

## **Consumer Affairs Authority - 2023**

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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 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy 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 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 2023, 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 Preparation of Financial Statements**

### **1.5.1 Accounting deficiencies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Depreciation in the year under review had been understated by Rs.3,619,046 due to depreciation of fixed assets outside of the Authority's policy depreciation rate.	The useful life of having zero value of fixed assets is being reassessed and the error caused by using previous rates of depreciation instead of effective life in the calculation of depreciation will be corrected and in future the depreciation will be calculated based on the effective life.	Actions should be taken to depreciate as per the policy depreciation rate of the Authority.
(b) The investment of Rs. 18,000,000 made in fixed deposits during the year 2024 was recorded as investments of the year under review, so the investment value had been overstated in the financial statements.	As the cheque for this fixed deposit was issued on 29 December 2023, it has been accounted on that date and since the bank has cleared the cheque on 04 January 2024, the date of clearing has been recorded. However, the investment account has been rectified by re-recording this clearing period as cash in transit.	Only fixed deposit balances as at the end of the accounting year should be shown in the financial statements.

- (c) Although the fixed deposit interest income for the year under review was Rs.86,261,778, it was accounted as Rs.78,064,586 which was understated as Rs.8,197,192 . Further, although the gratuity fund investment income was Rs.9,735,679, it was overstated by Rs.4,760,426 as Rs.14,496,105.
- The mistake of under-accounting fixed deposit interest income of 8,197,192 is rectified and the relevant comparative statements of accounts are prepared.
- Revenue should be properly accounted for.
- Arrangements are made to prepare comparative statements of accounts correcting the error of over accounting the gratuity fund investment income of Rs.4,760,426 and making relevant adjustments.
- (d) Due to the calculation of gratuity for a full year when the service period of the employees was not completed for a full year and due to the non-adjustment in the reviewed year regarding the overstatement of the gratuity provision of the previous year, the gratuity provision as on 31 December of the reviewed year had been overstated as Rs.8,930,758, and the gratuity under provision for the year had been overstated by Rs.1,784,559 and the retained earnings had been understated by Rs. 7,146,199.
- This error has occurred due to adjusting the service period of the employees to the nearest month while calculating the gratuity provision. The correct calculation is advised to be presented in the comparative financial statements.
- The gratuity provision should be calculated only for the period during which the employee was in service and adjustments should be made in the year under review for accounting errors of the previous year.

## 2 Financial Review

### 2.1 Financial Results

There was a surplus of Rs.52,338,000 in the operating result of the year under review and the corresponding surplus of the previous year was Rs.91,246,000. Accordingly, it was observed that there was a decline of Rs.38,908,000 in the financial result. This decline had been mainly due to the increase in total expenditure by Rs 137,090,000.

## 3. Operational Review

### 3.1 Management inefficiencies

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	The amendment of the Consumer Affairs Authority Act No. 09 of 2003 started in	The Deputy Solicitor General of the Attorney General's Department had already studied the bill and forwarded	Prompt Actions should be taken to complete the

the year 2004 and in a few years, apart from submitting 30 sections of the Act to the Legal Draftsman's Department, although 19 years have passed by the year under review, the revision of the Act had not been completed.

the observations to the Secretary of the Ministry on 05.04.2024 and the Ministry of Trade, Commerce and Food Safety had forwarded the observations to the Authority on 10.04.2024 for further action. Accordingly, the authority is to refer to the Legal Draftsman's Department to take further steps in this regard.

amendment of the Act.

- (b) An agreement was entered into on 24 January 2014 with a company in Switzerland to prepare a safety system for several identified products to protect consumers from unsafe and inferior products. Due to the issuance of an interim order preventing the implementation of the directive by the High Court for the application filed by several product manufacturing companies against the Authority to nullify the directive No. 49 issued in that regard, It had been impossible to proceed with the project in accordance with the agreement reached with the Swiss company.

The award in this arbitration case was given on 10.05.2022 and according to the said award, Rs. 2.176 billion has been ordered to be paid to the Authority for breach of contract. Against the said grant, the Authority has filed the case CHC 626/2023 on July 07, 2022 on the advice of the Attorney General's Department. The petitioner company has filed CHC 569/2023 in the Colombo Commercial High Court on 16 May 2023 to enforce the award. By now, the Authority has appointed an investigation board to consider whether there have been any irregularities in the implementation of this agreement and a request has been made for the Criminal Investigation Department to conduct an investigation in this regard. The said agency informed that it is not related to their scope and they have informed us that they themselves have referred this matter to the Bribery and Corruption Investigation Unit.

Actions should be taken to enter into agreements after establishing the enforceability and responsible parties should be identified promptly.

Due to the non-implementation of the agreement, the company had filed a case against the authority in the year 2018 in the International Court of Arbitration demanding that the agreement be unilaterally cancelled and the full investment amount of Rs.2.716 billion be paid as per the agreement. According to the order given on 10 May 2022, the final award for the arbitration case given by the Authority to the company was

Rs. 2.716 billion and as arbitration fee of U.S. Dollars 325,000 was also to be paid. The Authority had filed a petition in the Commercial High Court of Colombo against the final award of the arbitration case on 7 July 2022 and the Authority had not conducted an internal investigation and identified the responsible parties in this regard.

