

## **Consumer Affairs Authority – 2017**

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The audit of financial statements of the Consumer Affairs Authority for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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. 09 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 relating to this was issued to the Director of the Authority on 11 June 2018.

### **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 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.

#### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

### **2. Financial Statements**

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#### **2.1 Qualified Opinion**

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In my opinion, except of the matters described in paragraph 2.2 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 2017 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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###### **Sri Lanka Public Sector Accounting Standards 07**

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Though, the depreciation of an asset commence after it has been prepared for use in terms of Paragraph 69 of the Standard, depreciation amounted to Rs. 282,743 had been calculated and accounted for non- current assets totalled Rs. 2,827,431 which were not received to the Authority even by 31 December 2017.

##### **2.2.2 Accounting Policies**

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According to the paragraph 9 and 15 of the Sri Lanka Public Sector Accounting Standards No. 03, a policy should be formulated based on more recent publications by the institutes of the building Standards relating to increase in future employee salaries, employee turnover and other actuarial assumptions such a policy had not been prepared. However, provision for gratuity had been made based on the last salary obtained and service period and provision for gratuity as at 31 December 2017 had been understated by Rs. 1,583,778 thus surplus of the year under review had been overstated from same amount.

##### **2.2.3 Accounting Deficiencies**

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Following observations are made.

- (a) Office equipment and motor vehicles had been depreciated more than the cost by Rs.3,518,530.

- (b) A sum of Rs.12,011,000 paid as employees bonuses on 30 May 2017 in respect of the years 2014, 2015 and 2016 had been adjusted for the profit of the year under review instead of adjusting to the previous year profit and as a result of that profit of the year under review was understated from that amount. Further, provision had not been made in the financial statements by preparing estimates for the employees bonus of the year under review.

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

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Following non-compliances were observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non – compliance</b>
(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka Section 4.5 of Chapter XXIV	Receivable Loan balance of Rs. 881,760 had been existed as at 31 December 2017 from 10 interdicted officers.
(b) Financial Regulation of the Democratic Socialist Republic of Sri Lanka Financial Regulation 371 (2)	Even though advances should be settled even after the purpose completed, an advance of Rs.219,000 given to a private company for audit of human resources had not been settled even up to 30 June 2018.

### 3. Financial Review

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#### 3.1. Financial Result

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According to the financial statements presented, the financial result of the Authority for the year under review had resulted in a surplus of Rs.50,830,861 as compared with the corresponding surplus of Rs.6,660,137 for the preceding year, thus indicating a improvement of Rs.44,170,724 in the financial result. Increase in Recurrent Grant by Rs.88,652,320 and increase of personal emoluments, other operating expenses and building rent by Rs. 34,361,943, Rs. 8,764,413 and Rs. 6,685,806 respectively had been the main reason for this improvement.

In analyzing financial results for the year under review and 04 preceding years, even though a financial surplus exist continuously up to the year under review, it had been fluctuated annually. However, in considering personnel emoluments and depreciation on non- current assets, the contribution of the year 2013 amounting Rs.190,252,253 and it had increased up to Rs.343,944,401 in the year 2017.

## **4. Operating Review**

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### **4.1. Performance**

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#### **4.1.1 Planning**

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Following observations are made.

- (a) According to the action plan of the year under review, 600 programs including 300 schoolchildren awareness programs had been planned to complete and a sum of Rs. 8,474,299 had been spent during the year under review. However, only 105 of those programs had been held during the year under review and not a single schoolchildren awareness programmes conducted in three districts.
- (b) Schoolchildren awareness programmes had not been planned and implemented giving priority to relevant districts based on the number of school children and covering overall districts.
- (c) A survey had been carried out by the Authority to check whether all importers and distributors selling goods mentioned in the gazette notification No 1505/11 dated 11 July 2007 are acting accordingly. In that survey, it was observed that, the particulars of the importers and distributors not mentioned in the gazette, the maximum retail price had not been mentioned, and the prices were revised by the shopkeepers and it was observed that the orders of the above gazette notification does not implemented and the Authority had not taken adequate steps to implement the orders.
- (d) Provisions had been made regarding the complaints received by the Authority under section 13 of the act in which the Authority was established. Due to lack of systematic documentation or database on complaints received by the Authority it is unable to check unresolved complaints and delays in solving. As a result, it was observed that the achieving objectives of the Authority such as to give result against the consumer exploitation and to provide protection to consumers against the supply of goods and services which were harmful to the lives and property of consumers was not fulfilled.
- (e) Even though rice has been designated as specific commodity since 2008, gazette notifications have been issued time to time specifying the maximum retail price for three varieties of rice according to Section 20 (5) of the Act. The retail price of other varieties was out of control due to specifying the maximum retail price only for 1 kilogram of Nadu rice by the gazette notification No. 2051/8 dated 26 December 2017.

