Waters Edge Limited – 2017

The audit of the financial statements of the Waters Edge Limited ("the company")for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 Sri Lanka. My observations on the performance of the Company which I consider should be presented to Parliament in terms of article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management 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 management 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 judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Industries' 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 Industries' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 Waters Edge Limited as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Report on other Legal and Regulatory Requirements

As required by section 163 (2) of the companies Act No.07 of 2007 I state the followings.

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

b) I have obtained 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, in my opinion 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

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2.2.1 Related party Transactions

The Following observations are made.

(a) Even though the Authority has requested from the company to issue shares on behalf of the land and building valued at Rs.642.5 million which had been vested in the Urban Development Authority and for Rs.200 million which had been given to the renovation activities of that building but the shares had not been issued up to 31 December 2017. Further, the company's balance sheet stated that there is a pending allotment of shares, for the value of Rs.842.5 million, but according to the financial Statements of the Urban Development Authority that value is Rs.436 million. Also, there was no formal agreement had been entered between the company and the Urban Development Authority to issue shares.

(b) Even though, Rs.224.13 million had to be received from the Urban Development Authority under related party transactions and according to the Authoritie's account Rs.190 million had to be received from the company, and hence this balance had been differenced by Rs.414.13 million.

2.3 Accounts Receivables and payables

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The following observations are made.

(a) According to the financial statements presented Trade and other Receivable balance amounted to Rs. 384,709,140 as at 31 December 2017 and out of that Trade Debtor balance amounted to Rs. 118,003,866. Although Current trade debtors should be settled within 30 days according to the credit policy applied by the company, all these trade debtors exceed the 30 days. Also, 365 days exceed trade debtor balance amounting to Rs. 9,146,062 while the receivable balance from the public sector institutions to the company amounting to Rs. 35,907,510.

(b) A formal credit Policy has not been identified by the company for the payments to the creditors, and a sum of Rs.158 million in trade creditor balance had been existed for the year under review and out of that, 120 days long outstanding balance was Rs.15 million.

(c) Actions had not been taken to recover the Insurance premium amounting to Rs. 791,041 paid by the company on behalf of the employees who left the company

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

The following instances of non – compliance were observed.

	Reference to Laws, Rules, Regulations etc.	Non Compliance
(a)	Financial Regulation 756 of the financial regulations of the Democratic Socialist Republic of Sri Lanka and Public Finance Circular No.05/2016 of 31 March 2016	According to the regulations no board of survey had been conducted for the year under review.
(b)	Public Enterprises Circular No PED/12 of 02 June 2003 (i) Section 5.2.4	Even though the annual budget had to be approved three months before the relevant year, the budget for the year under review had been approved on January 20 of the year under review.
	(ii) Section 7.3	Public Enterprises, and the instructions of Government Procument Guideline are to be followed accordingly and, if other procedures and conditions are prepared in accordance with the requirements of the institutions, the approval from the line ministry and the Treasury Public Enterprises Department should be obtained. Thus, such approval had not been obtained in respect of the procedures and Provisions prepared by the Company.
(c)	Section 9.2 (d)	Actions had not been taken to prepare an Organizational chart for the company and to register the approved cadre in the Department of Management Services.

3. Financial Review

3.1 Financial Results

According to the Financial Statements presented, the operating activities of the company had resulted in a profit of Rs. 184,074,248 for the year ended 31 December 2017 as compared with the corresponding profit of Rs. 241,716,882 for the preceding year, thus indicating deterioration of Rs. 57,642,634 in the financial result for the year under review. Although operating income had been increased by Rs. 128,162,393 during the year under review, an increase of administrative expense by Rs. 139,040,056 and increase of distribution expense by

Rs. 28,899,540 and also the decrease of finance income of the company by Rs. 12,039,378 had mainly attributed to the above deterioration of the financial result.

In analyzing the financial results for the year under review and 04 preceding years, even though the company's net profit of Rs.114 million in the year 2013 had continuously increased up to Rs.242 million by the year 2016. It had been decreased to Rs.184 million during the year under review. However, in readjusting the depreciation for non-Current assets employee's remuneration and paid tax to the government, the financial results and though the contribution amounted to Rs.259 million in the year 2013 had continuously improved to Rs.654 million by the year 2016. It had been decreased to Rs. 585 million during the year under review.

3.2 Analytical financial Review

According to the information made available some important ratios of the company for the year under review had compared with the preceding year and shown below.

	2017	**2016**
Gross Profit Margin (per cent)	62.58	62.87
Net Profit Margin (per cent)	13.94	20.28
Current Ratio (number of times)	1.62:1	1.62:1

According to the above information even though there had not been a significant change in the company's gross profit margin, the net profit margin had been decreased by 6.34 per cent compared to the preceding year. This was mainly due to the increase of advertising under the distribution cost, function organization cost and music program presenting expenses by 105 per cent,170 per cent and 42.63 percent respectively and the increase of total human resource expenses by 24.38 per cent. Although the company's current ratio remained unchanged compared with the previous year, the current assets by Rs.83 Million and the current liabilities by Rs.52 million had been grown during the year under review. However, the company had failed to maintain the current ratio at an optimum level.

