

Consumer Affairs Authority

1. Financial Statements

1:1 Qualified Opinion

In my of opinion, except for the effects of the matters described in paragraph 1.2 of the this report, the financial statements give a true and fair view of the financial position of the Consumer Affairs Authority as at 31 December 2012 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 Accounting Deficiencies

The following observations are made.

(a) According to the accounting policy of the Authority, all assets should be revalued once in 05 years. But, except for the revaluation of only the motor vehicles in the year 2010, the assets valued at Rs.30,822,356 had not been revalued in the year under review and as such the fair value of the assets had not been reflected in the financial statements.

(b) Out of the sum of Rs.133,374,156 appearing as a credit balance as at 31 December 2012 in the Consumer Protection Fund, a sum of Rs.128,570,000 had been shown in the financial statements. As such the balance sum of Rs.4,804,156 had not been disclosed.

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

Instances of non-compliance with the provisions of laws, rules and regulations observed during the course of audit test checks are analyzed below.

Reference to Laws, Rules, Non-compliance
Regulations, etc.

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| (a) Section 8.3.5 (a) of the Public Enterprises Circular No.PED/12 of 02 June 2003 and the Public Administration Circular No.22/99 of 01 October 1999 | Contrary to the Circular instructions and without formal approval transport allowances of Rs.7,500 per month had been paid with effect from 01 September 2012 to 05 Deputy/Acting Directors of the Authority. |
| (b) Circular No.BD/GPS/130/9/12 dated 07 December 2010 of the Ministry of Finance and Planning | Even though the procurement of hired motor vehicles had been suspended, 04 motor vehicles had been procured on hire basis in the year 2012 at a cost of Rs.1,840,000. Even though the Authority had 08 pool motor vehicles, those hired motor vehicles had been in use even by May 2013. |

2. Financial Review

2:1 Financial Results

According to the financial statements presented the operating results of the working of the Authority for the year ended 31 December 2013 had been a surplus of Rs.6,765,819 as compared with corresponding surplus of Rs.13,821,071 for the preceding year, thus indicating a deterioration of Rs.7,055,252 in the financial result. The operating expenditure of the Authority amounting to Rs.195,786,572 for the preceding year had increased to Rs.209,636,046 in the year under review. The increase of Rs.13,849,474 or 7 per cent had been the main reason for the deterioration.

3. Operating Review

3:1 Performance

The following observations are made.

- (a) Even though it was expected to conduct 60,588 raids and investigations in the year under review and earn an income of Rs.242.35 million (comprising 1/3 to the Authority and 2/3 for Government revenue), an income of Rs.92.09 million only had been earned by conducting 27,746 raids and investigations. As such the Authority had failed to conduct the targeted raids and investigations and to earn the expected income.
- (b) In terms of Section 18(1) of the Consumer Affairs Authority Act, No.9 of 2003, the goods deemed as essential to the community or a part thereof can be named specified goods and in terms of Section 18(2) of the Act, the retail or the wholesale prices of such specified goods cannot be increased without the prior approval of the Ministry. Accordingly the Authority had named 15 goods as specified goods and in that connection, the Authority had intervened in the control of the prices of 05 goods namely, cement, petroleum, milk foods, rice and chicken. The Authority had not taken action to intervene in the price control of the other goods. The following observations are made in connection with the goods selected for price control.

(I) Chicken

- * Even though a maximum price for the sale of deepfrozen chicken with skin had been ordered by a notice published in the Gazette Extraordinary No.1641/48 of 18 February 2010 that price control was not effective as that order was not applicable to the sale of dressed chicken and chicken parts.

- * This price control had been removed with effect from 18 October 2012 and the prices of chicken had increased to the ranges of Rs.380 to Rs.450 as reported by the Price Control Division of the Authority. According to Section 19(1) of the Act, the Director General of the Authority should investigate this matter and report to the Consumer Council and in terms of Section 19(2) of the Act, within 2 months from the receipt of such report

the Council should furnish its report to the Director General. But it had not been so done.

(II) Milk Food

* Full Cream Powdered Milk

According to a request made by 04 companies for the increase of prices of powdered milk by producing the cost estimates including the profit margins and taxes the Authority had had approved the increase of the prices of a packet of 400 grammes and a packet of 1 kilogramme of powdered milk by Rs.61 and Rs.163 respectively by the notice published in the Gazette Extraordinary No.1756/32 of 04 May 2012.