- (f) Out of 25,605 total raids carried out by the Authority during the year under review, 38 per cent was regarding prices being marked, labeling and packaging and 26.98 per cent was regarding not showing price list. However, it shows a lower level for raids on for the selling goods and services for the higher prices, standards and specifications regarding supply of goods and services, price of specified goods and services and selling of goods with maximum price such as 4.08, 0.48, 0.06 and 9.1 per cent respectively from the total raids. Furthermore, no any raid had been conducted regarding showing a notice board by the seller according to the Section 29 of the Authority Law.
- (h) There were no cases filed for 201 and 434 raids conducted during the years 2016 and 2017 respectively.

#### **4.2 Management Activities**

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Following observations are made.

- (a) Even though the Management Services Department has informed by their letter No. DMS / 1736 / VOL 1 dated 11 August 2016 that payment of salaries and allowances to Consultants appointed without formal approval was not legal, 05 Consultants had been under the approval of the Board of Directors, in the year 2016. However, consultancy allowances, fuel allowances and transport allowances amounting to Rs. 5,490,720 up to 31 December 2017 had been paid based on the 403/15/0180/613/008 of the Cabinet of Ministers decision on the 01 April 2015.
- (b) Even though a sum of Rs. 2,275,187 had been spent in the year 2016 by the Authority for maintenance of a vehicle belonging to the Ministry of Industry and Commerce, approval of the Secretary to the Ministry had not been obtained in terms of Paragraph 9.3.1(a) of the Procurement Guidelines. That vehicle was returned to the Ministry after using only 8 months. Even though, it was requested from the Ministry to reimburse this maintenance expenses by the letter No. CAA/HRA/VEH/24 dated 15 June 2017, it was not reimbursed from the ministry even by the date of audit.

#### **4.3 Operating Activities**

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Since the failure to identify separately the court records and the documents maintained at the institution on penalties imposed for various reasons, unidentified fines balance from Rs. 796,003 to Rs. 10,006,585 and receivable fine balance from Rs. 4,229,491 to Rs. 14,635,071 had been increased during the year under review.

#### 4.4 Staff Administration

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Following observations are made.

- (a) An officer has been appointed to the post of Director General of the Authority on secondment basis and on the basis of acting and a permanent officer had not been appointed since 25 March 2010.
- (b) Although the number of Investigation Officers to be assigned in each district was decided on the basis of the number of shops and population in each district there were 87 officers in excess in 06 districts and 92 shortages in another 6 districts by 28 March 2018.

### 5 Sustainable Development

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#### 5.1 Achieving the Objectives of Sustainable Development

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Authority had identified “Responsible consumption and production”, “Production and distribution of high quality products and services” as objectives and targets respectively according to the “Sustainable Development Agenda 2030” of United Nations Organization and Action had not been taken to identify indexes, points and based data to measure those objectives and targets.

### 6 Accountability and Good Governance

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#### 6.1 Tabling of Annual Reports

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Even though the annual report had to be tabled in the Parliament within 150 days after end of the financial year in accordance with the Section 6.5.3 of the Public Enterprises Circular No. PED / 12 dated 02 June 2003, The Annual Report for the year 2016 had not been tabled by the Authority in Parliament even up to the date of audit

### 7. Systems and Control

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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

<b>Areas of Systems and Controls</b>	<b>Observation</b>
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| (a) Employee Loan Recovery | Not following the provisions of the Establishments Code in recovering employee loans and not preparing an age analysis for employee loans. |
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| (b) Collecting Fine Charges | Not updating the collecting of fines.                                                                  |
| (c) Training of Officers    | Training programmes had not been implemented covering all officers.                                    |
| (d) Resolving Complaints    | Complaint files not completed and updated, Delay in solving complaints and not setting annual targets. |