

Waters Edge Limited and its subsidiaries - 2022

1. Financial Statements

1.1 Opinion

The audit of the financial statements of Waters Edge Limited (“Company”) and the consolidated financial statements of the Company and its subsidiaries (“Group”) 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 statement of cash flow 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, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2022, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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 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 Group’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 Group 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 Group 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 Group.

1.4 Auditor's Responsibilities 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 Group'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 Group'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 Group 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 Group, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Group has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Group has performed according to its powers, functions and duties; and
- Whether the resources of the Group had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Accounts Receivable and Payable

1.5.1 Receivables

Audit Issue	Management Comment	Recommendation
<p>At the end of the year, bad debt provision of 100 percent was made for the debtors worth Rs.14,845,673 who exceeded one year and 71.78 percent for the debtors who exceeded 6 months, bad debt provision of Rs.155,063 was made. It was observed that the allocation of such a high percentage for bad debt provision indicates a weakness in the company's debt collection and there may be a tendency for bad debt to occur. Further, at the end of the year under review, the value of the total bad debt provision done against the company's trade debtors was Rs.21,485,087, which was a high percentage of 42 percent of the total debtor value (excluding credit card debtors).</p>	<p>The debtor provision of Rs.21,485,087 was provided in the financial statements as bad debt provision as per SLFRS. Outstanding amount of Rs.10,839,695 from Department of Ayurveda which has been identified as a bad debtor has been resulted to make a high percentage of provision for the doubtful debtors and Company seeking for legal advice from the Attorney General to recover this amount.</p>	<p>Actions should be taken to recover the due.</p>

1.5.2 Advances

Audit Issue	Management Comment	Recommendation
<p>(a) Advance received amounting Rs.7,485,000 related to 56 functions held in 2021, had been remained unsettled even at the end of year under review.</p>	<p>According to the operation practice of the Waters Edge, the customers needs to make payment for the confirmation of tentative reservation. The management of the Company have taken decision to keep the balances as remain as unsettled for minimum of three years.</p>	<p>Even though management comment has noted that the management of the Company have taken decision to keep the balances as remain as unsettled for minimum of three years, board approval had not made available for the audit. The decisions of management should be approved by Board of Directors of the Company.</p>

- (b) Advances of - Do - - Do -
 Rs.14,211,705 related to
 111 events held and
 completed within the year
 under review had not been
 settled even by the last day
 of the year under review.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.353,264,660 and the corresponding loss in the preceding year amounted to Rs.153,100,425. Therefore, an improvement amounting to Rs.506,365,085 of the financial result was observed. The reasons for the improvement are increase in revenue and increase in finance income.

2.2 Trend Analysis of major Income and Expenditure items

Rs. 000

Financial Statement Line Item	2022	2021	2020	2019	2018
Revenue	2,172,929	1,134,270	863,696	1,312,520	1,305,769
Increase/ Decrease of Revenue	1,038,659	270,574	(448,824)	6,751	(14,392)
Revenue Growth / (Reduction) as %	92	31	(34)	0.5	(1)
Gross Profit	1,283,272	702,280	541,185	880,524	808,645
Increase/ Decrease of Gross Profit	580,992	161,095	(339,339)	71,879	(17,577)
Gross Profit Growth / (Reduction) as %	83	30	39	9	(2)
Other Operating Income	36,795	22,230	14,803	30,099	66,962
Increase/ Decrease of Other Operating Income	14,565	7,427	(15,296)	(36,863)	16,316
Other Operating Income Growth / (Reduction) as %	66	50	(51)	(55)	32
Finance Income	112,684	17,704	22,904	17,853	29,499
Increase/ Decrease of Finance Income	94,980	(5,200)	5,051	(11,646)	(8,570)
Finance Income Growth / (Reduction) as %	536	(23)	28	(39)	(23)
Administration Expenses	873,456	738,235	609,067	709,749	671,632
Increase/ Decrease of Administration Expenses	135,221	129,168	(100,682)	38,117	41,154
Administration Expenses Growth / (Reduction) as %	18	21	14	6	7

Selling & Distribution Expenses	100,552	31,600	30,715	56,738	64,384
Increase/ Decrease of Selling & Distribution Expenses	68,952	885	(26,023)	(7,646)	(4,714)
Selling & Distribution Expenses Growth / (Reduction) as %	218	3	(46)	(12)	(7)
Profit after Tax	353,265	(153,100)	(73,682)	133,624	146,862
Increase/ Decrease of Profit after Tax	506,365	(79,418)	(207,306)	(11,238)	(37,212)
Profit after Tax Growth / (Reduction) as %	331	(108)	(155)	(8)	(20)

2.3 Ratio Analysis

Ratios	2022	2021
Gross Profit ratio (%)	0.59	0.62
Return on Capital Employed (%)	0.08	0.21
Current Ratio	1.65	1.13
Quick Ratio	2	1

