

Transactions Report of the Sri Lanka Rubber Manufacturing and Export Corporation Limited for the period of last three years from 01 April 2020 to 31 March 2023

The audit of operating activities of the Sri Lanka Rubber Manufacturing and Export Corporation Limited for the period of last 03 years then ended 31 March 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 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.1 Responsibilities of Management and Those Charged with Governance for the Submission of Financial Statements

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, each audited entity 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 on that entity. In terms of Sub-section 16 (2) of the said Act, the Chief Accounting Officer is required to submit the Annual financial statements to the Auditor General along with the draft annual reports, within such period as may be provided by rules. In pursuance of Sub-section 38 (1) (d) of the Act, the Chief Accounting Officer shall ensure the timely preparation and submission of annual and other financial statements and in addition the Chief Accounting Officer shall be required to submit annual reports to Parliament pertaining to the audited entity.

1.2 Submission of Financial Statements

Although the financial statements together with the draft annual report for the year under review should be submitted to the Auditor General with copies to the Line Ministry and the Public Enterprises Department within 60 days from the end of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, and Section 6.6 of Public Enterprises Circular No. 01/2021 dated 16 November 2021, the financial statements and draft annual reports related to 7 years from 01 April 2016 to 31 March 2023 had not been submitted to the Auditor General even as by the date of this report.

2. Report on Other Legal and Regulatory Requirements

The following requirements regarding the special provisions of the National Audit Act No. 19 of 2018 and the Companies Act No. 7 of 2007 are included.

- According to Section 150(1) of the Companies Act No. 07 of 2007, the Board of Directors of the Company shall ensure that those responsible for the preparation of the financial statements certify the financial statements within six months from the date of the balance sheet.

2.1 Existence of Assets and Liabilities

Details of assets, liabilities, income and expenditure as shown in the last audited financial statements of the Company as at 31 March 2011 are given below.

Item	Amount
	Rs.
Non-current Assets	91,269,967
Current Assets	832,852,873
Total Assets	924,122,840
Current Liabilities	45,828,678
Non-current Liabilities	929,570,102
Total Liabilities	975,398,780
Net Assets / Equity	(51,275,940)
Total Equity and Liabilities	924,122,840
Total Income	75,166,023
Total Expenditure	77,894,846
Deficit	(2,728,823)

3. Financial and Operational Review

3.1 Financial Activities

Audit Observation	Comments of the Management	Recommendation
(a) Even though the Competent Authority appointed for a period of one year by the letter of the Director General of Department of Public Enterprises No. PE/GOCO/TR-9 dated 01 July 2010 had performed his duties up to 30 November 2022, the appointment of that officer was extended by Decision of Cabinet of Ministers No. CMP /23/ 1151/616/025 dated 25 July 2023. Likewise, the officer had acted without a written duty assignment regarding the tasks to be performed.	A Decision of Cabinet of Ministers has been received on 31.01.2023 regarding the regularization of the appointment of the Competent Authority pertaining to former Competent Authority from 01.07.2011 to 30.11.2022 and regarding the appointment of the new Competent Authority from 01.12.2022 .	Actions should be taken to regulate the entire period related to the appointment of the Competent Authority who served from the year 2010 to the year 2022 .

- (b) Even though a Competent Authority had been appointed with effect from 01 December 2022 subject to the liquidation of the Sri Lanka Rubber Manufacturing and Export Corporation Limited within a period of 06 months as per the Decision of the Cabinet of Ministers No. AMA/22/2180/616/034 dated 31 January 2023 and also more than a year had passed beyond that period, the liquidation of the Corporation had not yet been completed.
- A Memorandum of Cabinet of Ministers was submitted on 26.07.2023 requesting the approval to appoint the Liquidator to extend the period of the Competent Authority and to carry out the liquidation activities, and the approval was given by the decision of the cabinet of Ministers CMP/23/1428/616/025-1 dated 12.09.2023.
- Even though an extension of time had been granted only for a period of 4 months from 01 July 2023, by Decisions of Cabinet of Ministers No. CMP 23/1428 /616/025-1 dated 12 September 2023, the liquidation had not been completed even by 31 March 2024 and the liquidation should be completed immediately.
- (c) From the amount of sub-loan given to this Company by the Treasury in the year 1999 and in the year 2001 to provide relief to small rubber plantation owners by setting up factories for manufacturing rubber-related finished products, although the accrued sub-loan amount as at 31 March 2023 was Rs. 766.74 million and the accrued interest was Rs. 612.80 million and also the approval of the Cabinet of Ministers No. CMP /19/0985/117/031 dated 24 April 2019 has been given to lease out the Elpitiya Foam Rubber Factory to a suitable investor and sell its machinery to settle the liabilities, the Corporation had not taken actions even by the end of the year under review to implement the instructions and settle the liabilities of the Corporation including the above sub-loans.
- According to the approval of Cabinet of Ministers, the Government Valuation Department obtained a new valuation report related to the Elpitiya Foam Rubber Factory. The necessary actions are being taken to get the approval of the Cabinet of Ministers, as the metal types contained in the relevant machinery were not separated according to the assessment report, and the weight was not specified, so the entire task of auctioning and selling the machinery related to the Elpitiya Foam Rubber Factory will be assigned to the Sri Lanka Industrial Board, which has the technical ability to carry out the work, and to provide the money from the sale of the relevant machinery to the Treasury to settle the sub-debt.
- As per the relevant decision of the Cabinet of Ministers, arrangements should be made to settle the liabilities without delay.

