

Sri Lanka Rubber Manufacturing and Export Corporation Limited – 2018/2019

The audit of the operating activities of the Sri Lanka Rubber Manufacturing and Export Corporation Limited (“Company”) for the period from 01 April 2016 to 31 March 2019 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 reported 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 Responsibilities of Management and Those Charged with Governance for the Financial Statements

As per Section 16(1) of the National Audit Act, No. 19 of 2018, every auditee entity shall maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared in respect of such entity. In terms of Section 16(2) of the said Act, annual financial statements in respect of every other auditee entity, shall be submitted by the Chief Accounting Officer to the Auditor-General along with the annual performance reports, within such period as may be provided by rules. Further, in terms of Section 38(1)(d) of the said Act, timely preparation and submission of annual and other financial statements should be ensured and in addition the Chief Accounting Officer shall be required to submit annual reports to Parliament pertaining to the auditee entity.

1.3 Presentation of Financial Statements

In terms of Section 6.5.1 of the Circular No.PED/12 dated 02 June 2003 of the Department of Public Enterprises, financial statements and the draft annual report should be presented to the Auditor General within 60 days after the close of the year of accounts. Nevertheless, financial statements and draft annual reports pertaining to 03 years from 01 April 2016 to 31 March 2019, had not been presented to the Auditor General even by the date of this report.

2. Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018 and Companies Act, No. 7 of 2007 include specific provisions for following requirements.

- In terms of Section 150(1) of the Companies Act, No. 07 of 2007, the board of every company shall ensure that the financial statements are certified by the person responsible for the preparation of the financial statements within six months after the balance sheet date.

2.1 Lack of Documentary Evidence for Audit

Evidence not made Available	Comment of the Management	Recommendation
<p>(a) According to the Letter No.PE/GOCO/TR9 of 01 July 2010 issued by the Director General of the Department of Public Enterprises, a Competent Authority had been appointed to the Sri Lanka Rubber Manufacturing and Export Corporation Limited for a period of one year from the date of said letter. Nevertheless, he had served as the Competent Authority up to the year 2019 without extending the period of appointment.</p>	<p>Necessary action was being taken to legalize the appointment of Mr. W.S. Gamage who was serving as the Competent Authority, with effect from 01 .07.2011 to date and to extend his appointment for the period of next 06 months.</p>	<p>Since the tenure of one year of the Competent Authority had lapsed, expeditious action should be taken to legalize the holding of appointment further.</p>
<p>(b) Particulars of the current position of the investments valued at Rs.52 million made in the Lanka Products Export Corporation as stated in the audited financial statements as at 31 March 2011, had not been made available to Audit.</p>	<p>The said balance of investments had remained since the year 2002 and it has been invested by the Group of Lanka Products Export Corporation. Information in this connection could not be found out as yet while the Competent Authority had been informed to submit the information on the said balance.</p>	<p>Action should be taken to maintain the information pertaining to the investment in an updated manner.</p>

- (c) Schedules and age analysis had not been submitted on the balances recoverable as at 31 March 2019 pertaining to the sum of Rs.764,957,506 receivable from the related parties and trade and other balances receivable amounting to Rs.56,133,035 as stated in the audited financial statements as at 31 March 2011. The said balances had remained since the year 2005 and such reports relating to that period had not been submitted by the Thissa Fernando Company who carried out the audit at that time. Nevertheless, the Competent Authority had been informed to submit the said information. The records on balances receivable should be properly maintained.
- (d) According to the audited financial statements as at 31 March 2011, motor vehicles costing Rs.17,357,133 and machinery costing Rs.23,530,433 had been valued and sold to an investor. Nevertheless, valuation reports and confirmations on receipt of money had not been made available to audit. Since all the activities relating to the selling to the investor has been carried out by the State Resources Management Corporation, you will be notified after consulting the said institution. The reports pertaining to the disposal of fixed assets should be kept safely.
- (e) Necessary information had not been made available to audit to confirm the cash balance of Rs.1,283,471 and the balance of fixed deposits amounting to Rs.3,037,306 as per the audited financial statements as at 31 March 2011. You will be notified after consulting the State Resources Management Corporation. **Updated records should be maintained on the relevant assets as at 31 March 2011.**
- (f) Information on the current position of long term loans totalling Rs. 901,610,000, bank overdrafts of Rs. 17,185,562 obtained from financial institutions on the guarantee of lands and the balances thereof, had not been made available to audit. Action has been taken to settle this loan balance remained in the People's Bank in Borella, by using the advances received from investors and the Competant Authority has been notified to made available the said information to audit. Updated records should be maintained on the assets and liabilities existed as at 31 March 2011.

