

## **Transaction Report of the Waters Edge Recreations Limited - 2023**

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The audit of operating activities of the Waters Edge Recreations Limited (the “Company”) for the year ended 31 December 2023 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 as per provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

### **1.1 Responsibilities of Management and Those Charge with Governance for the Financial Statements**

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 its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the entity.

According to the Section 16(2) of the said Act, the annual financial statements in respect of each audited entity should be submitted by the Chief Accounting Officer to the Auditor General along with the annual performance reports within such period as may be prescribed by rules.

In terms of Section 38 (1) (d) of the said Act, the Chief Accounting Officer should ensure the timely preparation and submission of annual reports and other financial statements and in addition Chief Accounting Officer shall be required to submit annual reports to Parliament pertaining to the entity.

### **2.1 Failure to submit Financial Statements**

According to Section 6.6 of Operational Manual for State Owned Enterprises introduced by the Public Enterprise Circular No.01/2021 dated 16 November 2021, the financial statements should be presented to the Auditor General with in 60 days after the end of the financial year, but the financial statements for the year 2023 had not been submitted for audit even by the date of 01 April 2025.

### **2.2 Existence of Assets and Liabilities**

As per the last audited financial statements presented by the Company as on 31 December 2022, the details of the Assets, Liabilities, Income and Expenditure are as follows.

| <b>Item</b>        | <b>Amount<br/>Rs.</b> |
|--------------------|-----------------------|
| <b>Assets</b>      |                       |
| Non-Current Assets | 19,438,433            |
| Current Assets     | 131,254,107           |
|                    | -----                 |
| Total Assets       | <u>150,692,540</u>    |

## Liabilities

|                         |             |
|-------------------------|-------------|
| Non-current Liabilities | 8,956,451   |
| Current Liabilities     | 149,828,890 |
|                         | -----       |
| Total Liabilities       | 158,785,341 |
|                         | =====       |
| Net Assets/ Ownership   | (8,092,801) |
|                         | =====       |
| <br>                    |             |
| Total Income            | 209,873,053 |
| Total Expenditure       | 211,844,670 |
|                         | -----       |
| Excess/ Deficit         | (1,971,617) |
|                         | =====       |

### 2.3 Non-Compliance with Laws, Rules, Regulations and Management Decisions

| Reference to Laws, Rules, Regulations etc. | Non compliance | Management Comment | Recommendation |
|--|----------------|--------------------|----------------|
|--|----------------|--------------------|----------------|

**(a) Tri -Party Agreement with the Company, UDA and 80 Club**

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|------------------|--|---|--|
| (i) Section 1.5  | The Urban Development Authority (UDA) is required to pay a management fee of Rs.504,000 per month to the Company for the period from 21 October 2021 to 31 December 2022 for the operation and management of the premises. However, it was observed that the Company had failed to collect the amount of Rs.7,234,839 from the UDA by the date of 31 January 2025. | As noted in the observation, following the finalization of the management fee, 80 Club issued an invoice to the UDA on 23 October 2023, requesting payment for the aforementioned fee. However, several reminders being sent to the UDA regarding this payment. | Actions need to be taken to recover the due.                   |
| (ii) Section 3.5 | Although the revenue from financial activities of the 80 Club for each month should be reported to the UDA on or before the 10th day of the  | The comments noted in the observation and will get the necessary action to report the financial statement to UDA  | Necessary actions should be taken to report to UDA each month. |

following month, confirmation of whether these reports had been submitted to the UDA was not provided for audit. each month.

**(b) Tri-Party Agreement with the Company, UDA and Otter Aquatic Club (OAC)**

- (i) Paragraph E Although the UDA and the Company should have entered into an agreement regarding the terms and conditions for the management and operation of the facilities within the property owned by the UDA, both parties have not taken action to finalize the management agreement since 30 June 2021. As mentioned in the observation, the Management Agreement has not yet been finalized, as the UDA has called for a Request for Proposal (RFP) for the mixed-development project on the Otter Club premises. Management agreement should be entered into by the parties as per the “Facility Availability Agreement”.
- (ii) Section 6.5 Each OAC member must spend a minimum cumulative amount of Rs.8,000 per year on the facilities of the property, including but not limited to restaurants, sports facilities, and the bar. Any shortfall between the amount spent and the required minimum must be paid by the OAC member at the end of each year. If a member fails to meet the minimum spending requirement and subsequently does not pay the outstanding amount to the OAC as stated in this clause, their membership will be suspended and terminated. However, the Company has not implemented internal controls to verify the income generated under this clause. As noted in the observation, although the Company attempted to explore modifications with these requirements to the current information system, the vendor was unable to provide the necessary support. The proper Internal control system should be implemented to verify the income. Considering of that, all membership handling matters, including the aforementioned requirement, will need to be implemented through the new system.

