

## **Consumer Affairs Authority - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Consumer Affairs Authority for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 Finance 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 give a true and fair view of the financial position of the Authority as at 31 December 2022, 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 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 of the Authority.

#### **1.4 The Auditor's Responsibilities for the Audit of the Financial Statements**

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 scepticism 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 the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, 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 Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observations on the Preparation of Financial Statements**

### **1.5.1 Noncompliance with Sri Lanka Public Sector Accounting Standards**

<b>Noncompliance with the reference to particular standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
A sum of Rs. 12,669,891 had been accounted in the previous year as the fixed deposit interest income receivable and the interest income received had been Rs. 10,059,248 due to withdrawal of fixed deposits before maturity. Accordingly, as the interest income of Rs. 2,610,643, which had been accounted in excess had not been adjusted retrospectively according to the S.L.P.S.A.S .3, the balance of interest receivable account and retained earnings had been overstated by the same amount.	Actions will be taken to make adjustments retrospectively for the interest income accounted in excess, according to the S.L.P.S.A.S .3.	The standard should be followed.

### **1.5.2 Accounting Deficiencies**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) The gratuity provision had been overstated by Rs. 7,146,199 in the financial statements and the gratuity over provision had been understated by the same amount due to calculation of gratuity provision for a full year in the instances where a full year of the service period of the employees had not been	Even if the period of service does not exceed one year, it should be assumed that the employee remained in service during that year. Hence the provision is predicated based on the prudence concept of accounting.	The gratuity provision should be calculated only for the period during which the employee was in service.

completed in case of calculating the gratuity provision for the year.

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| <p><b>(b)</b> Although the fixed deposit interest income of the year under review was Rs.57,438,109 according to the calculation of the audit, it had been accounted as Rs.55,320,428 which was Rs.2,117,681 less.</p>  | <p>The decreasing interest income related to the year 2021 should be adjusted to the retained earnings of the previous year due to giving a lower rate of interest than the prescribed rate of interest in case of discounting investments. However, this difference has occurred due to adjusting it to the interest income of the year 2022 and actions will be taken to correct it.</p> | <p>The interest income related to the year should be accounted.</p>               |
| <p><b>(c)</b> As the overtime expenses amounting to Rs. 152,601 which was not provided for accrued expenses during the year 2021 has been debited to the accrued overtime expenses in the year under review , the balance of accrued expenses account in the year under review had been understated and retained earnings had been overstated in the financial statements by the same amount.</p>                                   | <p>The overtime expense of Rs.152,601/ which was not provided in the year 2021 has been paid in the year 2022. It has been debited to the accrued overtime expense account. This amount has been then adjusted to the retained earnings of the previous year. Accordingly the accrued overtime expense account will be balanced.</p>   | <p>Provision should be made for unpaid overtime expenses related to the year.</p> |
| <p><b>(d)</b> According to the cash flow statement submitted to the audit and according to the calculation of the audit, a difference of Rs.7,709,862 between the net cash flow generated from operating activities, a difference of Rs.1,932,802 between the net cash flow generated from investing activities, and a difference of Rs. 4,223,417 between the net cash flow generated from financing activities were observed.</p> | <p>Actions will be taken to prepare and submit cash flow statement in the future according to the recommendations given by you.</p>  | <p>Cash flow statement should be prepared correctly.</p>                          |

**1.5.3. Documentary Evidences not made available for Audit**

<b>Item</b>	<b>Amount Rs.</b>	<b>Evidence not available</b>	<b>Management Comment</b>	<b>Recommend ation</b>
Investment	371,291,985	Bank confirmations related to the classification as fixed deposit investment and gratuity fund investment	The money received by the Authority has been collected in a bank account. The money thus collected has been deposited as fixed deposits in the state banks at a more favorable rate of interest under the approval of the Board of Directors. That portion has been stated as investments in the financial statements.	Evidence related to classification should be submitted to the audit.
Gratuity fund investment	79,344,883		The provision for gratuity of the employees has been invested as fixed deposits in state banks at a more favorable rate of interest under the approval of the Board of Directors.. That portion has been stated as Gratuity fund investment in the financial statements.	

## **1.6 Accounts Receivable and Payable**

### **1.6.1 Accounts Receivable**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Distress loan balances amounting to Rs. 320,942 receivable to the Authority from the officers under suspension have remained uncollected for over 5 years, and the necessary actions to collect those balances have not been taken by the Authority.	The actions will be taken to recover the amount from the guarantors who have signed their distress loan agreements or to take necessary legal actions.	Necessary actions should be taken to recover the loan balances without a delay.