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| (g) | Relevant particulars had not been made available to audit for the confirmation of trade and other balances payable totalling Rs.10,768,203 and a sum of Rs.17,874,912 not identified due to the removal of fixed assets according to the audited financial statements as at 31 March 2011. | The Competant Authority has been instructed to made available the relevant information to audit. | Updated records should be maintained on the assets and liabilities existed as at 31 March 2011. |
| (h) | Information had not been made available to audit on the current position of the case filed at the Commission to Investigate Allegations of Bribery or Corruption regarding a misappropriation of public funds amounting to Rs.500 million approximately which occured at the Elpitiya Foam Rubber Factory. | You will be notified after consulting the Commission to Investigate Allegations of Bribery or Corruption. | The current position of the steps taken on the cash misappropriation, should be maintained in an updated manner. |

3. **Operating Review**

Even though the Sri Lanka Rubber Manufacturing and Export Corporation Limited was under the purview of the Ministry of State Resources and Enterprise Development as per the Gazette No.1651/20 of 30 April 2010, three factories out of the six factories owned by the Corporation had been leased out to private sector by the State Resources Management Corporation while one factory was leased out to private sector by the Rubber Manufacturing and Export Corporation. Moreover, even though it was stated that the Silverdale Factory has been vested in the Land Reforms Commission, the information thereof had not been made available to audit. Further, Elpitiya Factory had remained idle for about 10 years.

Audit Observation	Comment of the Management	Recommendation
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(a) Even though the lease rent recovered from the 03 factories that is, Mawanella Centrifuge, Mawanella Tyre Tube and Baduraliya Crepe Rubber from the year 2012 to 2016, should be recovered by the State Resources	Since such monies were being collected by the State Resources Management Corporation, the relevant information is available at the State Resources Management Corporation. I will submit the information after consulting the said Corporation.	Information on whether the income from lease rents were duly recovered subsequent to leasing out the public property, should be properly maintained

Management Corporation as per Lease Agreements, information on such recovery had not been made available to audit.

and the information pertaining thereto should be made available to audit.

- (b) A section of the roof of the main building of the Mawanella Centrifuge / Block Rubber Factory owned by the Sri Lanka Rubber Manufacturing and Export Corporation had collapsed on 07 July 2018 and it was reported that a section of the roof had collapsed again on 24 May 2019 as well. However, action had not been taken to repair it even by 11 July 2019 and as such, the lease rent of Rs.5,938,623 pertaining to the period from 13 July 2018 to 31 March 2019, had not been paid to the General Treasury.
- The lease rents received from factories which were leased out by the Corporation, was being received to the Ministry of Public Enterprise, Kandyan Heritage and Kandy Development at present and out of such money, a sum of only Rs.100,000 was being granted to the Corporation monthly. The Ministry of Public Enterprise, Kandyan Heritage and Kandy Development which recovers the due lease rents from the factories leased out by the Corporation, had given consent to carry out the renovation work of the collapsed roof of the main building of the Mawanella Centrifuge / Block Rubber Factory which has been leased out by the Corporation.
- In terms of the Lease Agreement, expeditious action should be taken to repair the damages caused to the factory and to recover the lease rents as per the agreements.
- (c) According to the decision of Cabinet of Ministers dated 23 June 2010, approval had been granted to select a suitable investor after calling for expression of interest from the investors of private sector for leasing the factories under the supervision of Standing Review Committee appointed by the Cabinet of Ministers and under the technical guidance of the Department of Public Enterprises. Nevertheless, the Rubber Manufacturing and Export Corporation had leased out
- The Waharaka Factory has been leased out to private sector on the approval given by the letter No. MSRED/6/1/4 dated 27.01.2011 of the Secretary to the Ministry of State Resources and Enterprise Development.
- Action should be taken as per the decisions of Cabinet of Ministers.

the Waharaka Crepe Rubber Factory with a land and buildings of 06 acres and 07 perches in extent to a private party even by 14 February 2011 before selecting a suitable investor.

- (d) The lease rent of Waharaka Factory was being recovered to a current account of the Sri Lanka Rubber Manufacturing and Export Corporation Limited which is not functioning at present and action had not been taken to credit the said lease rent to the Government Revenue.
- The Rubber Manufacturing and Export Corporation has entered into lease agreements with the lessee on the approval of the Secretary to the Ministry of State Resources and Enterprise Development and the lessee had already given the consent to pay the lease in arrears.
- Action should be taken to credit the said lease rent to the Government Revenue.
- (e) Since the land in extent of 06 acres 03 roods and 24.3 perches where the Elpitiya Foam Rubber Factory of the Corporation which has been closed down for a period more than 10 years was constructed, is owned by the Land Reforms Commission, approval of the Cabinet of Minister has been obtained on 09 April 2019 that the said land and buildings should be leased out for a commercial purpose and the machinery installed at the factory should be sold through the procurement procedure by the Commission and the Ministry of Plantation Industry respectively. Nevertheless, such activities had not been carried out even by the date of audit report.
- Three Valuation Reports thereon have been requested from the Chief Valuer on 02.05.2019 while the preparation of such reports had delayed due to a technical problem faced by the Department of Valuation. As a remedial action, arrangements have already been made to provide the support of the Rubber Research Institute and a Engineer of a external party to the Department of Valuation. Accordingly, action will be taken to implement the decision of Cabinet of Ministers once the relevant Valuation Reports were received.
- Action should be taken as per the decisions of Cabinet of Ministers.