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
(a) The Sport bar which was constructed by spending Rs.57,337,629, remained idle since commencing year of 2022 and currently it is in unusable condition.	Due to various reasons, this project was temporarily suspended with an understanding to re-open as another business model after completion of the balance work at that time. However, all the transactions that have been done were recorded in the financial statements as Work in Progress to the value of Rs.57,337,629 as accounting requirement. The management of Waters Edge need to re-evaluate to seek the possibilities of using the same premises which is commercially viable to enhance the existing infrastructure.	Proper evaluation should be done before the investment is made.
(b) An additional Interest of Rs.7,577,515 had been paid on a loan facility amounting Rs.240,000,000 that had	The Company initially obtained the loan facility for the construction of the 48 Room Boutique Hotel for the value of Rs. billion 1.4. However, the Company	Proper evaluation should be done before make a decision.

been taken to pay interest on loan amounting to Rs.1,405,700,000, initially taken for the construction of a boutique hotel with 48 rooms at Battaramulla hotel premises.

has asked for another loan amounts to Rs. million 240 to cover the interest portion of the original loan and the interest portion of the other Loan amounted to Rs. million 240 until the execution of the project to minimize the impact on the present operational cash flow until the revenue generated from the Boutique Hotel.

(c) An amount of Rs.19,527,684 had to be paid as interest for the period from 28 February 2018 to 31 July 2022 due to delay of signing the agreement with Sri Lanka Land Reclamation and Development Corporation with regard to the restaurant of Diyatha Railway.

There were several negotiations undertaken at that period regarding the finalization of the agreement. Since both parties concluded in August 2022, we have accounted accordingly. In addition, SLLRDC first suggested the Interest rate of 15% which was not agreed upon by the company and thereby company were able to reduce the rate up to 5 %. However, due to the delay in finalization of the agreement, an additional interest payment has been incurred.

Agreement should be entered in time.

3.2 Management Inefficiencies

Audit Issue

Management Comment

Recommendation

Although, a sum of Rs.10,719,033 had been earned as annual rents from LALA park, the lease agreement had not been signed with the lessor for the land.

The amount of Rs.10,719,033 were received from the year 2022 as the rent income with the understanding of our parent company, UDA under the agreement executed between Extreme Adventure (pvt) Ltd and Waters Edge Ltd on 21 December 2017. However, this is under negotiation with UDA to execute the lease agreement for the land.

Agreement should be entered into.

3.3 Delays in Projects or Capital Work

Audit Issue

Management Comment

Recommendation

(a) The initial commencement date of the construction of a boutique hotel with 48 rooms was 02 October 2019 and Completion date was 24 March 2021. However, due to the suspension of the construction in

The construction could not be processed as anticipated due to the several reasons such as pandemic period, non-availability of the required staff members for construction and non-availability

Action should be taken to be in line with the timelines of Project proposal.

2019, the construction was delayed for approximately 24 months up to the date of recommencement on 06 November 2021. Further, as per the board decision, it was decided to scale down the project up to 20 rooms and new completion date was 01 November 2023. However, the construction of boutique hotel had not been completed even at the reporting date.

of some of the materials even after pandemic and also unjustifiable increase in the price of the building materials, import restrictions imposed on major construction materials has been resulted for the price escalation, the contractor has requested to further adjustment for the price escalation as per the terms of contractual agreement. Further, there has been delay in obtaining the balance part of the loan due to delay in submitting necessary collaterals such as rectified lease agreement, approved survey plan and the necessary approval for the price escalation from the relevant procurement committees. However, presently, the management of the Company were able to complete all the documents to re-activate the loan facility and the required documentations which has been pending over the last period. Even though the construction has been delayed, management was able to continue the construction work which has been covered under the original contract. The present management is planning to complete the hotel project with minimum of 20 Rooms in the 1st phase by end of 2024 and balance 28 Rooms in the 2nd phase by mid of 2025.

(b) A revised Bill of Quantity with price fluctuations under prevailing economic crisis for construction of boutique hotel had not been presented to Audit even as at date of Audit.

The revised BOQ with the price fluctuation as it has not been finalized to present to the audit.

Action should be taken to finalized the revised BOQ with price fluctuations immediately.

(c) Even though the construction of wastewater treatment plant was initiated in February 2018, it was observed that approximately 21

This project has been initiated during the Covid – 19 pandemic and completed now in usable condition.

Action should be taken to in line with scheduled dates.

months had been spent to award the contract to the said contractor and another 2 months to release the advance payment. However, up to the capitalized date, approximately 4 years had been taken to complete the said construction from February 2018 to January 2022. Further, the company had failed to submit Engineer estimate, agreement with Bill of Quantity signed with contractor, certificate of completion to the audit.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
A Corporate Plan had not been prepared for the period which covering the year of 2022.	The approved corporate plan will be submitted for audit perusal.	The corporate plan should be prepared and implement to achieve its strategic objectives.

4.2 Annual Action Plan

Audit Issue	Management Comment	Recommendation
An Annual Action Plan had not been prepared for the year 2022.	The approved budget for the year 2022 is considered as the immediate action plan.	The Company should prepare and obtain approval for the action plan at the beginning of the year and implement to achieve its annual targets.