

## Sri Lanka Rubber Manufacturing and Export Corporation Ltd - 2012/2018

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The audit of performance of the Sri Lanka Rubber Manufacturing and Export Corporation Ltd for the period ended 31 March 2018 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. The financial statements to be presented in terms of Section 150(1) of the Companies Act, No.07 of 2007 for the years ended 31 March 2018 from the year ended 31 March 2012 had not been presented even by the date of this report. My observations on the performance of the Corporation in the year under review 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

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Management is responsible for the preparation and fair presentation of these financial statements of the Corporation 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.

## 2. Financial Statements

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### 2.1 Presentation of Financial Statements

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In terms of Paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, financial statements and the draft annual reports should have been presented to the Auditor General within 60 days of the closure of the year of accounts. However, the financial statements and draft annual reports for the 6 years from the year ended 31 March 2012 to the year ended 31 March 2018 had not been presented to the Auditor General even by the date of this report.

### 2.2 Position of Assets and Liabilities as at 31 March 2011

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Particulars of assets, liabilities, income and expenditure shown in the last financial statements prepared as at 31 March 2011 by the Corporation are given below.

Assets -----	Value ----- Rs.
Non-current Assets	91,269,967
Current Assets	<u>832,852,873</u>
<b>Total Assets</b>	<b>924,122,840</b>
<b>Liabilities</b>	
Current Liabilities	45,828,677
Non-current Liabilities	<u>929,570,102</u>

<b>Total Liabilities</b>	<b>975,398,779</b>
Net Assets/Equity	<u>(51,275,939)</u>
Total Equity and Liabilities	924,122,840
Total Income	75,166,023
Total Expenditure	<u>77,894,846</u>
Deficit	<b>(2,728,823)</b>
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### 2.2.1 Other Matters

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Accounts of 08 years from the year of accounts 2003/2004 to the year of accounts 2010/2011 had been audited by private audit firms and Audit Opinions had been disclaimed due to the lack of evidence for audit.

### 2.3 Lack of Evidence for Audit

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The following observations are made.

- (a) Even though a Competent Authority had been appointed to the Sri Lanka Rubber Manufacturing and Export Corporation Ltd for a period of one year as per the letter No.PE/GOCO/TR 9 of 01 July 2010 issued by the Director General of the Department of Public Enterprises, he had served as the Competent Authority up to the year 2018 without being extended the service. Moreover, duties to be performed by the Competent Authority had not been assigned in writing.
- (b) A sum of Rs.52 million had been invested in the Sri Lanka Rubber Manufacturing and Export Corporation Ltd under long term investments as at 31 March 2011 and information on the current position thereof had not been made available.
- (c) Ledgers, schedules of balances, age analysis and schedules of balances recoverable from the balances as at 31 March 2018 pertaining to a sum of Rs.764,957,506 receivable from related parties and trade and other receivable balances totalling Rs.56,133,035 as at 31 March 2011, had not been made available.
- (d) Even though motor vehicles and machines costing Rs.17,357,133 and Rs.23,530,433 respectively as at 31 March 2011 had been valued and sold to an investor, valuation reports and confirmation reports of cash receipts had not been made available to audit.
- (e) Confirmation reports on cash balance amounting to Rs.1,283,471, fixed deposit of Rs.3,037,306 and the manner of which the proceeds from the sale of motor vehicles and machines were spent as at 31 March 2011, were not made available to audit.
- (f) Information on long term loans amounting to Rs.901,610,000 obtained from financial institutions on the security of lands, bank overdrafts totalling Rs.17,185,562 and the current position of those balances, was not made available to audit.
- (g) Information on balances of trade and other payables amounting to Rs. 10,768,203 as at 31 March 2011, confirmation of balances totalling Rs.17,874,912 which were not identified

due to removal of fixed assets and the information on balances as at 31 March 2018, was not made available to audit.

### 3. Operating Review

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Even though the Sri Lanka Rubber Manufacturing and Export Corporation Ltd was under the purview of the Ministry of State Resources and Enterprises Development as per the Gazette Notification No.1651/20 of 30 April 2010, 04 factories out of the 06 factories owned by the Corporation had been given on lease basis to the private sector by the State Resources Management Corporation. Further, even though it was stated that the Silverdel factory was vested in the Land Reforms Commission, the information thereon was not made available to audit. Moreover, the Elpitiya Factory had remained idle over a period of 10 years.

