

Consumer Affairs Authority - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Consumer Affairs Authority for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 and the Financial Act No. 38 of 1971 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements of the Authority give a true and fair view of the financial position as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Authority 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.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Authority, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority ;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of Financial Statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with Management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with Management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to Applicable Standard	Comments of the Management	Recommendation
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Sri Lanka Public Sector Accounting Standards - 02

The profit of the Authority after revaluation of property, plant and equipment in the year 2018 was Rs. 38,915,343 and as a result of it was shown as adjustments under the operating activities of the cash flow statement and as a cash flow under investment activities, the operating activities were overstated by that amount and the investment activities were understated by that amount.

The revaluation profit of the Authority's for the year 2018 have been added to operational activities and it is presented within the comparative cash flow statement 2019 making correction of the error occurred due to it has been shown in the cash flow statement by deducting from investment activities again .

Arrangements should be made in accordance with the Sri Lanka Public Sector Accounting Standards 02 .

1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) Even though a sum of Rs. 7,507,875 had been paid as employee bonus for the year under review, there was no provision made for it in the financial statements.	The Treasury approval Employee Bonus Scheme 2018 has been received on 23 May 2019. At the time, the financial statements 2018 had been submitted for audit. However, actions will be taken to rectify the error caused by the non-allocation of bonuses for the year 2018 and will present them in the Comparative Financial Statements for 2019.	It should be properly taken in to accounts.
(b) Although the Authority has requested the Sri Lanka Institute of Development Administration to complete the Efficiency Bar Examination for the year 2018, without entering in to an agreement between the two parties, a sum of Rs. 2,150,000 had been accounted for as accrued expenses in the year under review. As a result, current liabilities and training and seminar expenditures had been overstated.	After carrying out a discussion with Sri Lanka Institute of Development Administration to conduct Efficiency Bar Examinations of the employees, a sum of Rs. 2,150,000 has been estimated depending on the responsibility that the organization performs this process, the financial division was advised to adjust this amount as accrued expenses. However, the Sri Lanka Institute of Development Administration has informed that such an efficiency bar examination could not be conducted, the Authority was not able to incur the accrued expenses.	It should be properly taken in to accounts.

2. Financial Review

2.1 Financial Results

The operating results of the year under review was a surplus of Rs. 98,417,594 and the corresponding surplus of the preceding year was Rs. 63,112,780. Accordingly, a growth in financial results amounted to Rs.35,304,814 was observed. The profit generated from real estate, plant and equipment revaluation in the year under review amounted to Rs. 38,915,343 had mainly attributed to this growth.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation

It had been entered into an agreement with the Sri Lanka Institute of Personnel Management on 02 December 2016 to conduct an Human Resource audit in order to check whether the human resources of the Authority have been successfully utilized. For that, although an advance of Rs. 219,000 had been paid to that Institution on 20 April 2017 and the work had to be completed within 03 months from the date of advance payment made as per the agreement, that activity had not been completed even by 31 July 2019.

Comments of the Management

Arrangements have already been made to obtain the required report in accordance with the amount paid.

Recommendation

The activity should be completed within the stipulated time.

3.2 Management Activities

Audit Observation

- (a) Although the relevant Minister shall appoint three members to the Consumer Affairs Council in terms of Section 39 (2) of the Consumer Affairs Authority Act No. 09 of 2003, only two members had been appointed as at 31 December 2018. Although reports should be submitted to the Director General, from the investigations on matters referred to the Council under Section 19 of the Act should have been completed within two months, investigation reports in respect of 04 investigations submitted in the year 2017 had not been submitted to the Director General as at 31 March 2019 and the delay period of that had remained from 3 months to 1 1/2 years.

Comments of the Management

It is mentioned that all the members of the Consumer Affairs Authority are currently appointed to the Council. Two reports out of six requests made by the Council for investigation that is, the maximum retail price for rice, and the maximum retail price for exercise books, have been completed and arrangements have been made to expedite the rest of the reports.

Recommendation

Arrangements should be made in terms of Section 39 (2) of the Consumer Affairs Authority Act.

- (b) An amendments to the Consumer Authorities Act No. 09 of 2003 had commenced in 2004 and even though 15 years had elapsed by the year under review, the amendment of the Act had not been completed.
- All the relevant amendments of the Consumer Affairs Authority Act have been duly studied by the Department of Legal Draftsman and it has been submitted to the Department of Attorney General for necessary purposes.
- The amendment activities of the Act should be completed within the stipulated time.

3.3 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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<p>(a) When there is reason to believe that a product does not meet the standards and specifications, the Authority has the ability to submit samples to an approved analyst for inspection as per Section 61 (1) and 61 (2) of the Consumer Authorization Act, No. 09 of 2003. Although the analyst should submit his report to the Authority within a month, goods samples had been forwarded to the approved Government Analyst for the year under review incurring a sum of Rs. 563,407, out of the 46 samples, eight samples were not received even by 31January 2019 and reports of three samples were not received in time.</p>	<p>It is not possible to check samples during the period and obtain reports relating to them from outside laboratories. This is because it is a matter of outside the authority and as an appropriate measure, the Treasury has been requested to obtain the necessary financial provisions for the preparation of a laboratory attached to the Authority. Through that, it can be mentioned that it is possible to eliminate such a mistake.</p>	<p>A procedure that can be implemented in terms of section 61 (2) of the Act should be prepared.</p>
<p>(b) To undertake studies relating to market status and consumer affairs publish reports and provide information to the public is one of the main functions of the Authority in terms of Section 8 (d) of the Consumer Affairs Authority Act No. 09 of 2003, only one study had</p>	<p>When the Authority prepare a report specifically to inform the public at present, it should be published its summary in the Authority's website as well as face book, after</p>	<p>Adequate public awareness should be made in respect of the information consisted in the study report.</p>

been conducted during the year under review. The study reports were forwarded to the Board of Directors of the Authority on 25 September 2018 and the Authority had not adequately inform the public in respect of the information consisted in the report.

obtaining the approval of the Board of Directors and arrangements have already been made to make the aware of the public through the leaflets by sending them to the branches at District Level.