### 3. Operational Review

#### 3.1 Management inefficiencies

| Audit Issue  | Management Comment   | Recommendation  |
|--|--|---|
| <p>(a) A Jet Ski, valued at Rs.2,000,000 and transferred from the UDA, has remained idle since the start of its operation due to a lack of infrastructure facilities. As it could not contribute to the Company's income generation, the Board of Directors sought approval from the UDA to dispose of this item on 6 September 2023.</p>  | <p>In accordance with the decision made by the Board of Directors, the Company formally submitted a request to the UDA seeking their input and approval regarding the proposed sale of Jet Skis. However, the Company has not received a response from the UDA concerning this matter.</p>   | <p>Necessary actions should be taken to expedite the approval process by the relevant authorities</p>                       |
| <p>(b) When the assets and liabilities of the OAC were taken over by the Company, the UDA agreed to settle Rs.60,903,750 of the net liability of Rs.113,927,399, as per Section 8.3 of the Facility Availability Agreement. However, the Company reported Rs.98,425,589 instead of Rs.60,903,750 in the ledger accounts as a receivable from the UDA, resulting in a difference of Rs.37,521,839. The Company's management has not submitted written documentation to verify this excess receivable balance.</p> | <p>As mentioned in the observations, the Tri-Party Agreement signed on 12 July 2021 between the UDA, the Company, and the Otters Club Committee initially reflected a UDA receivable balance of Rs.60,903,750. However, as noted in the special note, this amount was subject to the Chief Valuer's valuation of the building and land. After the Chief Valuer's valuation the receivable balance was revised to Rs.127,283,751. It is important to note that the amended agreement reflecting this updated balance has not yet been signed. According to the amended agreement, the net liability over net asset value is now stated as Rs.127,283,751, replacing the initial amount of Rs.60,903,750. Additionally, as per Schedule No. 02 in the amended Tri-Party Agreement, the UDA's liability to the Company is specified as Rs.98,425,589.</p> | <p>Need to be get legal evidence for the value addition of receivable from UDA and with the amendment of the agreement.</p> |

### 3.2 Procurement Management

| <b>Audit Issue</b>   | <b>Management Comment</b>   | <b>Recommendation</b>   |
|--|---|---|
| Although the procurement entity is required to prepare a Master Procurement Plan as per Government Procurement Guidelines 4.2.1(a), the Company has not prepared a Master Procurement Plan for the years 2023 and 2024 | Comments noted as mentioned in the observation. As the title holder of the OAC Club and 80 Club properties, the UDA has repeatedly communicated its intention to issue a Request for Proposal (RFP) for both clubs in the near future. Consequently, due to this uncertainty, the Company has refrained from undertaking any major developments for these clubs. As a result, the master plan for the next three years has not been prepared, and all procurement activities have been carried out through Waters Edge Limited. | Adhere with cited Government Procurement Guidelines and the master procurement plan should be prepared. |

### 3.3 Human Resources Management

| <b>Audit Issue</b>   | <b>Management Comment</b>   | <b>Recommendation</b>   |
|--|---|---|
| According to the paragraph 3.1 and 3.2 of Operational Manual for State Owned Enterprises dated 16 November 2021, the Company had not prepared and obtained the approval for the Scheme of Recruitment (SOR) from the Treasury. | In line with the requirements outlined in the said Guidelines, the company will take the necessary steps to obtaining the approval for the Scheme of Recruitment (SOR) from the Treasury. | Need to prepare Scheme of Recruitment for the Company and get approval from the General Treasury. |

## 4. Accountability and Good Governance

### 4.1 Corporate Plan

| <b>Audit Issue</b>  | <b>Management Comment</b>   | <b>Recommendation</b>  |
|---|---|--|
| According to the paragraph 2.3 of Guidelines on Corporate Governance for State Owned Enterprises dated 16 November 2021 the Company had not | As mentioned in the observation, the Corporate Plan for the Company was initially formulated for a five-year period at the inception of the company in 2021. However, due to the prevailing | The corporate plan and action plan should be prepared and implemented to achieve its strategic objectives. |

prepared the Corporate Plan and Annual Action Plan.

country's situation at the time, the implementation of the Corporate Plan was not successful. Subsequently, the UDA called for a Request for Proposal (RFP) for both clubs, which led to the withholding of the Corporate Plan's continuation. Considering the current stability of the company, the Company has decided to recommence the implementation of the Corporate Plan in future.

The Company prepares its Annual Budget in alignment with the Annual Action Plan each year. This budget is presented to the Board of Directors for their review and approval prior to implementation.