

Consumer Affairs Authority - 2013

The audit of financial statements of the Consumer Affairs Authority for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 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 notes 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.

1.2 Management's Responsibility for Financial Statements

The 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

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 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.

2. Financial statements

2.1 Opinion

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 2013 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

2.2.1 Unexplained Differences

Even though a sum of Rs.366,000 had been shown as changes in the accounting policies in the statement of changes in equity furnished with the accounts its accuracy could not be established as the explanations thereon had not been furnished.

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

According to Section 19 of the Consumer Affairs Authority Act, No. 9 of 2003 whenever it appears to the Director General that a producer or a trader is supplying goods or services at a high price or is using the market irregularly in any manner in connection with goods or services or whether there is any other market error, it should be referred to the Council to investigate it and report. Nevertheless, the Director General had not taken such action on one company for not reducing the gas prices in 04 instances when the gas prices decreased during the period from March to October 2013.

3. Financial Review

3.1 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 resulted in a surplus of Rs.32,816,755 as compared with the corresponding surplus of Rs.6,765,819 for the preceding year, thus indicating an improvement of Rs.26,050,936 in the financial results. The receipt of recurrent provisions over that of the preceding year, increase in sundry income and the increase in the interest received on fixed deposits had been the reasons for the improvement. The operating expenditure of the Authority for the preceding year amounting to Rs.208,702,621 as well had increased by Rs.46,029,145 or 22 per cent to Rs.254,731,766 in the year under review.

Even though provision of Rs.4,970,000 had been received from the Treasury for capital expenditure of the year under review, the Authority had spent a sum of Rs.6,221,843 for the purchase of assets and as such expenditure exceeding the provision amounting to Rs.1,251,843 had been incurred.

3.2 Legal Action initiated against the Authority

The following observations are made.

- (a) Even though the Authority had intervened in connection with price control for infant milk foods through a notification published in the Gazette Extraordinary No. 1763/4 of 18 June 2012, one Infant Mil Foods Company had filed a case against the Authority alleging that the price control is unfair.
- (b) The former General Manager who had been dismissed from service during the General Election 2010 without giving notice had filed a case against the dismissal in the Labour Tribunal. Both parties had settled the case on the payment of compensation amounting to Rs.3,560,400 to the officer and as such a loss equivalent to that amount had been incurred.

4. Operating Review

4.1 Performance

The following observations are made.

(a) Increase in the Price of Chicken

Even though a maximum price for sale of broiler chicken with skin had been fixed by a notifications published in the Gazette Extraordinary No. 1812/24 of 30 May 2013, in view of not fixing such maximum price for the sale of skinned chicken parts the opportunity had been open for the sale of such chicken at different prices.

(b) Increasing Milk Powder

(i) Full Cream Milk Powder

Due to the increase in the prices of imported milk powder in the base year all the companies distributing milk powder had made several written requests to the Authority for the increase of the prices of their products and the Authority had not responded. One of the companies which made the request had increased the price of milk powder in October 2013 without obtaining the written permission of the Authority. When the Authority started taking action in that connection, that company had filed a case against the Authority in the Court of Appeal. The Attorney General had stated that in terms of Section 18(4) of the Act the company had the right to increase the price as the Authority had failed to take a decision within 30 days from the receipt of the application.

(ii) Fat Free Milk Powder

Even though the milk foods had been declared as an item of specified goods in terms of a notification published in the Gazette Extraordinary No. 1302/24 of 20 August 2003, the Authority had not imposed a price control for the fat free milk powder. In view of this situation the manufacturers and the distributors had determined the prices at their will without the permission of the Authority.

(c) Determination of the Price of Wheat Flour

Even though wheat flour had been declared as an item of specified goods in terms of a notification published in the Gazette Extraordinary No. 1342/1 of 23 May 2004, two companies manufacturing and distributing wheat flour had taken action to increase the price. Even though the Attorney General informed that the item of goods is controlled in terms of Section 18(2) of the Consumer Affairs Authority Act and that the price increase should be effected with the prior approval of the Authority, the Authority had not taken action to enforce its powers.

(d) Liquefied Petroleum Gas

According to the agreement entered into by 02 gas distribution companies with the Consumer Affairs Authority, the cost estimates should be prepared once in every two months for the revision of price of gas and submit to the Authority. But, one company had not made an applications whatsoever in the year 2013 for revision of gas price.

