect of changes of accounting policies should be disclosed in the financial statements and the approval of the Board of Directors should be obtained for changes.
(d)	The disclosure relating to the transactions conducted with the Line Ministry amounting to Rs.642,533, had not been made in the financial statements as per the LAS-24.	Action to be taken to rectify in coming year.	According to the LKAS, the disclosure should be made.
(e)	The orchid plants had been planted in the Company's garden in the year 2019 incurring Rs.14.7 million for commercial purpose. However, according to the LKAS-41, the disclosure had not been made in the financial statements relating to those biological assets.	Even though it had been decided to sell some portion of the orchid plants at the beginning of this project, it was not so conducted. Hence, those plants had been used only for beautification purpose. Therefore, it is not required to identify those assets as the biological assets.	As those plants had been purchased based on a commercial plan, it should be complied with requirements of LKAS-41.

1.5.3 Accounting Policies

Audit Observation	Management Comment	Recommendation
According to the norms of the hotel industry, the depreciation period of building are ranging from 40 to 50 years. However, considering the useful life of the building as 80 years the Company had depreciated them over the above period.	The required adjustment highlighted in the Para, scheduled to be carried out after the assets revaluation process and after obtaining the approval of the Board of Directors.	When presenting the financial statements, it should be considered the industrial norms too.

1.5.4 Accounting Deficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The Railway Carrage Restaurant constructed by the Sri Lanka Land Development Corporation (SLLDC) incurring Rs.125,442,300 had been transferred to the Company on 28 February 2018 for operating activities. The SLLDC had claimed a sum of Rs.130,881,116 including the interest for delaying period, as at end of the year under review. However, provision for that liability had not been made in the year under review and only a disclosure had been made in note 13(a) in the financial statements. As a result, the profit for the year under review and accumulated profit as at end of the year under review had been overstated approximately by Rs.26,429,383 and	This Railway Carrage Restaurant had been handed over to the Company in February 2018. However, the relevant parties had not entered into an agreement up to end of 2019 relating to the payments. Hence, due to lack of knowledge about the payables to the SLLDC and due to lack of an agreement, the disclosure of liabilities was limited to a note. Nevertheless, it had been taken steps to prepare a legal agreement in this connection at present and the discussions has been conducted to settle the payable on a concessionary basis. As such, after being entered into an agreement, action will be taken to account the liabilities.	As it should be made the payments since the date of use of the assets, the payables should be calculated on accrual basis and adjusted to the financial statements.

	Rs.22,024,486 respectively and the trade and other creditor's balance had been understated by Rs.136,881,116.		
(b)	When acquired the Waters Edge Hotel from the Asia Pacific Calf Court Company in 2009 through the Urban Development Authority, the assets comprising of office, and kitchen equipment and other current assets amounting to Rs.262,284,393 had also been handed over to the Company. However, the Company had nightier inventoried nor accounted those assets after being valued them.	When acquiring the hotel, the assets had not been included to the financial statements based on the decision made by the Board of Directors. According to the opinion given by the SLICA, it was mentioned that the Company had not a legal liability on the acquired assets. Thus, the assets had not been accounted. However, based on the on going assets revaluation activities, all assets will be accounted according the revaluation.	The assets acquired from the owners of the Company should be inventoried and the assets should be revalued and shown in the financial statements.
(c)	According to the stock verification conducted by the Company as at end of the year under review, the stock shortage amounting to Rs.600,000 was observed in the Engineering Division. Instead of being charged the full amount to the comprehensive income statement an amount of Rs.426,000 had been capitalized and remaining balance charged to the income statement. As such, the profit for the year under review had been overstated by Rs.426,000.	Significant purchase had been made in the year 2019 for various projects and building repairs. Those items had been distributed through the Engineering stores for the various projects and repairing activities. As well, the store keepers of those stores had been replaced the stocks in time to time and stock issuing sometimes identified correctly and required adjustments had also bee made. In order to avoid such a situation in future, effective internal control system over the stores will be implemented.	Action should be taken to introduce effective internal control procedures.

