

Consumer Affairs Authority – 2011

1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Consumer Affairs Authority as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards

According to the Sri Lanka Accounting Standard 24, the balance of the deferred income should be equivalent to the net value of assets purchased by government grant while accounting as income. However, the deferred income shown in the financial statements amounted to Rs.35,351,536 whereas the net value of assets amounted to Rs.28,742,326. Thus, it was observed that there was a difference of Rs.6,609,210.

1.2.2 Accounting Deficiencies

The Authority had furnished draft financial statements for audit on 28 February 2012. The accounting deficiencies of Rs.6,410,195 pointed out in audit were adjusted and the Authority had again prepared and furnished the financial statements on 20 August 2012. As such, it cannot be ruled out in audit that such accounting deficiencies would not be repeated.

1.2.3 Non-compliance with Laws, Rules Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc. -----	Non-compliance -----
(a) <u>Consumer Affairs Authority</u> <u>Act, No.09 of 2003</u>	
Section 3(1)	The members of the Authority should have acceptable qualifications, experience and speciality in the relevant fields. However, during the year 2011, appointments had been made with regard to 8 members of the Board of Directors who had not fulfilled the required qualifications.
(ii) Section 27	All traders should be registered at the Authority by paying an annual fees of not exceeding Rs.100,000 after consulting the Minister of the relevant subject. However the Authority had not taken action to get any trader registered.
(b) In terms of sub provisions in Section 4(2) of the Inland Revenue Act, No.10 of 2006 as amended by the Inland Revenue Act, No.22 of 2011 (Amended)	The Pay as you Earn Tax computed as per Tax Table No.02 in terms of provisions in the Act had not been recovered on behalf of leave encashment for 2010 paid on 17 January 2012.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) F.R 133 and 134

It is the responsibility of the Chief Accounting Officer to prepare a new audit programme and fulfilling the audit activities by assigning adequate staff. However, adequate staff had not been appointed, except the Internal Auditor to fulfill the activities concerned.

(ii) F.R.371(2)(b)

The maximum ad-hoc imprest payable at an instance is Rs.20,000. However, this limit had been exceeded contravening the regulations. Ad-hoc imprests aggregating Rs.2,940,800 had been granted on 40 occasions during the year 2011.

(iii) F.R.371(5)

Ad-hoc imprests given should be repaid before 31 December of the financial year. However, ad-hoc imprests aggregating Rs.852,600 remained unsettled as at that date.

(d) Public Enterprises Circular PED/12 of 02 June 2003

(i) Paragraph 8.3.4 and the Public Finance Circular No.PF/FS/05/(viii) dated 01 September 2010

Officers who use telephones and internet facilities for their official duties should follow a monthly maximum consolidated expenditure limit. However, 6 officers of the Authority had been allowed to incur expenditure exceeding that limit.

- (ii) Paragraph 8.3.5(a) and the Public Administration Circular No.22/99 dated 01 October 1999
- The Chairman, Chief Executive Officer and Executive Director only are entitled for allocated vehicles in “C” class institutions. However, contravening the instructions in the circular, monthly transport allowances had been paid to 4 Directors of the Authority and the Secretary of the Consumer Council at the rate of Rs.43,000 and to the Deputy/Assistant Directors at the rate of Rs.7,500. Accordingly, the total amount paid as transport allowances during the year under review was Rs.3,025,500.
- (iii) Paragraph 9.3.1
- Vacant posts should not be filled by acting appointments for an unspecified period. However, contravening the circular instructions, 8 officers of the Authority had been appointed to cover up duties to act in the posts for 3 to 22 months.
- (iv) Paragraphs 9.2 and 9.3.1(i) and the letter of the Department of Management Services No.DMS/E4/41/5/255/2 dated 08 February 2010
- All institutions should possess a scheme of recruitment approved by the Department of Management Services. However, the Authority had made recruitments and promotions without a proper scheme of recruitment.
- (v) Paragraph 9.10
- Recruitments on contract, casual and other basis should be made with the approval of the Secretary to the Treasury. However, contravening it, 20 employees had been engaged in services during the year under review and a sum of Rs.4,720,678 had been paid as salaries and allowances.