Without considering the cost estimates produced by each of the companies separately, a price which exceeded the prices requested had been approved as the controlled price. Accordingly the companies had been allowed to get additional profit margin on a packet of 400 grammes and a packet of 1 kilogramme in the ranges of Rs.9 to Rs.40 and Rs.47 to Rs.110 respectively.

* Skimmed Milk

Even though milk food had been declared as specified goods by the notice published in the Gazette Extraordinary No.1302/24 of 20 August 2003, the Authority had not fixed a controlled price for skimmed milk. As such the producers and distributors had determined the prices at their discretion without the approval of the Authority.

(III) Infant Milk Food

- * Even though milk food had been named as specified goods by the notice published in the Gazette Extraordinary No.1302/24 above, the Authority had not intervened in the control of prices of infant milk food despite the elapse of nearly 09 years by 18 June 2012. As such the prices of infant milk food had been determined at the discretion of the producers and the sellers.

- * However, the Authority had intervened in controlling the prices of infant milk food by the publication of the Gazette Extraordinary No.1763/4 dated 18 June 2012, one company had filed a case against the Authority stating that prices specified are not fair.
- * Nevertheless, the Authority had not analyzed the market prices and the cost estimates in determining the price control and the assumptions only had been used for the purpose. Those assumptions had also been approved by the Consumer Council. In connection with the case filed, the Attorney General had informed the Authority to cancel the above Gazette Notification as the matter had not been properly investigated by the council and to issue a fresh notification. But no action in that connection had been taken even by 30 September 2013.

(IV) Prices of Cement

Even though all varieties of cement had been declared as specified goods by the notice published in the Gazette Extraordinary No.1468/16 of 26 October 2006, that price was not applicable to bulk cement issued to construction companies.

(V) Wheat Flour

Even though wheat flour had been declared as a specified good by the publication of the Gazette Extraordinary No.1342/11 dated 23 May 2004, the producers had taken action to increase the price without obtaining the permission from the Authority. Nevertheless, the Attorney General had informed that the increase of the price should be made with the prior approval of the Authority as it is controlled under Section 18(2) of the Consumer Affairs Authority Act. Nevertheless the Authority had not exercised its authority for controlling the price of wheat flour.

(VI) Liquefied Petroleum Gas (LPG)

- * The price of gas amounting to US \$1,031 and US \$1,195 per one ton of gas that prevailed in February and March 2012 had dropped to the ranges of US \$993 and US \$996 from April to August 2012 and taking that as the basis the price of LP gas had been reduced by Rs.150 through the intervention of the Treasury. In such instances of price decrease, the Authority had not intervened in that connection.
- * In consequence of a request made by 02 private companies in April 2012, the Authority had allowed the increase of the price of a 12.5 kilogrammes gas cylinder (Colombo Price) by a sum of Rs.350 with effect from 04 May 2012. The prices had been increased based only on the invoices of the gas imported in February and March 2012 by the above 02 companies. In increasing the price, matters such as the purchase of gas from the same supplier by the two companies, the stock of gas available with them up to that date, its free on board value, the balance stocks gas purchased from the Sapugaskanda Refinery etc. had not been considered.

(VII) Drugs

- * The Authority had prepared a programme for the determination of the maximum prices of Western drugs and had decided to implement that under a separate unit. Even though a cost estimate of Rs.3,616,000 had been prepared for that purpose, a satisfactory progress of the planned programme had not been achieved.
- * The Authority had conducted a preliminary investigation of the drug trade in the year 2011 and according to the report thereon, the retail prices of certain western drugs had exceeded the cost, insurance and freight in the ranges of 276 per cent to 787 per cent. According to that investigation report, the Consumer Council had presented 10 recommendations on western drugs and informed that the Authority should implement 06 of those. The following matters were observed in that connection.

- The Consumer Council had recommended that the prices of western drugs should be kept at a range of 80 per cent to 85 per cent of the cost of insurance and freight. But no action had been taken thereon.
 - The failure to take action for the cancellation of the then Gazette Notification on price control on 22 October 2002 and the failure to issue a notification again on the control of prices after the establishment of the Authority in 2003, had resulted in a huge increase in the prices of drugs. Taking advantage of the situation, the importers and manufacturers of drugs had started fleecing the consumer by determining exorbitant prices and the Authority had not taken a proper action in that connection.
 - Out of the 06 recommendations from the 10 recommendations of the Consumer Council, that should be implemented by the Authority, the recommendation relating to marking the maximum sale price of all drugs on the surface and inside of the packing or containers in indelible ink only had been implemented in the year. The Chairman had informed that the assistance of the Ministry of Health and the Ministry of Finance and Planning has to be obtained in the implementation of the recommendations.
- (c) A large number of manufactures had shown a tendency for the production of the bottled potable water in Sri Lanka and there is a heavy demand at present for that from the consumers. Even though there should be a compulsory standards certificate on quality for an item with a sale of about 05 million bottles per day, it had not been made compulsory. The following observations are made in this connection.
- (i) As the Standards Certificate is not compulsory a situation where even discarded bottles are collected and packed with unpurified water had arisen.