(d)	In order to construct a Children Park within a six months period, an agreement had been singed with a Foreign Private Company on 21 December 2017 and in terms of Sections 4.1 and 5.1.1 of the agreement, the Developer should paid a monthly rent of Rs.600,000 during the management period. However, any monthly rent had not been received by the Company up to end of the year under review from the Developer and receivables from the Developer amounting to Rs.10.8 million had not been shown in the financial statements of the Company.	Comment had not been given.	Action should be taken to recover the receivables according to the agreement.
(e)	Instead of being shown the work-in-progress amounting to Rs.402,527,582 separately in the financial statements, it had been shown under the Property, Plant and Equipment.	Agreed. Action to be taken to shown the work-in-progress separately in the financial statement (in the financial statements of 2021)	Work-in-progress should be shown in the financial statements separately.

1.5.5 Unreconciled Control Accounts

Audit Observation	Management Comment	Recommendation
A difference of Rs.29,021,183 was observed between the schedule furnished for work-in-progress for the year under review and the financial statements for the year under review. The reasons for the difference had not been explained to audit.	Agreed	The balances shown in the financial statements should be correctly shown after being made reconciles with the schedules.

1.5.6 Un authorized Transactions

Audit Observation	Management Comment	Recommendation
Without being obtained the Treasury approval in terms of the Public Enterprises Circular No.PED/12 dated 02 June 2003, bad debts amounting to Rs.7,541,733 had been written-off in the year 2018, only with approval of the Board of Directors.	Comment had not been given.	The written-off of bad debts should be done with the formal approvals as per the circular instructions.

1.5.7 Lack of Written Evidence for Audit

	Item	Amount (Rs.million)	Evidence not made available	Management Comment	Recommendation
(a)	Provision for doubtful debts by the Company as at end of the year under review.	26.4	Specific details to identify the debtors in audit.	The debtors over 365 days for the year, as per the calculations amounted to Rs.43,587,708. Half of that debtors (Rs.22,217,195) were exceeded over 365 days.	The details of the provision for doubtful debts and basis for the provision should be furnished to audit.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

	Audit Observation	Management Comment	Recommendation
(a)	The receivables from 4 Public Institutions as at end of the year under review amounted to Rs.16,868,794 had been shown in the financial statements as recoverable for a period ranging from 02 to 06 years. However, as per the financial statements of the above	The matter highlighted in the audit para had been already identified by the Company and that had been discussed with the accounting system implementing firm of the Company. Accordingly, the changes to be made in future as per the	The receivables from the Public Institutions should be informed to them and the receivables should be brought to the accounts.

	Public Institutions, such a debtor balances had not been shown as payable to the Company.	requirements.	
(b)	A formal debt policy which had been approved by the Board of Directors of the Company and the Department of Public Enterprises, was not made available to the Company. Action had not been taken to recover the receivable debts, after being sent reminders to outstanding debtors and taking legal actions against them.	The current debt collection procedure to be updated according to the current requirements and so as to suitable for the Company by furnishing to the Board.	After being prepared a formal credit sales and debt transaction policy, the approvals thereto should be obtained from the Department of Public Enterprises of the Treasury.

1.6.2 Account Payables

Audit Observation	Management Comment	Recommendation
The trade creditor balance as at end of the year under review amounted to Rs.122 million and an age analysis had been furnished only for the creditor balances existed for over 180 days. As such, the creditor were existed as unsettled for over 180 days amounted to Rs.12.8 million.	The matter highlighted in the audit para had been already identified by the Company and that had been discussed with the accounting system implementing firm of the Company. Accordingly, the changes to be made in future as per the requirement.	A formal credit procedure should be prepared and the approval thereto should be obtained.

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

	Reference to Laws, Rules, Regulations etc.	Non – Compliance	Management Comment	Recommendation
(a)	Paragraph 5(2) of the Public Finance Circular No.01/2014 dated 11 February 2014 and Section 5.1.3 of the Public Enterprise Circular for Good	An action plan should be prepared based on the expected commercial targets and company's business plan. However, any Action	Data Collection activities, relating to that, have been started after having discussions with the all Divisional Heads of the Company.	In order to prepare the required plans in due dates the required systems and control procedures should be prepared.