## **2. Financial Review**

### **2.1 Financial Results**

The operating result of the year under review amounted to a surplus of Rs 84,120,000 and the corresponding surplus in the preceding year amounted to Rs. 7,101,000. Accordingly, a development amounting to Rs 77,019,000 of the financial result was observed. The main reason for the development had been the increase of total income by Rs.92,964 000 and increase of expenses for supply and consumables and contractual services by Rs. 15,013 000.

## **3. Operational Review**

### **3.1 Identified Losses**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Fixed deposit balances held till 10th June 2022 had been reinvested at a higher rate of interest and a financial loss of Rs.1,651,867 had been incurred by the Authority due to the matter that a fixed deposit amounting to Rs.14,259,010 has not been reinvested.	It was intended to cover the finance required for the integrated data system, which had been finalized after calling bids and a part of the money required for other expenses. Due to those reasons, this fixed deposit was maintained in the same manner. However,, the said fixed deposit was not discounted due to the cancellation of tenders of the above integrated data system and the release of money from the treasury for other expenses at the end of the year. It was allowed to remain the fixed deposit until	Effective investment decisions should be taken in a manner which a financial loss is not caused to the Authority.

maturity due to the matter that if it was discounted and reinvested, the annual interest rates would have also decreased by that time.

### 3.2 Management Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) The amendments of the Consumer Affairs Authority Act No. 09 of 2003 had been initiated in the year 2004 and 30 sections of the Act had been submitted to the Legal Draftsman’s Department in a few years; however the amendments of the Act had not been completed even by the date of this report.</p>	<p>The Attorney General's Department has informed the Secretary of the Ministry through the letter dated 21.07.2022 to submit the amendments made in connection with the Act to the new Cabinet and in relation to that, the minister has submitted the Cabinet memorandum on the amendment of the Consumer Affairs Authority Act bearing the Cabinet paper number අමප 23/0771/627/013 and dated 18.04.2023.</p> <p>Accordingly, the decision of the Cabinet meeting held on 02.05.2023 has been forwarded to the Ministry on 09.05.2023 and a copy of the Cabinet decision has been forwarded to the Authority and further actions are scheduled to be taken with the Legal Draftsman’s Department.</p>	<p>Necessary actions should be taken immediately to complete the amendments of the Act.</p>
<p>(b) Although 100 awareness programs during the year that is 25 awareness programs per quarter on labeling of goods according to the Section 10 of the Act had been planned to be conducted, even one program had not been conducted during the year under review.</p>	<p>The Director (Customer Affairs and Information) has informed all the Provincial Assistant Directors and all the District Heads in order to make the business community aware on the Directive No. 83, 84 and 85 issued during the relevant year. Accordingly, an awareness program on the above directives has been s conducted to cover all the districts. The number of</p>	<p>The need to conduct the programs should be correctly identified and the planned activities should be carried out in case of planning the awareness programs.</p>

programs related to the above matter conducted in the year 2022 including the same was 27. With the confirmation that these tasks can be done more effectively, efficiently and at a minimum cost through computerized presentations used in conducting awareness programs, it was observed that there is no need to conduct separate awareness programs on the new directives issued under Section 10. It was also decided to communicate the information regarding the new directives being issued to the consumer and business community through the brochures currently used. Further, after identifying the practical difficulties in case of communicating information through printed brochures about each directive issued, a mechanism was introduced as a remedy for the same in order to inform the business and consumer community regarding the new rules and regulations easily by downloading QR codes.

- (c) According to section 27 of the Act, although it was stated that every trader should be registered with the Authority on payment of an annual fee not exceeding one hundred thousand Rupees which is decided by the Minister, the Authority had not taken actions in this regard.
- The first phase of preparing the necessary software and data system for the registration of these traders by the end of 2023 is scheduled to be completed at the ministerial level in conjunction with the Ministry of Trade.
- Actions should be taken to carry out planned activities.