- (e) Budget Circular No.150 of 7 Government institutions using hired vehicles December 2010 and letter of should give priority to hire purchase method. the Ministry of Finance and However, the Authority had obtained vehicles on Planning No. MF/TR/1/2003 of hire contravening the Circular and 28 March 2003. Rs.14,692,581 had been paid as hire charges. This was an increase of 538% compared to the year 2010.
- (f) Board of Directors' Paper It was expected to reduce 30% of the telephone No.CAA/AHR/74/2010 dated bills by introducing Dialog phones as a means of 20 September 2010 new media network. However, the expenditure on telephone of 2010 amounting to Rs.1,243,003 had become Rs.2,289,205 during the year under review resulting in an increase of 84% amounting to Rs.1,046,202, as compared with the year 2010.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the activities of the Authority for the year ended 31 December 2011 had resulted in a surplus of Rs.12,618,138 as compared with that of the previous year amounting to Rs.21,763,716 showing a decrease of Rs.9,145,578 in financial results. Increase in personal emoluments, contractual services and other operating expenditure had mainly attributed to this. Further, the operating expenses of the Authority for the previous year was Rs.140,960,486 and it was Rs.194,667,564 during the year under review. Thus it was observed that there was an increase in expenditure amounting to Rs.53,707,078 representing 38.1%.

3. Operating Review

3:1 Performance

The following observations are made.

- (a) A Council for Consumer Activities had been established in terms of Section 39 of the Consumer Affairs Authority Act, No.9 of 2003. According to Section 41(3) of the said Act, if a request is made in terms of Section 37 or Section 38 of the Act, depending on the circumstances, it is the duty of the Council to make a decision within one month of receipt of that request. In contravention, it has been informed to the audit that action had been taken in 2011 for a request made in 2010 and one request alone had been made in 2011. The expenditure incurred for the Council for the year 2011 amounted to Rs.2,464,925.
- (b) An order was made by the Gazette Notification No.1728/5 dated 17 October 2011 to use plastic, paper or timber covers for 37 types of goods named in the notice. This order was reduced to 21 numbers by the Gazette Notification No.1740/22 dated 13 January 2012. The Authority and the Ministry had spent Rs.673,348 and Rs.18,017,340 for this work. There was no evidence to show that benefit reaped was in par with the expenditure incurred on follow up activities.
- (c) According to Section 8(d), (h) and (j) to (l) of the Consumer Affairs Authority Act, No.9 of 2003, the duties to be accomplished by the Authority are to bring awareness among consumers, furnishing information to the Public, Establishment of Consumer Organizations, Promotion etc. However, according to the progress reports furnished by district offices for the period from January to December 2011, fulfillment of those duties was at a very low position.

District	Establishment of Consumer Organization	Conducting Consumer Educational Organization
Kalutara	Nil	01
Hambantota	Nil	Nil
Vavuniya	Nil	Nil
Moneragala	Nil	08
Ampara	Nil	03

Kandy	Nil	02
Puttalam	04	Nil
Gampaha	03	Nil

3.2 Idle and Under Utilized Assets

The balance of the Consumer Protection Fund amounting to Rs.21,837,975 shown as government debtors under current assets in the financial statements was lying at the Treasury as a dormant account from 2004 to the year under review. This amount had been withdrawn by the month of August 2012 and had been spent on hired vehicles contravening the objectives of establishing the Fund.

3.3 Transactions of a Contentious Nature

Approval had been obtained for the Authority's Scheme relating to the encashment of medical leave consisting of 21 days. However, payment for 7 days of vacation leave saved aggregating Rs.3,268,187 too had been made during the period 2005 to 2011, in contravention.

3.4 Resources of the Authority given to other Government Institutions

The following observations are made.