	Governance dated 02 June 2003.	Plan had not been prepared for the year under review, according to the circular instructions.	Thus, it is expected to furnish the final plan by June 2021.	
(b)	Paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.	Even though financial statements should be furnished to audit within 60 days after lapse of the financial years, the financial statements for the year 2019 had been furnished for audit on 30 November 2020 after delaying 9 months.	Agreed. During the said period the Company had operated without having a Director Board. The first Director Board meeting was held in May 2019. Thus, the approval for the financial statements had been obtained in October and furnished to audit.	Action should be taken to furnish the financial statements to audit on due dates.
(c)	Paragraph 7.3 of the Government Procurement Guidelines	Even though the Property, Plant and Equipment valued at Rs.70,569,738 had been purchased during the year under review, a procurement plan for the year had not been prepared.	A Procurement Plan had been already prepared based on the requirements of the Company. After being obtained the approval from the Board of Directors, the plan will be furnished to the Line Ministry and to the Department of Public Enterprises for the approvals.	An Annual Procurement Plan should be prepared as per the Provisions of the Government Procurement Guidelines.
(d)	Paragraph 9.2 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.	Action had not been taken to get the approval from the Department of Public Enterprises for the organization structure and to the cadre of the Company, after being	The procedures and policies relating to the reuiqred cadre to Waters Edge Company and recruitment and promotion procedures had been prepared	Actions should be taken to prepare the organization structure of the Company and the human resources plan.

		planned the required human resources.	and the approvals for those plans had been obtained from the Board of Directors. However, those policies and procedures related to the human resource planning will be furnished to the Line Ministry and to the Department of Public Enterprise to get there concurrence those to.	
(e)	The decision made by the Cabinet of Ministers No.**අමප/05/විවිධ/026** dated 16 June 2005	In order to appoint the consultants, the approval of the Cabinet of Ministers should be obtained by furnishing a cabinet memorandum including the bio data and the duties scheduled to be assigned and the period of the assignments. However, without following the above direction the retired General Manager of the Company had been re-appointed as a senior consultant and allowances amounting to Rs.6 million had been paid during the year under review.	When conducting the business activities, the Waters Edge Ltd, run the business in competitive manner as same as other private hotels and it is the policy of the Company. In such a ground, it is required to recruit the Capable persons on temporally basis. Thus, the Company had followed the policy to recruit the consultants having the approval of the Board of Directors.	According to the decision of the Cabinet of Ministers, the approval of the Cabinet should be obtained.

2. Financial Review

2.1 Financial Results

The financial result of the Company for the year under review had been pre tax profit of Rs.160,412,687 and corresponding pre tax profit of the preceding year amounted to Rs.169,227,474. Thus indicating deterioration in the financial result by Rs.8,814,787. Increase of establishment and administration expenses of the year under review by Rs.38,116,353 and decrease of net financial income by Rs.12,872,088 were mainly attributed for this deterioration.

2.2 The trend analysis of major income and expenditure items

Compared to the preceding year, the other income of the Company was decreased by Rs.37 million or 55 per cent. Decrease of Bouquet hall income by 61.6 per cent and other income by 93.37 per cent had been mainly attributed to decrease of the income.

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 1.03:1 and compared to the preceding year, it was deteriorated by 0.56. As well, the quick ratio of the Company for the year under review was 0.96:1 and in the year 2018 it was 1.51:1.

(b) The net profit ration of the Company during the year under review was 12.22 per cent and corresponding ratio of the preceding year was 12.95. It was observed that decrease of other income from 67 million to Rs.30 million by Rs.37 million or 55 per cent was mainly affected to this situation.

3. Operational Review

3.1 Identified Losses

Audit Observation	Management Comment	Recommendation
The Company had acquired a land extent of 1 acre, 3 rods and 34.02 parchs on 21 September 2018 for Rs.80,000,000 on 20 years lase basis from the Urban Development Authority. Subsequently, the Company had entered into an construction development agreement with a foreign private Company 26 January 2018. However, the development activities in the land had been abandoned at present due to the issues of the land boundaries. As a result, the Company had filed to recover the receivables from the Developer, for the period from September 2019 to August 2020 as per Section 8.1 and 8.2.1 of the Development agreement, amounting to US$ 5,000 up to 30 April 2021.	Comment had not been given	So as to complete the objected development activities, action should be taken to settle the issues as per the agreement and to recover the receivables.