The following observations are made in this connection.

- (a) The Mawanella Centrifuged Factory had been leased out at a monthly lease rental of Rs.439,898 for a period of 30 years from 14 March 2012 to 14 March 2042 while the Mawanella Tyre Tube Factory at a monthly lease rental of Rs.123,333 for a period of 30 years from 14 March 2012 to 14 March 2042 and the Buduraliya Crepe Rubber Factory at a monthly lease rental of Rs.39,500 for a period of 30 years from 14 March 2012 to 13 March 2042 had been leased out. Further, the Wahareka Crepe Rubber Factory had been leased out at a monthly lease rental of Rs.28,125 for a period of 05 years from 01 February 2011 to 31 January 2016 while it had been subleased at a monthly lease rental of Rs.42,187 from 01 February 2016 to 31 January 2021 and at a monthly lease rental of Rs.63,281 from 01 February 2021 to 31 January 2026. Accordingly, the information on the lease rent recovered from 03 factories from the year 2012 to 2016 by the State Resources Management Corporation as per the Agreement, had not been made available to audit. Moreover, according to the letter No.MCED/IA-03/AQAG/SRMC of 24 October 2017 issued by the Secretary to the Ministry of State Resources and Enterprise Development, a sum of Rs.1,003,130 was recoverable from the said three factories for the year 2017.
- (b) According to the Cabinet decision dated 23 June 2010, approval has been given to select a suitable investor by calling Expression of Interest from the investors of private sector under the supervision of Standing Cabinet Appointed Review Committee and the technical guidance of the Department of Public Enterprises. As such, a newspaper advertisement had been published on 05 March 2011. Nevertheless, the Wahareka Factory with a land and buildings of 06 acres and 07 perches in extent had been leased out to a private party even by 14 February 2011 that is, before selecting a suitable investor by calling Expression of Interest.
- (c) According to the said Cabinet decision, lease rentals from factories owned by the Corporation should be received to the State Resources Management Corporation. Nevertheless, agreements had been entered into enabling the Sri Lanka Rubber Manufacturing and Export Corporation Ltd to receive the lease rental of the Wahareka factory leased out at Rs.08 million for 15 years that is, Rs.28,125 per month for first 05

years totalling Rs.1,687,500, a sum of Rs.42,187 per month for the second 05 years totalling Rs.2,531,220 and Rs.63,281 per month for third year totalling Rs.3,796,860.

(d) The Elpitiya Foam Rubber Factory owned by the Corporation had been closed down and its assets remained idle without being used over a period of 10 years. Even though 02 years had elapsed since the Corporation came under the purview of the Ministry of Plantation Industries in terms of the Gazette Extraordinary dated 21 September 2015, the land of 06 acres,03 roods and 24.3 perches in extent where the said factory was located, the building with a length of 200 feet and a width of 75 feet and the 03 official quarters had remained idle even by the date of audit report.

(e) Information on the current position of the case filed at the Commission to Investigate Bribery or Corruption pertaining to a misappropriation of public funds approximately Rs.500 million occurred in the Elpitiya Foam Rubber Factory, had not been made available to audit.

### **3.1 Lands not vested properly**

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The Land Reforms Commission owns the land of 06 acres,03 roods and 24.3 perches in extent where the Elpitiya Foam Rubber Factory was constructed and action had not been taken to settle the ownership of the said land.

### **3.2 Resources of the Corporation released to other Government Institutions**

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Even though the land of 05 acres in extent at Silverdel in Dodangoda belonging to the Land Reforms Commission was vested in the said Commission, no action had been taken with regard to the buildings constructed on the said land by the Corporation.

## **4. Accountability and Good Governance**

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### **4.1 Presentation of Financial Statements**

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The financial statements for the period of 07 years from the year ended as at 31 March 2012 to the year ended 31 March 2018 had not been presented in terms of Section 150(1) of the Companies Act, No.07 of 2007.

### **4.2 Performance of Environmental and Social Responsibilities**

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It was reported that water tanks and gutters of buildings constructed on the premises of the Elpitiya Foam Rubber Factory had become the breeding places of the Dengue mosquitos as those places had engulfed in wilderness with bushes like Habarala.