- (c) Although the number of investigating officers of the Authority had increased by 193 in the year under review compared to the previous year, the percentage of achievement of raid targets in the year under review fell by 6 percent compared to the previous year. Further, the percentage of achievement of raid targets in 10 Districts had been decreased in the year under review compared to the previous year and it had ranged from 9 per cent to 26 per cent. Despite the excess officers were attached to the 06 Districts out of these 10 Districts this decline had occurred.
- The excessive investigating officers were not permanently attached to those locations and since they had been focused on work place training and it would like to mention that the Authority is able to obtain the required contribution from such officers only after they are attached to the required workplaces at the end of the training period. Since this process is currently being completed it is our understanding that the contribution of these officers can be evaluated in future.
- Actions should be taken to achieve the raid targets.
- (d) Although the number of population and shops in Colombo, Kalutara, Matara, Ratnapura and Anuradhapura Districts are higher than in other Districts, the number of raids targeted at these District Offices decreased by 1010 raids or 16 per cent in the year under review as compared to the previous year.
- The main reason for these targetted raids is the linking of raids to the relevant District when specifying raid targets and those targetted raids should be more successful and add value as well because there should be raids that can promote social well-being, since such raids are time consuming, the Authority expects
- When setting raid targets, the population and the number of shops in each District should be taken into consideration.

quality and higher targets rather than statistical targets. Accordingly, as the time is very much needed there may be a comparative reduction in the raid targets statistically.

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| (e) | Although the manufacturer or seller may be issued an order not to disclose the sale or sale of the product for a period not exceeding six weeks after receiving the samples in accordance with Section 61 (1) (b) of the Act, according to the Analyst's Report on 16 samples out of 46 samples taken during the year under review, the Authority did not issue such directives to the manufacturer or the vendor on samples of goods that did not meet the standards and contained harmful substances. | The relevant authorities were made aware of the process on issuance of complaints relating to disclosure of products for a period of six weeks after obtaining samples of goods in accordance with section 61 (1) . Because of this it would like to inform you that there are no instances where such commands are not issued at any time. | Actions should be taken to issue a directive to the manufacturer or the trader of the product refrain from disclosure for sale or selling the product for a period not exceeding six weeks after obtaining samples. |
| (f) | The Authority had received 280 applications for obtaining maximum price certificates from importers and distributors during the year under review and the institutions mentioned in the application form, only 89 applications were inspected by the relevant warehouse authority. That is only 32 per cent of the total number of applications received. | During the year under review, 280 applications were received from 53 institutions to ensure maximum price for importers and distributors and each and every application has been inspected by the relevant warehouse authority and action has been taken to provide maximum price guarantee required. | Institutions specified in the application received by the Authority to obtain maximum price certificates from Importers and Distributors, the Authority should check with the relevant warehouse authority. |
| (g) | It is stated that investigations should be conducted on complaints made by the Consumer Affairs Authority in terms of Section 13 of the Consumer Affairs Authority Act No. 09 of 2003. The Authority | All matters pertaining to the preparation of a systematic programme is being completed this year so that to be able to identify in detail as per | A database should be implemented to identify the number of complaints received, resolved or unsolved. |

received 2092 customer complaints during the year under review and there was no identifiable database to identify the number of complaints that were not solved or solved and thirteen complaints received by the Authority in the years 2016, 2017 and 2018 had not yet been resolved by the date of the audit.

the requested format made by you with regard to the complaints received by the Authority and for this purpose, a database is being prepared according to the latest technology.

3.4 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
(a) without fulfilling the conditions stipulated in the Scheme of Recruitment for the post of Director General approved by the Department of Management Services on 08 August 2012 in accordance with the letter dated 14 September 2018 of the Minister of Industry and Commerce in terms of Section 52 (1) of the Act, the Chairman had appointed a Director General from 14 September 2018.	As per the powers vested in the Hon. Minister under Section 52 (1) of the Consumer Affairs Authority Act in the appointment of the present Director General and recommend a suitable person to the post of Director General to the Board of Directors of the Authority, upon the recommendation was approved by the Board of Directors and the Chairman has issued the letter of appointment to the Director-General.	Arrangements should be made with the conditions laid down in the Scheme of Recruitment.
(b) The Authority had recruited 214 investigating Officers during the year under review and the qualifications of 38 officers had not been verified by the relevant institutions even by the 31 August 2019 and these officers were attached to the District Offices in excess of the number of vacancies in the District Offices.	The Human Resources Division has ascertained that all the 214 recruited officers have the minimum qualifications, during the year under review.	Action should be taken to verify the relevant qualifications from relevant institutions.

- (c) When assigning 406 Investigating Officers to each District Office of the Authority, they had been assigned to be an excess of 60 officers in 08 Districts and a shortage of 104 officers in 16 Districts and a proper mechanism had not been prepared to carry out the activities of the Authority from 98 Investigation Officers attached to the Divisional Secretariats.
- The newly recruited Investigation Officers during the year under review were not attached to any District. They were employed in the same Districts only for training and it is kindly note that they were properly attached after the training since July this year. Therefore, it is kindly inform that the existence of excess is a matter for training and not for official purposes.
- A proper mechanism should be formulate for the purposes of the Authority to be carried out from the Investigating Officers.