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| (d) | It had been estimated that an expenditure of Rs.100,000 per month would be spent on the operational expenses including the maintenance of the documents of the Corporation, security services and allowance of the competent authority, and it had been agreed since August 2017 to provide it from the lease rent collected by the Treasury. This allowance had been given only until July 2020 and later the operational expenses of the Corporation had been made from the lease rent income of the hall amounted to Rs.85,000, the monthly rent of Wahraka Industries. | Since this Ministry does not have enough financial allocations, a written request has been made on 18.07.2022 to the Ministry of Finance, Economic Stabilization and National Policy to obtain the necessary financial allocations. In addition to this, it has also been informed the Department of Public Enterprises in writing on 14.11.2022 in this regard, by the letter dated 26.10.2022 and according to the instructions given in the discussion held at the Treasury Operations Department on 10.11.2022. | Necessary provisions should be made to meet the operational expenses of the Corporation as agreed by the Ministry. |
| (e) | As per the bank statements provided to the audit from 01 April 2020 to 31 January 2023, there were times when there was an overdraft in the current account of the Corporation and overdraft interest of Rs.5,030 and bank charges of Rs.10,000 had also been incurred for that. | Agree. | Payments should not be made on overdraft facilities through government bank accounts. |

3.2 Operational Activities

Audit Observation	Comments of the Management	Recommendation
(a) Four out of 06 factories owned by Sri Lanka Rubber Manufacturing and Export Corporation Limited had been leased out and one of the factories out of that had been taken over by the owner of the land through an testamentary case. Even though the approval had been given by Decisions of Cabinet of Ministers No. CMP /16/ 1902/ 726/041, CMP /19/0985/117 /031 and No. CMP /23/0225/ 616/006 dated 09 November 2016, 24 April 2019 and 08 March 2023 respectively, to be leased out the other factory, the Elpitiya Foam Rubber Factory, to a suitable investor and its machinery and other assets are to be sold following the procurement method and also more than 7 years had elapsed, those tasks had not been completed by now.	Although a request to obtain the consent of the Land Reform Commission to lease the land and the factory on it for a period of 30 years as the land on which the factory is located is owned by the Land Reform Commission, since the consent was not expressed for that, the lease could not be executed at that time. Likewise, since a valuation has not been submitted for the machinery, the relevant machinery could not be auctioned.	Immediate steps should be taken to evaluate the machinery and sell it through procurement methods and to lease the factory as per the decisions of the Cabinet of Ministers.

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| (b) | Out of the three factories leased out to Aroma Natural Rubber (Pvt), Mawanella Kendra Apsari, Mawanella Tyre Tube and Baduraliya Crepe Rubber, only the two factories, Mavanella Tire Tube and Baduraliya Crepe Rubber are paying lease rent currently and even though the lease rent which should increase from 14 March 2021 according to the terms of the lease agreement No. 05 had been collected, the increased lease rent for the period from 13 March 2017 to 13 March 2021 that is Rs.3,908,016 had not been recovered. Similarly, the details regarding the lease rent charged in these two factories from April 2020 to March 2021 were also not submitted to the audit. | There are no enough information | Arrangements should be made to collect lease rent as per the lease agreements and the information required for the audit should be provided properly. |
| (c) | Although the Ministry of State Enterprise Development, in conjunction with the Ministry of Plantation Industries, should take steps to recover the lease rent of the 03 factories mentioned in 3.2(b) above which were leased by the State Resource Management Corporation as per the Decision of the Cabinet of Ministers bearing CMP /16/ 1902/726/041 dated 09 November 2016, it had been informed to audit that since the Ministry does not carry out the lease rent revenue collection activities, the Ministry does not have the information about it. | There are no enough information. | Actions should be taken to maintain up-to-date information regarding the collection of tax and rental income and monitor them by the Corporation and the Ministry . |
| (d) | Although the information about lease rent receipts and arrears of rent income from 04 factories as at 31 December 2021 was asked from the Department of Public Enterprises, by letter No. TPD/A/PED/02/2022/17 dated 02 February 2022 the information had not been submitted for audit until 31 December 2023. | There are no enough information. | The Company should take actions to maintain up-to-date information on lease rent collections and arrears of lease rent and provide information required for audit. |
| (e) | Due to failure of repairing of the roof of the collapsed main building of the Mawanella Kendra Apsari factory, the lessee had not paid the rent since July 2018 and in the lease rent paid till June 2018, the increased lease rent had also not been paid in that year. Accordingly, the total lease rent arrears receivable was Rs.44,869,590 and though it was more than 05 years the renovation works had also not been completed. | Agree. | The renovation works of the factory should be completed and arrangements should be made to collect the lease rent receivable. |

