

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Waters Edge Recreation Limited (the “Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy 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 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 2023, 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 Auditor’s Responsibilities for the Audit of the Financial Statements 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 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 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 |
|--|--|---|
| <p>(a) In accordance with LKAS 01 Presentation of Financial Statements, merchant fees and bank charges amounting to Rs.3,396,887 were incorrectly classified under administrative expenses rather than being presented as finance costs.</p> <p>Further, contrary to the matching principle in the Conceptual Framework for Financial Reporting, depreciation on kitchen equipment amounting to Rs.180,754 was not included in the cost of sales when determining the food and beverage cost for the year, resulting in an overstatement of the gross profit by the same amount.</p> | <p>Confirm that corrective action has been taken in the Financial Statements for 2024. Depreciation has historically been accounted for under administrative expenditure as a general accounting practice, even for assets directly contributing to revenue generation. Accordingly, the same basis was applied in the financial statements.</p> | <p>Need to be comply with relevant standard.</p> |
| <p>(b) Although inventory should be measured at the lower of cost or net realizable value (NRV) when valuing the stock according to the paragraph 09 of LKAS 2 Inventories, inventory amounting to Rs.12,125,067 had been accounted at a cost instead of calculate NRV in the year under</p> | <p>Stock valuation is carried out using the weighted average method. Stock verification records at the Otter Aquatic Club have been properly maintained from 2025 onwards, while records at the 80 Club have been maintained since inception. However, certain stock verification documents were</p> | <p>Inventory should be measured at the lower of cost or net realizable value (NRV) as per the standard.</p> |

review. Further, stock verification and the age analysis of these stocks were not submitted to the audit. misplaced due to changes in club officials.

- (c) In accordance with paragraph 37 of LKAS 16, property, plant and equipment amounting to Rs.661,320 had not been correctly classified according to their similar nature and use within the entity's operations. Property, Plant & Equipment has been corrected, ensuring proper categorization based on the nature and use of assets in the Financial Statements 2024. Property, plant and equipment should be classified as per their similar nature and use.

1.5.2 Accounting Deficiencies

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| (a) The differed tax expense and differed tax liability had been overstated by Rs. 66,961 due to the overstatement of capital allowances amounting to Rs.503,292. | Capital allowances has been corrected in the 2024 financial statements as well as in the tax computation. | Property, plant and equipment should be classified correctly, and capital allowances also calculate based on that. |
| (b) The retirement benefit provision had been computed based on a retirement age of 69 years for 46 staff officers and 75 years for 50 staff officers. Consequently, both the retirement benefit obligation and gratuity expenses had been overstated by Rs.1,211,969 as at 31 December 2023. | Both the retirement benefit obligation and gratuity expenses has been corrected in the 2024 Financial Statements. | The management should comply with Public Enterprise Circular No. 06/2022 dated 06 October 2022 when computing retirement benefit obligations. |

1.5.3 Going Concern of the Organization

| Audit Issue | Management Comment | Recommendation |
|--|--|---|
| The Company's total liabilities exceeded its total assets by Rs.18,113,076 as at 31 December 2023, and it has reported continuous operating losses for the years 2022 and 2023, amounting to Rs.1,971,616 and Rs.14,494,410, respectively. Further, the Company's current liabilities exceeded its current assets by Rs.30,914,568 as at the end of the year under review. These events indicate the existence of material uncertainty that may cast significant | The Company has continuously reported a position where its liabilities exceed its assets. Necessary steps will be taken to ensure that the related disclosures are appropriately included in the Financial Statements for the year 2024. | The Company should ensure that adequate and transparent disclosure of the material uncertainty related to going concern is made in the financial statements in accordance with relevant accounting standards. |

doubt on the Company's ability to continue as a going concern. Although this material uncertainty should be assessed and disclosed in the financial statements as per the paragraphs 25–26 of LKAS 1 – Presentation of Financial Statements, the Company had not done accordingly.

Furthermore, it was observed that the Urban Development Authority (UDA) had informed that operation and management of the one business unit were required to be handed over on 09 September 2025. The Company's total revenue amounted to Rs.184,358,185, of which 57 percent was generated from this business unit. However, the financial statements for the year under review had not disclosed this fact, as required under SLFRS 15 – Revenue from Contracts with Customers regarding significant revenue sources and LKAS 24 – Related Party Disclosures, where applicable.

1.5.4 Documentary Evidence not made available for Audit

| Item not available | Amount Rs. | Evidence | Management Comment | Recommendation |
|-----------------------|---------------|------------------------|--|--|
| Membership income | 17,897,631 | Active members details | The membership system, being over 20 years old, is capable of generating only current-date information and cannot provide backdated reports. However, as stated, the required membership report will be available in 2025. | System needs to be introduced to get Active members' details as at date, as well as backup information should be maintained. |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

| Audit Issue | Management Comment | Recommendation |
|--|---|--|
| The debtor balance under 80 Club as per the financial statements as at 31 December 2023 was Rs.1,541,335 out of that the 50 percent of the total debtor balance amounting to Rs.769,575 was remained outstanding since 2021. | The electricity bill was payable by the 80-Club Committee. However, due to the continued operation of the restaurant, the Company settled the bill on behalf of the 80-Club Committee. As of now, the amount remains outstanding and is recoverable from the 80 Club Committee. | Immediate action should be taken by management to recover the long-outstanding balances. |

