

## **Consumer Affairs Authority - 2015**

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The audit of Financial statements of the Consumer Affairs Authority for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 50(3) of the Consumer Affairs Authority Act, No.9 of 2003. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7) (a) of the Finance Act will be issued to the Chairman of the Authority in due course.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that, I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, the financial statements give a true and fair view of the financial position of the Consumer Affairs Authority as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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Even though the assets costing Rs.13,875,000 had been fully depreciated due to not reviewing annually the effective life for the non-current assets in terms of the Sri Lanka Public Sector Accounting Standard 03, they had been further in use. Accordingly action had not been taken to revise the estimated error.

### **2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions.**

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The following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed.

#### **Reference to Laws, Rules, Non-compliances Regulations and Management Decisions etc.**

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| (a) Section 19(2) of Consumer Affairs Act No.09 of 2003.  | Even though a matter referred to the Consumer Affairs Council for investigation should be concluded and the said report should be presented to the Director   |
|   | General of the Authority within 02 months, investigation on the recovery of excessive charges for medical consultation and laboratory tests carry out for patients by island wide private health service Institutions had been referred to the Consumer Council for investigation, but such investigation report had not been presented even up to the date of audit on 15 June 2016. |
| (b) Section 4.5 of Chapter xxiv of the Establishments Code of the Democratic Socialist Republic of Sri Lanka. | Action had not been taken to recover the loan balances, recoverable from an officer who resigned from service and from 04 officers who were interdicted, amounting to Rs.10,119 and Rs.324,616 respectively even by 31 December 2015 from the sureties.   |

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result for the year under review had been a surplus of Rs.12,730,639 as compared with the corresponding surplus of Rs.23,184,968 for the preceding year, thus indicating a deterioration of Rs.10,454,329 in the financial result for the year under review as compared with the preceding year. The increase of personal emoluments by Rs.58,167,187 over the increase of recurrent grants by Rs.37,674,564 and other income by Rs.11,174,528 had mainly attributed to this deterioration. In analyzing the financial result of the preceding four years and the year under review, even though a continuous financial surplus prevailed up to the year under review, it had annually fluctuated. Nevertheless, in considering the employees' remunerations and depreciation on non-current assets, the contribution amounting to Rs.131,429,112 of the Authority in the year 2011 had gradually increased up to Rs.262,287,710 in the year 2015.

### **4. Operating Review**

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#### **4.1 Performance**

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The following observations are made.

The objectives of the Authority according to the Consumer Affairs Authority Act No.09 of 2003 are given below.

- To protect the consumers against the marketing of goods or provision of services, which are hazardous to life and property of consumers.
- To Protect consumers against unfair trade practices and guarantee that consumers rights shall be given due consideration.
- To ensure that wherever possible consumers have adequate access to goods and services at competitive prices and
- To seek redress against unfair trade practices, restrictive trade practices or any other forms of exploitation of consumers by traders.

The following weaknesses were observed in fulfilling the above objectives by the Authority in the year under review.

#### **(a) Price control for Western pharmaceuticals**

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The following observations are made.

- (i) All drugs had been determined as "specified goods" through the Extraordinary Gazette notification No.1852/22 dated 04 March 2014. Accordingly, the approval of the Authority should be obtained prior to

increase the drug prices in terms of Section 18(2) of the Act for the establishment of Authority. Even though a methodology had existed with the Authority for restriction of selling price of drugs up to a maximum of 65 per cent of the imported price, excluding Customs duty ( C.I.F value), prices of drugs had been increased ranging from 65 per cent to 937 per cent before the issuance of the Gazette notification making the drugs as “specified goods” by number of companies. Nevertheless, the powers had not vested with the Authority from the Consumer Affairs Authority Act, for decreasing the drug prices so increased up to 65 per cent again.

- (ii) The State Pharmaceuticals Corporation and the companies engaged in sale of pharmaceuticals had requested for permission from the Authority to get the price of imported drugs increased. The permission of the Authority had been obtained to adjust and implement in the market as to determine their retail drug prices in the range from 50 to 53 per cent from the imported price excluding Customs duty for State Pharmaceutical Corporation and the range from 62 to 64 per cent from the imported price excluding Customs duty for other companies engage in sale of drugs. As a response, the approval had been granted to maintain a higher retail price only for Pharmaceutical Companies, without implementing a same price range for the State Pharmaceutical Corporation and the other companies engaged in sale of pharmaceuticals.