Even though the price of gas in the world marked in mid-2013 had fallen from US\$ 955 to US\$ 762 per metric ton of gas, the price of gas could not be reduced as the company had not made an application for price revision. The Authority had not taken any action for the breach of agreement.

(e) Bottled Drinking Water

According to a survey conducted by the Authority in the year 2012 it had been pointed out that bottled drinking water should be compulsorily subjected to standard testing, that it should be brought under the control of the Authority to protect the health conditions of the consumers and that obtaining the standards certificate should be made compulsory.

Even though a period of nearly 02 years had elapsed after making arrangements for the control of this industry run without being subject to Standards and price control of enforcing the powers vested in the Authority in terms of the Act, the market price per bottle had been determined with a margin ranging from 25 per cent to 60 per cent between the supply price and retail price due to the failure to issue rules and regulations for that purpose.

(f) Consumer Service Enquiry Project

Even though plans had been made for the implementation of this Project for informing the prices of consumer goods to the consumers and providing solutions to the complaints of consumers, the Authority had spent a sum of Rs.5,590,834 for the implementation of the Project as Treasury provision for the Project had not been received. The following observations are made in this connection.

- (i) The Treasury approval for the Project had not been received.
- (ii) Public quotations had not been invited for the purchase of equipment costing Rs.5,401,427 for obtaining the consumers' enquiries under the Project. Quotations had been invited from several companies recommended by the Chairman of the Authority and Purchasing Committee of the Ministry had awarded the bid to one company.
- (iii) The technical equipment valued at Rs.5,401,427 purchased by the Authority for the Project had not been installed in the premises of the Authority.
- (iv) Even though the estimated cost of the Project amounted to Rs.6.6 million, the Authority had not made any arrangements to obtain the provision required for the completion of the Project.

4.2 Transactions of Contentious Nature

The stocks of paddy purchased from the provision made available to the Government Agents in the Maha Season 2012/2013 under the letter No. DFD/Agri/PP-2013 Yala dated 17 July 2013 of the Director General of Treasury Operations to prevent the falling prices of paddy in the Yala Season 2013 had been recommended for sale as animal feed. Accordingly, the Order made by the Consumer Affairs Authority in the year 2008 prohibiting the use of rice or paddy suitable for human consumption as animal feed had been rescinded by the notification published in the Gazette Extraordinary No. 1821/5 of 29 July 2013. An examination carried out at the Paddy Stores of the Paddy Marketing Board revealed that the said paddy purchased in the Maha Season 2012/2013 determined for use as animal feed was of very good quality fit for human consumption.

4.3 Personnel Administration

The following observations are made.

- (a) The approved cadre of the Authority as at 31 December 2013 had been 370 and the actual cadre as at that date had been 275. Accordingly action had not been taken to fill 95 vacancies. In addition to the approved cadre 37 Development Officers of the Ministry of Co-operatives and Internal Trade had been attached to the Authority.

- (b) Even though the officer who performed the duties of the post of Media Officer of the Authority had assumed duties as the Media Secretary of the Minister of Co-operatives and Internal Trade with effect from 15 March 2013, he had been paid salaries amounting to Rs.94,938, contributions to the Employees' Provident Fund and the Employees' Trust Fund amounting to Rs.17,084 for a period of 3 ½ months up to 30 June 2013.

5. Accountability and Good Governance

5.1 Tabling of Annual Reports

The Annual Report for the year 2012 had not been tabled in Parliament.

5.2 Implementation of Directives made by the Committee on Public Enterprises

The following directives made by the Committee on Public Enterprises at the meeting held on 03 October 2012 had not been implemented even by 31 December 2013.

- (a) Even though the Authority was directed to appoint an officer in the service of the Authority with the qualifications, to the post of Director General, that had not been implemented even by 31 December 2013. It was observed that an officer recruited on secondment basis is performing the duties of that post.
- (b) The Committee on Public Enterprises directed that a report on the failure to obtain reimbursement of a sum of Rs.3,147,903 spent on repairs to a motor vehicle of the Ministry of Co-operatives and Internal Trade should be furnished to the Committee and that directive had not been implemented even by 31 December 2013.

6. 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) Human Resources Management
- (c) Assets Control
- (d) Projects Control