- (d) The Authority can investigate complaints regarding the sale of goods or providing of services in compliance with the matters related to a license or warranty issued by the manufacturer or dealer or other matters by intervening in consumer complaints under Sections 13 and 32 of the Consumer Authority Act to provide relief to consumers affected by unfair trade practices. However, investigations regarding 284 complaints received by the districts and 1078 complaints received by the head office during the period from the year 2018 to year 2022 had not been completed as at 31 December 2022.
- The action regarding the complaint starts with the registration of each complaint, even if the final solution has not been given to a certain number of complaints by December 31st of every year. 1040 files out of files under action as at 31 December 2022 have been completed and only 7 more files are yet to be completed. The Consumer Complaints Unit has completed actions on complaints of all the years prior to year 2022. The current status of 284 complaints out of customer relief complaints received to the district offices during the period from the year 2018 to year 2022 which were to be taken actions upon has been submitted to the audit.
- Necessary actions on customer complaints should be taken immediately.
- (e) 23,280 raids had been planned to be carried out throughout the island during the year under review and out of which 13,980 raids, i.e. 60% had been carried out. Less than 50% out of the targeted raids of 06 districts of Colombo, Kandy, Kalutara, Galle, Badulla, Nuwara Eliya had been carried out.
- Only 13,980 raids could be carried out during the year due to the crisis situation in the country during the first few months of the year 2022. In addition to the above-mentioned factors, the lack of officials and vehicle problems had affected to reach the targets of districts of Colombo, Kandy, Kalutara, Badulla and Nuwara Eliya.
- Actions should be taken to achieve planned activities .
- (f) Although it had been planned to prepare and implement a data system that includes information related to institutions that regulate the quality of
- Although tenders were invited from several institutions for this purpose , the data system could not be prepared as the prices given by technically qualified institutions were not affordable
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imported and locally produced goods and the standards related to those goods during the year under review, it had not been implemented.

(g) Although it had been planned to select 40 products and prepare their specifications during the year in order to monitor the retail prices of essential products through a computer-based system, it had not been implemented. Furthermore, it had been planned to implement 4 awareness programs for district officials in this regard, however even one program had not been conducted during the year.

Although this process was planned to be done through a computer based method using a computer software, the said process did not take place due to the fact that the purchase was not made as the cost of the computer software was higher than the estimated cost. However, the process of collecting the retail prices of these essential commodities is currently being carried out covering all the districts by obtaining the service of the investigation officers.

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(h) Although it had been planned to establish 50 school-related consumer circles during the year under review under the objectives of consumer education and awareness, only 7 consumer circles had been established.

The teaching timetables of schools changed from the normal process under the economic and political background of the country in the year 2022 and only very limited opportunities were given for extracurricular activities. Since the establishment of school consumer circles is an activity that is carried out only with the concert of the school, a very limited opportunity was given for that in such a situation.

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(i) Although a Public and Private Dialogue had been planned with the purpose of protection of products and traders from anti-competition and unfair trade practices, it had not been

The Authority prepared a series of guidelines in the year 2020 to educate these businessmen in order to minimize the unfair trade practices carried out by online traders and a Public and Private Dialogue had been conducted on

A dialog carried out with the purpose of protecting traders should be carried out as planned

implemented.

30 June 2021, 15 May 2022 and 19 October 2022 . As a result of those discussions, the Authority has currently issued an order to regulate traders who trade online.

- (j) An amount of Rs.160,526 out of the decoy money released to each district head had not been settled over a period of more than 05 years, and actions had not been taken to recover the amount.
- Settlements of the said decoy money are already being carried out and the necessary arrangements will be made to settle the money in full by the end of this year .
- Necessary actions should be taken to recover the outstanding decoy money without a delay.
- (k) The Authority had decided to prepare a security system for several identified products with the aim of protecting consumers from unsafe and inferior products and an agreement had been entered into with Sicpa Security Solution SA of Switzerland on 24 January 2014 for that purpose.. The Authority had issued direction number 49 in this regard on 24 February 2014 through gazette number 1851/1. However, a few manufacturing companies had filed an application in the High Court against the Authority to nullify the above-mentioned direction No. 49 and accordingly, the Authority was unable to proceed with the project in accordance with the agreement entered into with Sicpa Security Solution SA due to the issuance of an interim order by the High
- The manufacturer's associations filed a case bearing the number 281/14 writ in the Hon. Appeal Court against the Consumer Affairs Authority seeking to nullify the direction No. 49 and based on several other demands. Considering those requests, the Court of Appeal issued an interim order preventing the implementation of direction No. 49 until the final decision is concluded and accordingly, the Consumer Affairs Authority was unable to proceed with the project in accordance with the agreement entered into with SICPA SECURITY SOLUTION SA
- Agreements should be entered into after verifying the feasibility of implementation.
- Actions have been taken by the Consumer Affairs Authority to proceed with the project in accordance with the agreement and SICPA SECURITY SOLUTION SA terminated the agreement unilaterally due to the inability of the Consumer Affairs Authority to fulfill the preliminary conditions of the agreement as per the interim order

