

## **Sri Lanka Rubber Manufacturing and Export Corporation Limited – 2019/2020**

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The audit of the Sri Lanka Rubber Manufacturing and Export Corporation Limited for the year ended 31 March 2020 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 the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be submitted 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**

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In terms of 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 that Act, annual financial statements in respect of every auditee entity, shall be submitted by the Chief Accounting Officer to the Auditor General along with the annual performance reports of those entities, within such period as may be provided by rules. In terms of Section 38 (1) (d) of that Act, the timely preparation of annual reports and other financial statements should be ensured and in addition, the Chief Accounting Officer shall be required to submit annual reports pertaining to the auditee entity to Parliament.

### **1.3 Presentation of Financial Statements**

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Although financial statements and the draft annual reports should be presented to the Auditor General within 60 days after the closure of the year of accounts in terms of paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003. the financial statements and draft annual reports related to four years from 01 April 2016 to 31 March 2020 had not been presented to the Auditor General even by the date of this report.

## **2. Report on Other Legal and Regulatory Requirements**

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

- (i) In pursuant to Section 150 (1) of the Companies Act No. 07 of 2007, the Board of Directors of the Company shall ensure that financial statements are certified by the person responsible for the preparation of the financial statements within six months from the balance sheet date.

### **2.1 Unreconciled Audit Paras**

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Proper measures had not been taken in relation to the audit observations included under paragraph 2.1 of the report tabled in Parliament by me in relation to the period from 01 April 2016 to 31 March 2019 in pursuance of Article 154 (6) of the Constitution.

### 3. Financial and Operational Review in the Year under Review

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#### 3.1 Financial Affairs

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Audit Observation	Comments of the Management	Recommendation
(a) The Competent Authority appointed for a period of one year by the letter of the Director General of the Department of Public Enterprises bearing No.PE/GOCO/TR9 of 01 July 2010 had not taken action to extend his appointment also in the year under review and had acted without a written assignment of duties to be performed.	Action is being taken to formalize the appointment of the Competent Authority.	As the term of one year of the Competent Authority has expired, expeditious action should be taken to legalize the holding of that post immediately.
(b) The Director General of Treasury Operations had reported to the Secretary of the Ministry on 07 October 2019 that an amount of Rs.773.34 million by 30 September 2019 and a sum of Rs.612.80 million as accrued interest as at that date had to be recovered out of the sub-credit provided to the Company by the General Treasury in the years 1999 and 2001 for the provision of relief to rubber small holders by establishing factories of rubber related finished products. Although the Director General of Treasury Operations had instructed to lease out the Elpitiya Foam Rubber Factory to a suitable investor and sell its machinery to repay that loan amount, action had not been taken to settle the aforementioned sub-credit by adhering to those instructions.	The Cabinet has decided to lease the Factory to a suitable investor through the Land Reform Commission. Accordingly, the valuer has provided the assessment report only for the building and had informed that assessment reports cannot be provided for machinery. Therefore, action has been taken to obtain that assessment report by a Committee. Once it is received, the machinery will be sold in accordance with the tender procedure and the land with the building will be returned to the Land Reform Commission at the assessed amount and action will be taken to provide the income received therefrom to the General Treasury.	Action should be taken as per the instructions of the Director General of Treasury Operations.

#### 3.2 Operational Review

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Although the Sri Lanka Rubber Manufacturing and Export Corporation Limited has been placed under the purview of the Ministry of State Resources and Enterprise Development by the Gazette Notification No. 1651/20 of 30 April 2010, Factories such as Mawanella Centage, Mawanella Tyre

Tube, Baduraliya Crepe Rubber had been leased out to the private sector by the State Resource Management Corporation and the Waharaka Crepe Rubber Factory was leased out to the Private Sector by Sri Lanka Rubber Manufacturing and Export Corporation Limited. Although it had been stated that Silverdel Factory had been transferred to Land Reform Commission, details in that regard had not been submitted to the audit. Also, Elpitiya factory had remained idle for 11 years. The following observations are made in this regard.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) As stipulated in the Lease Term No. 05 of the Lease Agreements relating to leasing of Mawanella Centage, Mawanella Tire Tube and Baduraliya Crepe Rubber Factories, the lease installment should be increased by 50% in every 05 years from the beginning of the tenure of lease. Accordingly, the first five years had ended on 12 March 2017. However, it was observed that rental had been under charged for 36 months and 19 days from those three factories by an amount of Rs.11,033,847 as at 31 March 2020 since the lease installment had not been increased according to the Agreement.	Action would be taken to inform this to the State Resources Management Corporation as the State Resources Management Corporation should take action to recover the rent arrears.	Action should be taken in terms of the Lease agreement.
(b) Although the lessee shall insure against all risks, including buildings and other permanent constructions, in accordance with the Condition (xi) of the lessee in clause 5 of the Lease Agreement related to Centage / Block Rubber Factory located in Mawanella, which had been leased out to a private company called “Aroma”, it had not been done so and assets had not been properly maintained and as a result,		

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| (i)   | Although more than 02 years had passed since the roof of the main building of the factory had been collapsed, the roof had not been renovated again.                         | Although action was taken to obtain expenditure estimates in this regard from the Kegalle District Secretary, it was not possible to make provisions for that in the year 2020 as the value of the estimates is high. | Action should be taken expeditiously to repair the roof of the factory in accordance with the lease agreement. |
| (ii)  | The collapse of the roof of the building had not been fully investigated.  | Noted down to conduct a full investigation.   | A full investigation should be carried out in relation to the damage.  |
| (iii) | Lease amounting to Rs. 13,856,787 (Rs.659,847*21 months) payable by this factory had not been recovered even by July 2018, when the roof was collapsed, up to 31 March 2020. | Action would be taken to notify the State Resource Management Corporation to recover the relevant lease.  | Action should be taken to collect rental as per the agreements.  |
- (c) It was not possible to ascertain whether the assets available at that time had been removed from the books as the lists of assets handed over to the lessees at the time of leasing out three factories owned by the Company had not been submitted to the audit.
- The Competent Authority has reported that he provided all the asset records at the time of leasing out the factories to the State Resource Management Corporation.
- Action should be taken to submit the updated information to the audit.