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

| Reference to Laws, Rules Regulations etc. | Non-compliance | Management Comment | Recommendation |
|--|--|--|--|
| (a) Paragraph 6.6 of Operational Manual for State Owned Enterprises dated 16 November 2021 | Financial statements should be submitted to the Auditor General no later than 60 days after the end of the financial year. However, the financial statements for the year 2023 were submitted for audit with a delay of one year and eight months. | Company assures you that the Financial Statements will be submitted on time for the year 2025. | Financial statements should be submitted to the Auditor General no later than 60 days after the end of the financial year. |
| (b) Paragraph 6.7 of the Operational Manual for State Owned Enterprises dated 16 November 2021 | Annual assets verification had not been carried out by the company for the year 2023. | Comments are noted as mentioned in the observation. | Need to be comply with cited Manual. |
| (c) Public Enterprise Circular No. 06/2022 dated 06 October 2022 | Although the retirement age of employees in public enterprises has been revised to 55 years, with a compulsory retirement age of 60 years, it was noted that certain employees currently | Comments noted. Over-aged employees were terminated in 2025. However, due to operational requirements, some were re-engaged on | Need to be comply with cited Circular. |

in service were as old as 71 fixed-term contracts. years. The Company had paid salaries amounting to Rs.7,018,970 to six (6) officers, contrary to the stipulated retirement provisions.

2. Financial Review

2.1 Financial Result

The operating result for the year under review amounted to a loss of Rs.10,382,574 and the corresponding profit in the preceding year amounted to Rs.867,940. Therefore, a deterioration amounting to Rs.11,250,514 of the financial result was observed. The reasons for the deterioration are increases in Cost of sales by Rs.3,663,788 and decreases of other income by Rs.8,205,340 when comparing to the preceding year.

2.2 Trend Analysis of major Income and Expenditure items

The analysis of Income, Administration expenses and net profit /(loss) with variances and the percentage of increase or decrease for the last three years are as follows.

| Financial Statement Line Item | 2023 | 2022 | 2021 | Improvement /(Deterioration) | |
|-------------------------------|-----------|----------|----------|------------------------------|------------|
| | 2022-2023 | | | | |
| | Rs.000 | Rs.000 | Rs.000 | Rs.000 | % |
| Revenue | 184,358 | 184,800 | 91,362 | (442) | (0.24) |
| Gross Profit | 69,537 | 73,642 | 43,492 | (4,105) | (5.57) |
| Other Income | 16,868 | 25,073 | 7,809 | (8,205) | (32.73) |
| Administration Expenses | (96,779) | (97,389) | (62,218) | 610 | (0.63) |
| Profit after Tax | (10,382) | 868 | (11,000) | (11,250) | (1,296.23) |

2.3 Ratio Analysis

According to the financial statements and information made available to audit, some important ratios for last three years are as follows.

| Ratio | | 2023 | 2022 | 2021 |
|--------------------|-----|-------------|-------------|-------------|
| Gross Profit Ratio | (%) | 38 | 40 | 48 |
| Net Profit Ratio | (%) | (5.63) | 0.47 | (12.04) |
| Current Ratio | | 0.80 | 0.88 | 0.88 |
| Quick Ratio | | 0.73 | 0.78 | 0.84 |

- The company's current ratio and quick ratio are low as 0.80 and 0.73 respectively and the company is in a financially critical situation where its ability to settle its short-term liabilities is very poor as per ratios marked by less than one.

3. Operational Review

3.1 Management Inefficiencies

| Audit Issue | Management Comment | Recommendation |
|--|---|--|
| The company had not taken any action regarding 8 cheques valued at Rs.238,000 which remained unrepresented for more than one year from their respective issue dates. | The issue has been corrected in the 2024 Financial Statements. WERL reviews cheques with a six-month validity period monthly and cancels those that have expired. | Management should take immediate and necessary action to rectify the identified issues |

3.2 Operational Inefficiencies

| Audit Issue | Management Comment | Recommendation |
|--|---------------------------|---|
| It was observed that during the year under review, advertisement expenses had increased by 53 percent and promotional expenses increased by 117 percent compared to the previous year. However, the revenue for the same period had decreased by 0.23 percent. | Not commented | Management should review advertising and promotional expenses before they were incurred to ensure they contribute to revenue growth and provide value for money |

3.3 Idle or underutilized Property, Plant and Equipment

| Audit Issue | Management Comment | Recommendation |
|---|--|---|
| (a) The building between the basketball court and open stage had not been utilized for any operational purpose and is currently being used to store redundant items of the entity resulting in idle capacity. Further, the two halls within the premises had not been properly refurbished and lack adequate facilities such as appropriate furniture and decorations, limiting their suitability and attractiveness for rental purposes. In addition, the main panel board and power supply circuits were found to be in hazardous condition, posing significant safety risks to the premises and its occupants. | As stated in the Tri-Party Agreement among the UDA, Waters Edge Recreation Ltd., and the Otter Club, the Company is responsible only for managing business operations. WERL was not permitted to undertake any refurbishment activities and did not have sufficient funds for such work, as operations were being carried out under financial constraints. | Management should take immediate steps to resolve this problem without delay. |
| (b) The club's basketball court was found to be in an unusable condition, and the associated sports equipment was broken. Gym equipment was not properly maintained, which could potentially compromise the safety of its users. | -Do- | -Do- |
| (c) A boat taken over from the Urban Development Authority on 30 June 2021, at a value of Rs.2,000,000 had been remained idle and it was recognized as property, plant and equipment. However, the assets do not generate future economic benefits for the entity and had not held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. | The boat, valued at Rs. 2,000,000, was transferred to Waters Edge Recreation Ltd. by the Urban Development Authority on 01 October 2021. As the required infrastructure for its use was unavailable, the Board approved the disposal of the asset, subject to UDA approval, which is still pending. | Management should expedite the necessary actions to obtain the required approval without further delay. |