Court preventing the operation of direction No. 49. Due to the non-implementation of the agreement, Sicpa Security Solution SA company unilaterally canceled the agreement and an arbitration case had been filed in the International Court of Arbitration (International Chamber of Commerce) on 30 July 2018 by claiming the full investment amount of Rs. 2.716 billion as damages in accordance with the clause 3.3.2 of the agreement. Its final award had been issued on 10 May 2022. Accordingly, a sum of Rs. 2.716 billion together with A.D. 325,000 as an arbitration fee has to be paid by the Authority to Sicpa Security Solution SA. However, the matter that a feasibility study based on the relevant product manufacturing companies regarding the possibility of implementing the project was conducted before entering into the agreement with a foreign company regarding this project was not confirmed to the audit., The Authority had filed a petition bearing the number CHC/626/22/ARB on 07 July 2022 in the Colombo High Court of Commerce against the final award of the arbitration case.

related to the case bearing the number 281/14 writ. According to the terms of the agreement, SICPA SECURITY SOLUTION SA filed an arbitration case in the International Court of Arbitration on 30.07.2018 regarding this issue.

The Consumer Affairs Authority has filed a petition under No. CHC/626/22/ARB in the Colombo Commercial High Court on 07.07.2022 against the final award of the arbitration case issued on 10.05.2022. The respondent SICPA SECURITY SOLUTION SA is scheduled to be summoned to the court on 24.07.2023 for notice and the Attorney General's Department will also appear on behalf of the said case.

### 3.3 Operational Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>The Authority had spent a sum of Rs.5,401,428 for the 1977 Interactive Mobile Service software in the year 2015 in order to present customer problems immediately and to inform customers on the market prices and a sum of Rs.3,786,942 for advertising this project to the public, However, the purpose of the project had not been achieved due to weaknesses such as arising technical problems and not updating commodity prices, not creating a system to enable data entry by connecting with all district offices, not setting up a system to inform the complainant of the online complaint number and the progress of the investigation through a text message.</p>	<p>The Authority entered into an agreement with the concerned institution for a period of five years from 20.01.2014 and thereafter the agreement was not extended. However, the 1977 short code is successfully used even at present to receive customer complaints. Actions are being taken currently to implement a pilot project also in order to inform the progress of the investigation to the complainant.</p> <p>It is agreed that it is a project which is fail to fulfill additionally expected tasks. The necessary actions are being planned to introduce a new software with all sectorial integrations to provide customer satisfaction at a higher level by identifying a current economic and social need and identifying the future need of the objectives of the Consumer Authority Act at a higher level.</p>	<p>The necessary actions should be taken to accomplish the expected tasks of the project.</p>

### 3.4 Idle and Underutilized Property Plant and Equipment

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>The Authority had purchased a stock management software at a cost of Rs.200,000, a fines and decoy money management software at a cost of Rs.250,000 and an asset management software at a cost of Rs.54,000 in the years 2015 and 2017 and these software had not been utilized until the date of this</p>	<p>Employee training and additional work had been carried out in relation to decoy money and other systems and it has been proposed to establish a Management Information System (MIS) for the Consumer Affairs Authority. The possibility of integrating partially functioning software at present</p>	<p>Idle or underutilized assets should be used efficiently to achieve objectives.</p>

report.

into the system information was inquired by the technology experts and they have confirmed that the software can be integrated. Accordingly, this software are to be used by integrating with the management information system. Until then, the basic data updating has been started by using stock management and asset management software out of these software.

### **3.5 Human Resources Management**

#### **Audit Issue**

The vacancies of officers had adversely affected the achievement of the main objectives of the Act efficiently as 2 Director posts of the senior management level, 6 Assistant Director posts, 5 Legal and Enforcement Officer posts and 100 Investigation Officer posts are vacant in the approved cadre of the Authority as at 31 December of the year under review.

#### **Management Comment**

The approval to fill the vacant posts has been applied to the Director General of the Department of Management Services through the Secretary of the Line Ministry. 6 Senior Investigation Officers have been deployed to cover the duties of 6 posts of Assistant Director (Regional Affairs) from 02.05.2023. Furthermore, necessary arrangements are being made to recruit a permanent employee for the vacant position of Director (Legal and Enforcement) on 25.05.2023 by publishing a newspaper advertisements and the Legal Adviser of the Line Ministry and Lanka Sathosa Ltd. have been deployed to cover the duties of the said post under the Public Finance Circular No. 01/2020 for provision of emergency services. 05 lawyers have been appointed for the 05 legal and enforcement officer positions and arrangements have been already made to fill those vacancies permanently.

#### **Recommendation**

Vacancies of essential posts should be filled and the main objectives of the Act should be achieved efficiently.