

## **Consumer Affairs Authority - 2014**

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The audit of financial statements of the Consumer Affairs Authority for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance 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.

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

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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**

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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. Subsections (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 for the effects 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 2014 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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Instances of non-compliance with Sri Lanka Public Sector Accounting Standards are as follows.

##### **(a) Sri Lanka Public Sector Accounting Standard – 02**

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Even though the cash flow statement should be prepared in a manner to reflect the cash inflow and cash outflow during the year, the following weaknesses were observed in the cash flow statement prepared.

- (i) The Capital Grants inflow amounting to Rs.12,027,338 in the year under review had not been included in the cash flow statement.
- (ii) Even though adjustments should be made considering the amortization amounting to Rs.17,009,798 not effecting the cash movement, brought to account as Deferred Income in the year under review in preparing the cash flow statement, the difference between the opening and closing balances of the Deferred Income Account had been considered as a cash outflow.

##### **(b) Sri Lanka Public Sector Accounting Standard – 03**

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Even though the accounting errors occurred in the previous period, restatement of the comparative values presented for the period in which the error occurred and their disclosures should be made, errors of the previous period amounting to Rs.2,852,501 had been adjusted to the surplus of the current year without adjusting retrospectively.

#### **2.2.2 Unreconciled Control Accounts**

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Even though the cash balance of Advances for Decoys receivable as at 31 December of the year under review amounted to Rs.848,736 according to the information and confirmation of balances sent by the District Offices, that balance had been indicated in the account as Rs.906,500. As such, the current assets had been overstated by Rs.57,764 in the accounts.

**3. Financial Review**  
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**3.1 Financial Results**  
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According to the financial statements presented, the operating result of the working of the Authority for the year ended 31 December 2014 had been a surplus of Rs.22,544,089 as compared with the corresponding surplus of Rs.32,816,755 for the preceding year, thus indicating a deterioration of Rs.10,272,666 in the financial result. The decrease of fine income and other income by Rs.6,873,226 and Rs.1,155,326 respectively and increase in personal emoluments by Rs.21,017,070 as compared with the preceding year had attributed to this deterioration.

**4. Operating Review**  
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**4.1 Management Inefficiencies**  
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The following observations are made.

- (a) Despite the failure in obtaining the approval of the Treasury and provisions for the Consumer Services Project, a sum of Rs.5,401,427 had been spent from the Consumer Protection Fund Account of the Authority as at 31 December in the year under review for the project.
- (b) Even though the Board of Directors should comprise not less than 10 members who had excelled in the qualifications and experience cited in the Consumer Affairs Authority Act, No.09 of 2003, the maximum number of members that should be included in the Board of Directors had not been mentioned in the Act. As a result, 31 Directors had been appointed to the Authority in the year under review without considering the size and limits of the Institute and as such, a sum of Rs.1,792,230 alone had been spent in the year under review for the meetings of the Board of Directors.
- (c) Out of the 31 Directors who served in the year under review, 11 Directors were persons without the qualifications and wide knowledge and expertise in the fields mentioned in the Consumer Authority Act and out of those persons, 02 persons had acted as full time committee members in deciding the price of drugs in the Drugs Programme implemented by the Authority.
- (d) Furniture totalling Rs.1,628,850 which had not been estimated in the year under review, had been purchased for the modernization of the Office of the Authority's Chairman considering as urgent purchasings.
- (e) Limited quotations had been called to design a mobile exhibition stall for the exhibitions held by the Consumer Affairs and Information Division. The relevant contract had been awarded to a company that had submitted a quotation of Rs.628,447 without considering the lowest bid of Rs.295,000 submitted by another company in the evaluation of bids.

## **4.2 Operating Inefficiencies**

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### **(a) Rice**

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The manufacturers and merchants of rice had set the price of rice in the year under review at their discretion without considering the price control in rice enacted by the Authority. Even though 1,329 raids had been carried out during the period from April to December in the year under review after the implementation of price control by the Authority, an adequate price control in rice in the country had not been carried out successfully. Even though a Gazette Notification should be issued for the increase of price in rice on the recommendations of the Consumer Council, referred to the Council by the Director General of the Authority to investigate the considerable effect of the increase in the price of rice on the consumers in terms of Section 19 of the Consumer Affairs Authority Act, No.09 of 2003, of the Authority, it was further revealed that a Gazette Notification had been so issued without the approval of the Council.

### **(b) Bottled Drinking Water**

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Even though studies and tests had been carried out by the Authority since the year 2012 in respect of bottled drinking water, laws and rules relating to the standard and maximum price of bottled drinking water had not been formulated by the Authority and the Consumer Council even by the date of audit. As a result, bottled drinking water is sold without standard and at various prices in the market and it was revealed at a test check carried out by the Authority that bottled drinking water of 08 brands, not suitable for the consumer had existed in the year under review.

## **4.3 Idle and Underutilized Assets**

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The following observations are made.

A video camera and 09 cameras valued at Rs.995,200 had remained idle in the stores without being used from November in the year under review up to 25 March 2015, the date of audit.

## **4.4 Uneconomic Transactions**

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A total of Rs.469,519 had been paid as fixed charges for 21 fixed telephones not in use from the year 2012 to the year 2014.

## **4.5 Identified Losses**

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The following observation is made.

The Authority had overpaid a total of Rs.1,794,880 as building rent from the year 2011 up to 31 December 2014 to the Cooperative Wholesale Establishment and a Value Added Tax of Rs.219,693 and Nation Building Tax of Rs.35,897 had been paid thereon. However, action had not been taken to set off the overpaid amount against the monthly building rent even by 15 May 2015.

**5. Accountability and Good Governance**

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**5.1 Tabling of Annual Reports**

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The Annual Report for the year 2012 had not been tabled in Parliament even by 29 May 2015.

**6. Systems and Controls**

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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.

- (a) Purchase of Assets
- (b) Inventory Control