- (ii) According to an investigation conducted by the Authority in the year 2012 it had been recommended that the bottled water should be subjected to compulsory quality tests, that is should be brought under the purview of the Authority to protect the health condition of the consumer and that obtaining the Standards Certificate of the Sri Lanka Standards Institution should be made compulsory.
- (iii) Nevertheless, action had not been taken to exercise the powers vested by the Consumer Affairs Authority Act, to control this industry lacking in standards through a Gazette Notification.
- (d) The “model shops” concept had been introduced with the primary objective of creating good and lawful businesses. Accordingly targets had been set for the identification of 324 such shops representing all districts. But this concept had been implemented only in Anuradhapura District concurrently with the Deyata Kirula Exhibition 2012 and identified only 66 shops.
- (e) Even though the conduct of 280 workshops covering all districts in the Island had been targeted for creating a good competitiveness in the market, 80 per cent out of the workshops conducted had been limited to cover the Colombo, Trincomalee and Matara Districts.
- (f) Even though a Consumer Affairs Council had been established in terms of Section 39 of the Consumer Affairs Authority Act, No.9 of 2003, the Authority had failed to appoint qualified members as specified in Section 39(2) of the Act.

3.2 Idle and Underutilized Assets

Action had not been taken even up to 30 September 2013 for the valuation and disposal of 82 items identified in the Board of Survey Report for the year 2012 as unusable.

3.3 Resources of the Authority given to other Government Institutions

Even though the Authority had spent a sum of Rs.3,361,475 from its funds for carrying out repairs to and servicing of a Jeep belonging to the Ministry in the year 2011, the Ministry had rejected the reimbursement of the entire amount.

4.4 Transactions without Authority

 The transfer of the balance of Rs.21,837,975 in a Fund created during the period of Department of Internal Trade and the Fair Trading Commission in operation to the Consumer Affairs Authority had been approved by the Director General of State Accounts on 18 January 2005.

When this money was released by the Treasury to the Authority through the Ministry it had been noted that “There is no objection for the utilization of the money for the objectives based for the establishment of the Consumer Services Fund.” Instead of utilization of the sum of Rs.14,000,000 for the consumer education and promotion, which is the objective of the Fund, that money had been utilized for the payment of hire charges to the suppliers of private motor vehicles used for market investigations.

3.5 Staff Administration

 The position of the staff of the Authority as at 31 December 2012 is given below.

Category of Staff	Number Approved Staff	Actual Staff	Number of Vacancies
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Senior Manager	08	07	01
Manager	25	07	18
Junior Manager	40	07	33
Non-Executive Grades	265	193	72
Primary Level	<u>32</u>	<u>23</u>	<u>04</u>
	370	237	133
	===	===	===

The following observations are made in this connection.

- (a) The Authority had not taken action to fill the above 133 vacancies.
- (b) The Authority had recruited employees on contract basis for 11 posts and the Senior Media Officer, a Driver and two Office Aides had been released for service in the line Ministry. But the Authority had paid a sum of Rs.684,660 as their monthly salaries.

4. Accountability and Good Governance

4.1 Non-implementation of Directives of the Committee on Public Enterprises

The Committee on Public Enterprises had at the meetings held on 14 and 15 November 2011 directed that the Authority should regularize the Internal Audit Unit of the Authority and to fill the posts of the officers appointed on acting basis within 03 months. But action for regularizing the Internal Audit Unit and to fill the acting posts had not been taken even by 31 December 2012.

4.2 Meetings of the Board of Directors

The following observations are made.

- (a) Twelve meetings of the Board of Director had been held in the year 2012 and three members of the Board had not attended any of those meetings.
- (b) Even the participation of other members at the meetings had been at a weak level and one of the members had not attended any meetings since the date of appointment. The participation of 04 members had been in the ranges 4 per cent and 25 per cent.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of 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) Accounting
- (b) Assets Control
- (c) Human Resources Management
- (d) Identification of Special Goods and process of Price Control