Waters Edge Limited - 2016

The audit of the financial statements of the Waters Edge Limited ("the Company") for the year ended 31 December 2016 comprising the balance sheet as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of the Sri Lanka. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

This report is issued in terms of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The Procedures selected depend on the auditor's judgement, including the assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Other Mater

The financial Statements of the Waters Edge Limited for the year ended 31 December 2015 were audited by another firm of Chartered Accountants in Public practice who expressed a modified opinion on those financial statements on 10 October 2016 due to unavailability of information relating to fixed assets transferred from the Urban Developments Authority (UDA) amounting to Rs.642,500,000, capitalization of Boardwalk Restaurant amounting to Rs.67,192,826 and pending allotment of shares amounting to Rs.842,500,000 for establishing adjustments required to the financial statements, if any.

2.1.2 Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act No.07 of 2007, I state the following.

a. The basis of opinion and scope, and limitations of the audit are as stated above.

b. In my opinion :

- I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.

- The financial statements of the Company comply with requirements of Section 151 of the Companies Act No.07 of 2007.

2.2 Comments on Financial Statements

2.2.1 Accounts Receivable and Payable

The following observations are made.

(a) Debtor balances of Rs.17,759,552 outstanding over 3 months were existed as at end of the year under review. A specific provision of Rs.7,007,754 had been made for the above outstanding balances and out of the specific provision, a sum of Rs.2,160,848 had been made without having specific reasons to made the provision.

(b) Long outstanding unsettled credit balances amounting to Rs.1,124,668 had been accounted under other liabilities without being settled those balances.

(c) Outstanding creditor balance with regard to the floating restaurant had been existed for over 120 days without being settled as at end of the year under review.

2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions etc.

The following instances of non-compliance were observed in audit.

Reference to laws, Rules, Regulations etc.	Non – compliance
Public Enterprises Circular No. PED 05/2016 of 16 December 2016.	Even though the Company should not be paid more than Rs.15,000 as bonus per employee, the Company had paid Rs.40,000 as bonus for each employee in the year under review.
Public Enterprises Circular No. PED/12 of 02 June 2003	Audit Committee meetings had not been held on a regular basis at least once in three months.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company had resulted in a pre-tax net profit of Rs.289 million for the year ended 31 December 2016 as compared with the corresponding pre-tax net profit of Rs.215 million for the preceding year, thus indicating an improvement of Rs.74 million in the financial results of the year under review. Increase of sales revenue by Rs.194 million was the main reason attributed for this improvement in the financial results for the year under review.

In analyzing the financial results it was observed that, the contribution of the Company after taking into account the salaries to the staff, income tax expenses and depreciation was amounted to Rs.502 million in the year 2015 and this had improved to Rs. 653 million in the year 2016.

3.2 Analytical Financial Review

3.2.1 Significant Accounting Ratios

According to the information made available some important ratios of the Company for the year under review and the preceding year are shown below.

	2016	2015
Gross Profit Margin (%)	62.87	61.81
Net Profit Margin (%)	20.28	19.15
Current Ratio (number of times)	1.62	1.66
Debtors Turnover Ratio (number of times)	7	6
Debtors Collection Period (number of days)	52	60

According to the above information, there was a slight improvement in earnings of the Company as compared with the previous year. However, a slight decrease in the Current Ratio and Debtors Turnover Ratio had been observed.

4. Operating Review

4.1 Performance

The Company had developed Key Performance Indicators (KPIs) based on Customer Perspective, Financial Perspective, Process Perspective and People Perspective for the year 2016. However, the entire achievement for the year 2016 was only 75 per cent. The following observations are also made in this connection.

(i) The total revenue target of the year under review has not been achieved by Rs.29 million due to decrease of both Banquets and Restaurants Revenue targets.

(ii) Although the staff turnover target for the year 2016 was 10 per cent, the actual staff turnover was 12.5 per cent as at the end of the year under review.

4.2 Management Activities

The following observations are made.

(a) The Company had incurred an initial cost of Rs.5,503,481 including fee for feasibility study, building application charges and other expenditures during the years 2014 and 2015 on behalf of Mixed Mega Development Project. However, the Project activities had been abandoned after completing the piling stage. The reason for abandonment had not been furnished to audit.

(b) Even though the Company had generated a revenue of Rs.5,454,251 during the year under review from Floating Restaurant which jointly operated with the Sri Lanka Navy, a formal agreement had not been signed with the Sri Lanka Navy.

4.3 Human Resources Management

The following observations are made.

(a) There were 101 excess cadres in different position of the Company as compared with approved cadre.

(b) The Company had not maintained a record for labour turnover timely manner in order to update the changes in employee records. Further, some personal files had not been properly maintained.

5. Accountability and Good Governance

5.1 Corporate Plan

A Corporate Plan had not been prepared by the Company as requested by Public Enterprises Circular No. PED/12 dated 02 June 2003.

5.2 Action Plan

An Annual Action Plan had not been prepared in terms of provisions in the Public Enterprises Circular No. PED/12 dated 02 June 2003.

5.3 Budgetary control

Significant variances ranging from 26 per cent to 211 per cent were observed between the budgeted and the actual income and expenditure for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

	Control Area		Observations
(a)	Control over Fixed Assets	i	The Company had not maintained a Fixed Assets Register accurately and timely manner.
		ii	The Company had depreciated hotel buildings over 80 years without considering industry norms of 40 to 50 years.
(b)	Inventory Control	i	A system to identify obsolete and slow moving inventory items had not been introduced.
		ii	The differences observed at the verification of inventory balances had not been reconciled.
(c)	Accounting	i	The Company had not maintained the sequential order when posting journal entries.
		ii	Duties had not been segregated among the staff of Financial Division for posting and approving of journal entries.
		iii	Board approval had not been obtained for changing the useful life of assets used by the Company.
(d)	Control over Computer System		Physical control over computer operating system is at weak level due to non–compliance to the standard procedures.