

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Waters Edge Recreations Limited (“Company”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the Statement of Profit or Loss and Other 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 2022, 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 Audit Scope 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 Non-Compliance with Sri Lanka Accounting Standard

Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) The Company had not conducted an impairment review as per paragraph 09 of Sri Lanka Accounting Standards 36 for the any assets of Otters Aquatic club even though there were indications for impairment. It was observed that many of assets are being idle as at the date of Audit. Therefore, net assets position might be overstated since recoverable value of assets is likely to be lower than book value.	UDA is in the process of handing over these premises and the business operation to an interested party through Request for Proposal (RFP). Therefore, no intention to invest in renovations further.	Need to take actions to comply with applicable paragraphs of Sri Lanka Accounting Standards.
(b) Even though amount receivable to the Otters Aquatic Club for the donation income amounting Rs. 25,000 which was recognized contrary to the paragraph 09 of SLFRS 15 and sponsorship income for renovation amounting Rs.352,922 could not recovered, had not done impairment provision as per the paragraph 5.5 of SLFRS 09.	Comment noted and considering the pending period for agreed sponsorship payment, provision of impairment has not made for the financial year 2022. However, after the confirmation received from the supplier that sponsorship payment writes off with the Board of Director approval on financial year 2023.	- Do -

### 1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Deferred tax assets were overstated by a sum of Rs. 785,363 as erroneously the Company had taken bought forward tax losses as per tax return for the year of assessment 2021/2022 without taking carried forwarded tax losses at the year-end for the deferred tax computation for the year under review.	Comments noted as mentioned in the observation and will be corrected in year 2023.	Necessary actions should be taken to make necessary adjustments in 2023 Financial Statements.

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| <p>(b) The amount receivable from Urban Development Authority amounting Rs. 100,458,055 for the settlement of Liabilities of Otters Aquatic Club including VAT payable amounting Rs. 99,124,620 should be received from October 2020. However, due to the VAT payable amount is unresolved matter and until finalization of same, the UDA is waiting to settle the amount of Rs. 100,458,055. The company had not done necessary disclosures in the financial statements with regards to this.</p> | <p>Comment noted as mentioned in the observation.</p>   | <p>Need to be made necessary disclosures in the Financial Statements.</p>      |
| <p>(c) Even though, as per the Public enterprise circular no PE/ COP/POLI/ Circulars dated 06 October 2022 the retirement age of employees of the Public enterprise had been revised to 55 years and compulsory age of retirement is 60 years, the Company had been calculated its retirement benefit obligation unreasonably assuming retirement age as 69. Hence, retirement benefit obligation had been understated by Rs. 240,929.</p>   | <p>Comment noted as mentioned in the observation. The above condition will be followed by the company from 2023 onwards. However, there was one employee with whom the service was continued from the existing 80 Club staff. Therefore, the gratuity provision calculated with that employee. However, that employee has been already resigned from the position of 80 Club on 16th August 2023.</p>                   | <p>Actions should be taken to use correct assumptions for the computation.</p> |
| <p>(d) The direct cost of depreciation derived from the assets which were used in normal business operation amounting Rs. 249,052 had been recorded under Administration expenses without recording under cost of sales. Hence gross profit had been overstated by said amount.</p>  | <p>As a general accounting practice, the depreciation has been accounted for administration expenditures. The buildings and other fixed assets have been depreciated and accounted for administrative expenditure even though they are directly attributable to the revenue generation of the company. Hence, we have applied the same basis to calculating the above and treated the same in financial statements.</p> | <p>Most appropriate Accounting practices need to be followed.</p>              |

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| <p>(e) The fixed assets consist of Rs. 2,000,000 worth of motor vehicle (Jet Key) which is not owned to the Company and no economic flow to the Company. Further, Rs. 1,125,000 had been provided as depreciation as at 31 December 2022.</p> | <p>The said motor vehicle (Jets Key) was transferred to the Waters Edge Recreation Ltd at the time of transferring assets and liabilities by the Urban Development Authority on 01st October 2021. Accordingly, the asset was valued at amount of Rs. 2,000,000. However, due to the non-availability of required infrastructure facilities for the use of said asset in the club, the company will take the necessary steps to dispose the same in the year 2023 with the Board of Directors approval.</p> | <p>Necessary action should be taken to make use of Assets to take economic flow to the Company and clear the ownership of the Assets.</p> |
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### 1.5.3 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
<p>The Company's total liabilities exceeded its total assets by Rs. 8,092,801 as at 31 December 2022 and reporting continuous loss from operations for year 2021 and 2022 amounted to Rs. 14,205,722 and Rs. 1,971,616 respectively. Further current liabilities exceeded its current assets by Rs. 27,531,234 as at the end of the year under review. These events indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) for the year under review do not disclose this fact along with necessary disclosures regarding the existence of plans, the management has put in place or the existence of other mitigating factors.</p>	<p>Comment noted with the audit observation. The WERL has been negotiating with the Urban Development Authority on several occasions to minimize and resolve some of operational matters for the smooth operation in future. As result of the above negotiations, the situation has come to be called Request for Proposal (RFP) from the interested investor to invest in mix-development projects with a proper capital investment. This will be finalized in the year 2023 / 2024.</p>	<p>Need to be put in place plans to overcome the going concern issues.</p>

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
As per the age analysis of debtors of 80 Club, the dues from debtors as at 31 <sup>st</sup> December 2022 amounting to Rs. 1,396,126 and out of this an amount of Rs. 793,069 or 57 per cent remained outstanding for more than 120 days.	The amount out of Rs. 793,069, Rs. 769,575 is the outstanding electricity bill which was not cleared by the 80 club committee when they were managing the property. To avoid disconnection to run smooth operation, the Company settled the payment on behalf of 80 club committee. However, a management discussion is undergoing with regard to some assets which belonged to the 80 Club from its inception that are currently used by the 80 club members as set – off the balance in this year.	Necessary actions should be taken to recover the outstanding.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 867,940 and the corresponding loss in the preceding year amounted to Rs. 11,000,061. Therefore, an improvement amounting to Rs. 11,868,001 of the financial result was observed. The reasons for the improvement are increase in revenue and increase in Other Income.