- (c) The Authority had spent Rs.5,401,428 for the 1977 Interactive Mobile Service software and Rs. 6,117,480 for advertising this project to the public in 2015. However, due to weaknesses such as technical problems and non-updated commodity prices, the project had not achieved its expected goals.
- The scopes of the ministries changed on several occasions and thus the loss of coordination between the institutions became a hindrance in order to achieve some objectives in the basic objectives. Currently, a pilot project has been started to forward the complaints received on the hotline No. 1977 to the districts and notify the customers of the steps taken there through a short message.
- In the COPE committee held on 7 May 2024, the then Acting Chairperson informed that she expected to introduce a new MIS system to the institution to minimize those weaknesses and perform the tasks that could not be performed more efficiently.
- (d) Due to the fact that the Director General appointed on 14 September 2018 had been dismissed without giving reasonable reasons, the officer had filed a case in the Court of Appeal against the aforesaid termination of the service on 14 February 2020 and according to the final award, the Authority had to pay the officer an amount of Rs. 1,990,891 including arrears of salary and allowances.
- Due to the absence of proper procedure in the dismissal of the officer, he had filed a case in the Court of Appeal and according to the court order, the Authority had been ordered to pay him outstanding wages. Accordingly, the Authority has made an arrears payment to that officer.
- Actions should be taken to achieve the intended objectives from the project.
- Decision-making should be done formally and efficiently.

- (e) According to Section No. 27 of the Consumer Affairs Authority Act No. 09 of 2003, every trader should be registered with the Authority on payment of an annual fee not exceeding one lakh Rupees to be decided by the Minister, but the Authority had not registered the traders.
- The basic steps in the procurement process to create a data system to register every trader with the authority have already been done and a committee has been appointed by the Ministry of Trade. The proposal that has been drafted by the Authority is to be considered by the said committee and necessary improvements will be made. The Competitiveness Promotion Division has carried out its pilot project by registering businesses located in the Ja-Ela Divisional Secretariat.
- Actions should be taken to carry out the Planned tasks.

### 3.2 Operational inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) According to Section 17 of the Act, although a trader should not keep any commodity in excess of the trader's normal trading needs in his place of business or in any other place, no raids had been conducted by the Authority under the above section during the year under review when there were shortages of goods such as keeri samba rice, eggs, gas, milk powder, sugar, onions and fertilizers in the market.	There are 25 district offices of the Consumer Affairs Authority and there should be a total of 450 investigation officers but the number of investigation officers currently on active duty is 282. In addition to raid duties, the officers have to participate in price surveys, awareness raising, consumer complaint investigations and judicial duties. In such a situation, it is practically difficult to carry out raids covering all the sections of the Act and those weaknesses have been identified and the duty targets have been set in terms of raiding sections in raids from the year 2024. However, the Authority has given directives that the raid targets should be met as per the sections of the Act, giving priority to current customer issues occurring in each period.	The raids should be planed to cover the sections of the Act.
(b) During the year under review, when a maximum retail price was imposed for local Keeri Samba rice, there was a severe shortage of Keeri Samba rice in the market. Nevertheless, 596 raids were conducted on Keeri Samba rice which was only 2 per cent of the total number of 24,848 raids	596 raids have been conducted on Keeri Samba rice through consumer complaints and market raids. In addition to this, warehouse inspection of Keeri Samba rice was also conducted at the district level. All these activities are carried out under the limiting factors in the background of insufficient number of investigative officers of the Authority. However, priority has been given to	The raids should be planed considering the need of the time.

- conducted by the Authority in the year under review.
- these matters and the targeted raid plan has been prepared in the implementation of future investigation plans.
- (c) During the year under review, 32 raids had been conducted in relation to domestic gas, which was subjected to periodic price revisions and shortages were reported in the market and it was only 1 per cent of the total number of raids conducted by the Authority in the year under review, which was 24,848.
- Under institutional constraints, priority was given to practical problems in the market and raids were conducted based on the number of gas-related complaints received during that period.
- The raids should be planned considering the need of the time.
- (d) In order to check whether the standards and specifications prescribed under Section 12 of the Act are being complied with, the Authority shall carry out sample inspections in case of complaints and timely problems. However, in the year under review, only 133 samples had been tested in respect of 29 categories of commodities which included selected categories of commodities out of the 34 categories of commodities for which standards were mandated. Accordingly, the Authority had not taken the necessary measures to adequately conduct the relevant inspections regarding the quality of the goods and services.
- As per Section 12 of the Act, more attention was given in the sample testing to the consumer goods which faced problematic conditions in the market. Accordingly, the targeted sample testing of the action plan has been achieved and there has been some limitation due to the performance of these tests by external laboratories under budget allocation limits.
- Necessary measures should be taken to adequately conduct the relevant tests regarding the quality of goods and services.
- (e) During the period of 05 months from January to May 2023, when there was a large shortage of eggs and a control price was imposed, the total number of raids in the country regarding eggs was 1179 and accordingly the average
- This number of raids was carried out on the basis of giving priority to the practical problems that arise in the market at each period under the institutional constraints, as well as the tasks to be performed in achieving the organizational objectives, on the basis of the complaints about the price of eggs
- The raids should be planned considering the need of the time.



number of raids conducted in one month was 236. However, the average number of egg raids conducted by one investigating officer in a month had reduced to 01 due to the deployment of 277 investigating officers. received and on the detections made during the observation of the shortage of eggs in the market.

### 3.3 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
As on 31 December of the year under review, 15 posts of assistant director at the middle management level, 08 posts at the junior management level, 104 posts of investigation officer at the operational level and 12 posts of cost/accounts officer in the approved cadre of the Authority had been vacant. .	Authority has already done its utmost to fulfil the objectives efficiently by immediately recruiting suitable persons for the vacant positions in the Authority and accordingly after receiving the approvals from the Department of Management Services and the Prime Minister's Office; the necessary arrangements for the immediate recruitment of the vacant positions will be carried out by the Authority.	Actions should be taken to fill vacancies of essential posts and achieve the main objectives of the Act efficiently.