<p>(f) Actions had not been taken to update the existing lease agreements since 2014 and although all the risks should be insured including buildings and other permanent constructions by the lessee as per conditions xi of the lessee of Clause 5 of the Lease Agreements, it had not been so done.</p>	<p>Agree.</p>	<p>Actions should be taken to update lease agreements and implement the agreement in accordance with its clauses.</p>
<p>(g) Even though the Waharaka Crepe Rubber Factory given on lease basis to a private company for 15 years from 01 February 2011 to 31 January 2026, by Rubber Manufacturing and Export Corporation Limited the Company had abandoned the factory in the year 2021. Details of the lease rent to be collected from the private company and late fees as per clause 9 of the agreement, etc. were not submitted to audit. Further, although the said factory was re-leased to another private company for a monthly rent of Rs.85,000 from 01 August 2021 to 31 January 2026, the original copy of the lease agreement entered into with that Company had not been submitted to the Auditor General.</p>	<p>Agree.</p>	<p>Actions should be taken to recover rents and late fees receivable as per lease agreements. The original copies of lease agreements should be submitted for audit.</p>
<p>(h) Due to non-submission of documents on inventory assets handed over to lessees at the time of leasing out the three factories owned by the Company and Reports of Annual Board of Survey, the audit was unable to ascertain the details of the leased assets and the existence of those assets.</p>	<p>The facts could not be found.</p>	<p>Detailed schedules of leased assets should be submitted to the audit.</p>
<p>(i) Although it was revealed during the checking of the documents of the Ministry that the Dodamgoda Molded Factory has been taken over by the owner of the land where the factory is situated through a testamentary case, a copy of the relevant judgment and related documents had not been submitted to the audit to confirm this. Similarly, No details were submitted to the audit in respect of the action taken regarding the assets held by this factory.</p>	<p>No information available.</p>	<p>Copies of judgments and documentary evidence related to this taking over should be submitted to the audit.</p>

- (j) Even though it was decided to liquidate the Corporation within a period of 06 months as per the decision of the Cabinet of Ministers .No. CMP/22/2180/616/034 and dated 31 January 2023, the liquidation of Sri Lanka Rubber Manufacturing and Export Corporation Limited continued to be delayed due to failure of leasing out this foam rubber factory located in Elpitiya and non-submission of accounts for audit.
- Instead of the decisions given by the Cabinet of Ministers dated 08.03.2023 No. CMP /23/ 0225/616/006 for the sale of machinery in the Elpitiya Foam Rubber Factory, actions are being taken to get approval to hand over the entire process up to the separate sorting and sale of the relevant metals to the Sri Lanka Industrial Development Board under the Ministry of Industry and to transfer the money received by the Rubber Manufacturing and Export Corporation Limited to the Treasury after selling those metals. Also the final accounts of the Corporation are being made, from the year 2011/2012 to the year 2022/2023, and, a liquidator will also be appointed for the liquidation of the Corporation on the approval of the Cabinet of Ministers and conduct related activities for liquidation.
- The liquidation of the Corporation should be carried out as per the decision of the Cabinet of Ministers.
- (k) This Corporation was incorporated under the Companies Act No. 17 of 1982 under the name "Sri Lanka Rubber Manufacturing and Export Corporation Limited" on 06 March 1995 and although re-registered on 27 October 2009 under the new Companies Act No. 07 of 2007, the Corporation did not have that certificate. Similarly, , according to the terms of the Companies Act, the Annual Reports and accounts statements had not been submitted to the Registrar General of Companies since 2009.
- Agree.
- It should comply with the provisions of the Companies Act No. 07 of 2007.

- (1) This Corporation which was under various Ministries has come under the Ministry of Plantation Industries by the special gazette No. 1933/13 dated 21 September 2015 and the aforesaid three factories had been leased out by the now defunct State Resource Management Corporation. At present, the lease rent on factories are collected by the Public Enterprises Department and activities of it is not done by a Board of Directors but by a Competent Authority since 2010. However, since Sri Lanka Rubber Manufacturing and Export Corporation Limited has not been properly and adequately supervised it was observed during the audit that the resources deployed for the Corporation had been useless at present.
- Liquidation is being carried out.
- The liquidation of the Corporation should be done according to the Decision of the Cabinet of Ministers No. CMP/22/2180 /616/034 dated 31 January 2023 .