- (a) The payment of telephone bills and salaries amounting to Rs.314,000 and 180,000 respectively for the years 2010 and 2011 belonging to a female officer who served at the Line Ministry and the Media Secretary of the Minister's staff had been incurred from the funds of the Authority.
- (b) The expenditure on repairs of a Defender vehicle and service charges relating to the Ministry amounting to Rs.3,361,475 had been incurred from the funds of the Authority. The Ministry had rejected the reimbursement of this expenditure.

3.5 Staff Administration

The following observations are made.

- (a) Although the information relating to the cadre of the Authority and the average cost per employee for the years 2010 and 2011 had been called for, in audit, the information concerned had not been furnished till 09 January 2013.
- (b) During the year under review, 89 employees had been newly recruited without a properly approved scheme of recruitment.
- (c) An applicant without the qualifications and experience specified in the scheme of recruitment of staff of the Authority had been recruited to the post of Director of Finance on 15 February 2008. In spite of this, the applicant concerned had not been placed on the basic salary scale. Instead, he had been given 2 increments. As a result, a sum of Rs.101,200 had been overpaid as salaries from 15 February 2008 to 31 December 2011.

4 Accountability and Good Governance

4.1 Corporate Plan

The Corporate Plan prepared by the Authority had not been prepared for a specific period of not less than 3 years. It was merely a document being carried forward from year to year. As a result, identification of achievement of the objectives/targets of the Authority during a specific period had become a problem.

4.2 Action Plan

The following observations are made.

- (a) The functions expected to be achieved during the related period could be clearly identified from the Action Plan. However, due to the deficiencies and carelessness prevalent in the Action Plan prepared by the Authority, it could not be confirmed whether the expected objective could be accomplished.

- (b) According to items 5.4a, 5.4b and 5.4c, it had been pointed out that it was the duty of the Competitive Promotion Division to identify performance and other training opportunities, to offer service training programmes to the staff and evaluation. However, making an officer to participate in a training programme alone had been shown as progress of 2011.
- (c) Similarly, 8 items included in the Action Plan prepared by the Authority had not been fulfilled during the year.

4.3 Annual Report

According to the Public Enterprises Circular No.PED/12 dated June 2003, the annual report of the Authority should be tabled in Parliament within 150 days of the closure of each financial year. However, the Annual Report of 2010 had been referred to Parliament for tabling on 24 August 2012.

4.4 Non-implementation of Orders of the Committee on Public Enterprises

The following observations are made.

- (a) The meeting of the Committee on Public Enterprises which met on 14 and 15 of November 2011 had ordered to regularize the Internal Audit Division of the Authority and to fill the vacancies in the posts within 3 months for which 8 persons had been appointed on an acting basis. However, action had not been taken even as at 24 December 2012 to properly establish the Internal Audit Unit and to fill the vacancies in the posts for which acting appointments had been made.
- (b) A Consultant had been recruited in the year 2011 and a sum of Rs.504,000 had been paid vide the Board of Directors' Paper No.CAA/HRA/109/2010/AOB-10-02 dated 22 December 2010. However, action had not been taken to obtain proper approval for this appointment as per orders given in the meeting of the Committee on Public Enterprises which met on the dates referred to above.

4.5 Meetings of the Board of Directors

The following observations are made.

- (a) The number of member appointed to the Board during 2011 was 24. Three of them had not participated in any of the meetings.
- (b) The participation of other members at the meetings too was not at a pleasing level. Their presence in 10 out of 12 sessions of meetings held was less than 50%.

4.6 Budgetary Control

As a result of the deficiencies shown below in the budget prepared by the Authority, it was observed that the budget had not been used as instrument of financial control.

- (a) An expenditure of Rs.22,837,824 had been incurred at 4 instances without provision and at 4 instances the entire provision of Rs.6,730,000 remained unspent.
- (b) The estimated expenditure had exceeded in 9 items. The expenditure so exceeded amounted to Rs.21,783,932.

5. Systems and Controls

The deficiencies in systems and controls revealed in audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Maintenance of reports relating to complaints made by customers.
- (b) Control over vehicles.
- (c) Fixed Assets
- (d) Stock Control
- (e) Personnel Management.