**(b) Services provided by Private Health Service Institutions**

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The following observations are made.

- (i) Rules had been imposed through the Extraordinary Gazette No. 1918/17 dated 11 June 2015 stating that bills, inclusive of information on detailed cost in respect of all the drugs administered to indoor patients who got treatments from all private Health services institutions and all medical equipment and their quantities used in treating those patients should be issued. Nevertheless, the Authority had not taken steps even up to 15 June 2016 to check as to whether those rules were properly implemented.
- (ii) A large difference had existed between the maximum and the minimum price imposed by the Health Services Regulatory Authority for 33 lab tests mostly carried out by the island wide Private Hospitals. Accordingly, such Institutions could be able to charge the maximum prices from patients. Nevertheless, the Authority had not intervened for the protection of consumers therefor.

**(c) Price control for rice**

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The Government had imposed a guaranteed price of Rs.50 and Rs.45 per kilo of Keeri Samba and Samba paddy and Nadu paddy respectively in the year under review. Since the Authority had not imposed a control price for rice based on such price, the price of rice in the market had increased.

**(d) Price control of infant milk foods**  
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The following observations are made.

- (i) The Attorney General's Department had informed the Authority on 04 January 2013 to issue a new Gazette notification due to lapses in the Extraordinary Gazette notification No.1763/4 issued on 18 June 2012 to control the price of infant milk food. Even though the above Gazette notification had been abolished accordingly, through the Gazette notification No. 1818/11 dated 10 July 2013, the Authority had not taken any steps to investigate this matter again and to issue a new Gazette notification to control prices.
- (ii) With the removal of the above Gazette notification, some Companies imported infant milk foods had determined a high retail price ranging from 72 to 235 per cent from the imported price (at C.I.F value) by earning a higher profit in the market. Even though a report had been presented to the Board of Directors of the Authority by the Price and Management Division in this regard, it had not been presented to the Consumer Affairs Council.
- (iii) The Authority had taken steps to carry out an investigation on prices solely based on the import invoices and customs clearing documents without conducting an investigation by taking adequate information regarding the price structure of each category of infant milk food from imported price to retail price imported and distributed by the companies which were engaged in importing infant milk foods.

**(e) Price control of non-fat milk powder**  
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As the Authority had not taken steps to impose a control price for non-fat milk powder up to 15 June 2016 the date of Audit, the manufacturers and importers of these items had maintained the prices of these items at their discretion without a permission from the Authority.

**(f) Price control of Petroleum Gas**  
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The following observations are made.

- (i) According to the price formula agreements entered into between the Authority and the 02 Gas Companies, those Companies should inform the Authority the composition of price of a domestic Gas cylinder of 12.5Kg, once in two months and the Authority should make a decision on the fluctuation of price within 30 days based thereon. Accordingly, one Company had not provided any information to the Authority after November 2012 and the other company after May 2015 and the Authority had not made any supervision in that respect.
- (ii) The Authority had not decided the gas price in terms of price formula in the year under review and the Treasury had decided the gas price at three instances and

informed the Authority and the gazette notifications had been issued by the Authority, accordingly.

**(g) Price control of Biscuits**  
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In the study on manufacture of biscuits carried out by the Competition Promotion Division of the Authority in the year under review, it was observed that increase of selling price of biscuits due to engage in competitive advertising for the increase of sales by main 02 companies engaged in biscuit industry, awarding higher discounts to retailers and maintenance of higher profit margins by companies and sale of productions with similar weight and brands under different prices to consumers. Even though that study report had therefore recommended to determine the biscuits as a “specified item” under the Consumer Affairs Authority Act for the protection of consumers, this fact had not been presented to the Consumer Affairs Council for investigation by the Director General of the Authority in terms of Section 19 of the Consumer Affairs Authority Act.

**(h) Control of Three-wheeler charges**  
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Extortion of charges had been recovering from the three-wheeler users as a result of fixing meters without standard by three-wheeler drivers, unreasonable charges shown in the meter for the distance travelled, recovery of different amounts of charges for the same distance by different drivers, recovery of excess charges on rainy days and at night and not decrease of charges even the fuel price had decreased. Even though the Authority should investigate and take action to protect the consumers by imposing rules and laws in the event of a certain type of exploitation of consumers and maintain an unreasonable price as to affect many consumers in providing services to them, it had not be so done.