4. Operating Review

4.1 performance

4.1.1 Planning

(a) An action plan had not been prepared for the company in terms of provisions in the public Finance Circular No 01/2004 dated 17 February 2004.

(b) An agreement was signed with a private party to prepare a corporate plan and a sum of Rs. 2,163,021 had been spent for this purpose and under the terms of the agreement, the corporate plan had to be prepared within two months. But by the end of December of the year that plan had not been prepared and submitted for the approval of the board of Directors.

4.1.2 Activity and Review.

The company had development key performance Indicators (KPIs) based on Customer Perspective, Financial Perspective, Process Perspective and People Perspective for 15 departments. According to this Performance Indicators all departments had achieved over 70 per cent performance in the year under review and further following observations are being carried out.

(a) Actual income had been decreased by Rs.101 million against targeted income during the year under review.

(b) Although the staff turnover target for the year under review was 10 per cent, the actual staff turnover has been increased up to 22.42 per cent while the banquets operations and kitchen divisions had been recorded the highest employee turnover.

(c) Even though the target absenteeism level was 8 per cent, it had been increased up to 16.62 per cent during the year under review while the Number of employees were 66.

4.2 Management Activities

The following observations are made.

(a) Different credit policies had been followed when providing services on credit basis due to lack of formal credit policy approved by the board of directors of the company and the Public Enterprise Department of the Treasury. Also, legal action had not been taken with regard to the outstanding debtor balances beyond the credit period. Furthermore, 150 institutions approved as per the nominal credit policy for provide services on credit basis, but there were 165 debtor balances include in debtor register and it was observed that,144 of them were institutions that did not approve to provide services on credit basis.

(b) The pricing policy for the year under review was not approved by the Board of Directors and the selling prices of services rendered to government agencies had been decided without cost estimates and at a very low prices. It was observed that this could be a problem for the reputation also Quality of the organization.

(c) As a result of a food poisoning a sum of Rs. 1,000,000 had been paid to a customer as a compensation in the year under review, according to the board of Directors decision, and after that the company had been unable to follow any safety measures regarding to that situation.

(d) The lands and buildings valued at Rs.642,500,000 that had been indicated in Financial statements as at 31 December in the year under review belonged to the Urban Development Authority and those assets had been capitalized in accordance with the Urban Development Authority letter dated 11 June 2014. However, in this respect there had not been entered into a lease agreement in formally between two parties.

(e) Even though the company had generated a revenue of Rs. 2,975,646 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

Staff recruitment and scheme of Promotion for the company had not been prepared in accordance with Paragraph 9 of the public Enterprises Circular No. PED/12 dated 02 June 2003.

4.4 Contract administration

According to the delegation of authority Prepared by the company, it should be obtained the approval of a procurement committee appointed by the cabinet of ministers for contracts exceeding Rs.200 million. In order to avoid from this, need the companies back of House Project (BOH) which total contract value of Rs.269 million has been divided in to 11 sub projects and awarded to 11 contractors and also the sport Bar project which total cost is Rs. 37.7 million has been divided into 09 sections and awarded to 9 contractors, contrary to the section 4.4 of the Procument Guideline. It has been delayed of overall construction as a result of the delay start of the construction work and the defects in the Construction of each contracts affected to the main Construction and due to those problems the construction could not been completed within the relevant time.

5. Accountability and Good Governance

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5.1 Presentation of financial statements

Even though the financial statements have to be submitted for audit within 60 days of the financial year in accordance with paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 dated 2 June 2003, the company's financial statements for the year 2017 were Presented on 28 September 2018, after a delay of seven months.

5.2 Annual budget

Variances ranging from 20 per cent to 968 per cent were observed between the estimated and actual expenditure in the year under review thus observing that the budget had not been utilized as an effective tool of management control.

5.3 Audit & Management Committees

Although the Audit Committee Meetings should be held at least once in every three months according to paragraph 7.4.1 of the Public Enterprises Circular No. PED / 12 dated 02 June 2003, Audit Committee Meetings had not been held by the Company after the month of July 2017.

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.

	Areas of System and Controls	Observations
(a)	Fixed Assets Control.	(i) Fixed assets register had not been updated. (ii) The company has depreciated hotel buildings throughout 80 years, without considering the industry norms of 40 to 50 years
(b)	Debtor Control	Debtor balance comparing sheets had not been prepared and updated
(c)	Inventory control	(i) A System had not been introduced to Identify obsolete and slow moving stocks. (ii) No Reconciliation had been made for the identified differences at stock verification (iii) The inventory valuation policy has not been used continuously.
(d)	Accounting.	(i) It had not maintained the sequential order when posting journal entries (ii) Duties had not been segregated among the staff for posting and approving of journal entries (iii) There is a mechanism to approve the credit note used for the correction of inventory. (iv) Board Approval had not been obtained for changing the useful life of communication equipments used by the company.
(e)	control of computer system	Physical control over computer operating systems is at weak level due to noncompliance to the standard procedures.