3.2 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
In order to study the possibilities to start 05 restaurants in Melbourne, Australia, 3 officers had visited to Australia incurring a sum of Rs.2,430,635. However, conducting a preliminary investigation, a feasibility study had not been done. As well, the approval of the Board of Directors had not obtained for the tour and provisions from the budget had also not been made. Further, a report relating to the study had not	The Company had decided to conduct a survey with a view to open an upper grade restaurants in the Melbourne, Australia. For the above purpose said 3 officers had been nominated by the Board of Directors. A feasibility study for financial section and a summary report prepared by other two consultants relating the market analysis were in the files. The letters which	Before implementing a project, a feasibility study should be carried out and the relevant reports should be furnished to the Board of Directors for further decisions.

	been furnished to the Board of Directors.	had been exchanged with the various consultants and their reports were also in the office files.	

3.3 Operational Inefficiencies

	Audit Observation	Management Comment	Recommendatio
(a)	Significant variances were observed between the budget prepared for the year under review and the actual expenses of the Company. Some variances were ranging from 10,460 per cent to 297 per cent. Thus, it was observed that the budget was not made use as an effective management tool.	Agreed. With the Sunday Easter attack took place April 2019, the sale income was decreased and as a result actual income also decreased. Thus, There were huge variances between the budgeted and actual income and expenditure. When starting the Capital projects, the approval of the Board of Directors had been obtained. Nevertheless, action will be taken to make provision for the capital expenditure for coming years through the annual budget.	The budget should be prepared in realistic manner and it should be made use as an effective management tool.
(b)	The impairment adjustments made against the trade debtors of the Company as at end of the year under review amounted to Rs.26.4 million and it was represented as high as 54.3 per cent of the trade debtor value. 100 per cent impairment had been made for the debtors over one year amounted to Rs.22,217,195. Impairment provision of 60.14 per cent had been made for over 06 month debtors, Thus, it was observed in audit that making of high impairment for the debtors was due to inefficiencies of the debt recovery process of the Company.	The outstanding debtor balances over one year amounted to Rs.22,217,195 and out of that, a major portion of the debtor balances were represented by 2 Public Institutions. That percentage was 70 per cent. Since, their reply to pay the debts was uncertain, the provisions had been made for those receivables. Since the year 2018, computations had been made according to the procedure indicated in the IFRS – 09. Thus, due to representing of haft of the debtors (Rs.22,217,195) over one year, out of the total debtors amounted to Rs.43,587,708, such a high amount was allocated.	Appling an effective debt Management Procedure, recovering of debts should be accelerated.

3.4 Transactions in contentions nature

Audit Observation	Management Comment	Recommendation
According to the decision made by the Cabinet of Ministers on 08 January 2016, it had been decided to transfer the hotel premises including the land extent over 23 acres to the Waters Edge Company and in turn to issue the shares of the Company to the Urban Development Authority (UDA) based on the valuation made by the Chief valuer for Rs.4,275 million as a lupm sum payment. However, contrary to the above decision, an agreement had been signed with the UDA, transferring all assets to the Waters Edge Company for 99 years period, in terms of section 18(1) of the Urban Development Act No.41 of 1978. According to the agreement, the UDA and the Company had greed on 17 June 2019 to pay the rent in 94 installments with the concession period of 4 years. However, the information relating to the new decision had not been furnished to audit.	Comment had not been given.	If the decision of Cabinet of Ministers is changed, action should be taken to obtain the approval to the changes too.

3.5 Procurement Management

Audit Observation	Management Comment	Recommendation
The construction contract of the construction of a hotel building comprising 48 rooms, had been awarded to a Private Company for Rs.1,288 million on 18 September 2019, with the approval obtained from the Cabinet of Ministers. Even though a mobilization advance amounting to Rs.71 million had been paid to the contractor with the approval of the Board of Directors, the	As the results of discussions that had been held with the contractor, it was agreed to limit their rights up to Rs.167.08 million. It was requested pay that amount in full, before restart	Action should be taken to pay the mobilization advances as per the requirements of the Procurement guideline and the construction works should be started after being confirmed the availability of the required funds to

construction works had been abandoned due to lack of required funds for the constructions. The losses incurred by the construction Company had not been explained to audit.	the construction works. The construction works have been officially started on 18 May 2021.	continue the works.