### 2.2 Ratio Analysis

The company main ratios are as follows.

Ratio	2022	2021
Current Assets Ratio	0.88 times	0.88 times
Quick Assets Ratio	0.78 times	0.84 times
Gross Profit Ratio	40%	48%
Net Profit Ratio	(0.9) %	(16) %

## 3. Operational Review

### 3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
Even though Urban Development Authority which is the ultimate parent of the company had spent Rs. 411.42 million for renovation of building of 80 club, the membership fee income of the club which is the main income of the club had not remit to the company or Urban Development Authority. The membership fee income of the club for the year under review was Rs.	According to the tri-party agreement between UDA, Waters Edge Recreation and 80 Club, Waters Edge Recreation has agreed to manage and operate the business activities. According to this agreement Waters Edge Recreation limited only get the Food & Beverage income from the club members and UDA get	Need to act to make this investment financially viable one.

19,484,722. As per the triparty agreement, the membership fee was collected by the club committee and committee paid only monthly fee of Rs. 1.2 million to Urban Development Authority and Rs. 505,000 to the Company. Getting such lower return for this type of larger investment is not financially viable for either party of Urban Development Authority or the Company.

the monthly rental from 80 club committee. However, as the owner of the 80 club, UDA is in the process of handing over these premises and the business operation to an interested party through Request for Proposal (RFP) in order to recover the capital expenses.

### 3.2 Identified Losses

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Tax loss carried forward were understated as the company had not deducted gratuity payment for the year amounting Rs. 892,056 in ascertaining taxable business income.	Comment noted as mentioned in the observation and this was rectified the final income tax computation year 2022/2023.	Need to rectify in the Final tax computation in year of Assessment 2022/2023.

### 3.3 Transactions of Contentious Nature

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Even though the Company had spent Rs. 5,221,135 for the year under review as Security charges, no formal agreement had signed with the security firms of the both Otters Aquatic Club and 80 Club. Further, as per the submitted attendance sheets of the security officers of the Otters Aquatic Club that include shifts 24 hours shifts and some security offices had worked 156 hours continuously without getting the off. This badly affects the security of the clubs.	The security firms that are in the both the clubs continued from its inception. Hence, to formalize the agreements, tender calling process will be carried out together with the Waters Edge Limited through the procurement department of Waters Edge Limited from the year 2024.	Actions should be taken to enter in to agreements.

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

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) The land plot of approximately 2 perches in extent near to the Tennis Ground of the Otters Aquatic Club and separated by the wall of Tennis Ground had been abandoned without utilizing.	UDA is in the process of handing over these premises and the business operation to an interested party through Request for Proposal (RFP). Therefore, no intention to invest in renovations further.	Necessary actions should be taken to effectively utilize the resources available.

- (b) The building between the Basketball Tar Mat and Open Stage which had been constructed before transferring the Otters Aquatic Club to UDA had not been utilized for any function and being idling by storing redundant items of the entity. - Do - - Do -
- (c) 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 made only Rs. 241,350 as income. However, it was observed in the premise that there were no adequate facilities (sanitary facilities, decorations, furniture) for hall to let on rent basis. - Do - - Do -
- (d) 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. - Do - - Do -
- (e) 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 and underutilization. - Do - - Do -

### 3.5 Procurement Management

Audit Issue	Management Comment	Recommendation
Contrary to the Section 3.4.3 of Procurement guidelines, the Company had been purchased most of goods and services from open market without from registered suppliers.	Agreed with the observation. The company will be process through centralized procurement system in purchasing goods and services to the company from 01 March 2023. Therefore, the registered suppliers of Waters Edge Limited will supply goods and services for the Waters Edge Recreations Ltd as well.	Need to take actions to comply with sections of Procurement Guidelines.



### 3.6 Human Resources Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) The Company had not had approved Scheme of Recruitment (SOR).	As the parent Company to both clubs, the recruitment process will be carried out by the Waters Edge Limited through advertising the vacancies in platforms evaluating the requirement and select the suitable candidate for the position of the Company.	Need to prepare and get approve Scheme of Recruitment for the Company.
(b) The Company had paid Rs, 1,761,535 for the supplying of maintenance staff for the year under review without signing the formal agreement.	To formalize the agreements, tender calling process will be carried out through the procurement department of Waters Edge Limited from the year 2023.	Actions should be taken to enter in to agreements.

## 4. Accountability and Good Governance

### 4.1 Corporate Plan

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Corporate plan had not prepared for the year under review.	The Corporate Plan has been drafted and temporarily suspended due to the call for Request for Proposal (RFP) for mix – development projects plan.	The corporate plan should be prepared and implement to achieve its strategic objectives.

### 4.2 Annual Action Plan

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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 by the Company.	Corporate budget has been considered as the immediate action plan for the existing financial. Hence, the Board approved budget for the year is considered as the immediate action plan.	The Action plan should be prepared.