**(i) Price control of bottled drinking water.**  
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The following observations are made.

- (i) Twenty Nine drinking water bottles obtained from various areas in the island had been presented to the Government Analyst’s Department for chemical and physical examination in the year under review in terms of the powers vested in the Authority by the Act for the intervention in connection with the goods hazardous to the consumers’ health protection and the report received in July 2015 had confirmed that 25 bottles of water out of it were without the standard in terms of the Food Act. Even though the Director General of Health Services should immediately be informed on such defects, the Director General of Health Services had been informed after the lapse of 07 months after receiving the report and legal action had not been taken in that respect.
- (ii) Recommendations had been made in connection with the maximum retail price of water bottles in each water volume from the investigation report handed over to the Director General of the Authority on 30 July 2014 in connection with the investigation carried out by the Consumer Affairs Council of the Authority for a price control in respect of water bottles. Nevertheless steps had not been taken to control the price of water bottles even by 15 June 2016, the date of Audit.

**(j) Price control of wheat flour**  
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Wheat flour had been subjected to the price control of the Authority by specifying wheat flour a 'specified goods' through the Extraordinary Gazette Notification No. 1342/1 dated 26 May 2014. Only the price of unpacked wheat flour had been fixed at Rs.87 per kg through the Extraordinary Gazette Notification No.1906/47 dated 19 March 2015. Even though the price of 1 kg of packeted wheat flour had been sold at the price ranged from Rs.108 to Rs.115, the Authority had not taken necessary steps to control the price of packeted wheat flour even by 15 June 2016.

**(k) Consumer service Inquiry project**  
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The following observations are made.

(i) In presenting the complaints via Consumer Service Query Project -1977 established by spending a sum of Rs.9,188,369 in the years 2013 and 2014 for consumers to present complaints instantly to the Authority and for consumers and farmers to make aware the wholesale and retail prices of the market, presentation of complaints under this system had failed due to inability to connect instantly with an officer of the Authority, as the complaint received was referred for recording and the aversion shown by the consumers therefor.

(ii) Even though an objective of the project had been the provision of facilities to obtain wholesale and retail prices updated at 07 Economic centers, 05 Common markets and Lanka SATHOSA for consumers and farmers via this emergency call number, the above objective had not fulfilled due to the existence of occasions of inability to obtain data received from 05 common markets to consumers as the market price at Economic centers and Lanka SATHOSA had not been updated and other various defects existed in the system.

(l) No. of raids had decreased by 3 per cent in the year 2015 as compared with the year 2014 and the number of actual raids had decreased by 4296 representing 17 per cent than the targeted raids in the year under review.

**4.2 Management Activities**  
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The following observations are made.

(a) Even though the funds of the Authority should be used in optimum capacity for planning and implementation of the objectives of the Authority against the unreasonable market practices and related to protect the consumers' rights, excess cash amounting to Rs.4,400,000 collected from fines, imposed by the Authority up to 30 September 2015 had been retained in the Bank current Account without utilizing to achieve the objectives of the Authority.

(b) It was observed that a tendency of participating the same group of officers in several instances out of the officers participated in foreign tours of the Authority from the year 2013 to 2015 and selections had not been done in a manner that the distribution of

opportunities among the qualified officers according to the nature of the related tour in selecting the officers for foreign tours.

**5. Systems and Controls**  
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Weaknesses 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.

<b>Areas of Systems and control</b> -----	<b>Observation</b> -----
(a) Vehicle control	Existence of weaknesses in the selection of suppliers of hiring vehicles and under-utilized vehicles
(b) Employees' loan control	Not following the provisions in Establishments Code in recovery of employees' credits and non-preparation of time analysis of employees' credits.
(c) Price control of specified goods	(i) Non-implementation of a similar price range for Pharmaceutical Corporation and Companies which sell western pharmaceuticals.  (ii) Getting increased the drug prices by many Companies before the issuance of the Gazette notification making drugs a specified good.  (iii) Failure the price control made for infant milk foods.  (iv) Inability to control price for rice  (v) Non-implementation of a price control for packeted wheat flour