

## **Consumer Affairs Authority - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Consumer Affairs Authority for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the Statement of Comprehensive Income, 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 2020, 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**

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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**

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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 AuditScope (Auditor's Responsibilities for the Audit of the Financial Statements)**

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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 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 management's use of the going concern basis of accounting and based on the audit evidences obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund'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 Fund 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 Fund has performed according to the powers, functions and duties; and
- Whether the resources of the Fund has been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit observations regarding the preparation of financial statements**

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### **1.5.1 Internal Control over the Preparation of Financial Statements**

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Authority is 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**

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| <b>Non Compliance with the reference to particular Standard</b>   | <b>Comments of the Management</b>  | <b>Recommendation</b>  |
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| As per the provisions of the Sri Lanka Public Sector Accounting Standards No. 07, all assets pertaining to the revaluated asset class had been fully depreciated by the end of last year. However, 422 asset items belonging to 04 years had been revalued at a cost of Rs.83,230,824.The resulting revaluation reserve was also adjusted to the cumulative profit and the annual depreciation expenditure of | The depreciation of the assets revaluated was also noted in the statement of financial performance with the intension of presenting the total expenditure (depreciation amount) through the financial statements. Accordingly, the Authority made it a matter of policy to adjust that amount to the deferred income.This had been presented in detail in an accounting note, and the procedure was continued as the | A revaluation should be carried out in accordance with the provisions of Sri Lanka Public Sector Accounting Standards No. 07, and action should be taken to rectify the relevant accounts. |

Rs. 30,943,048 had been adjusted to the capital grants account received from the government. Therefore, the balance of the Capital Grant Account at the end of the year under review was an extraordinary negative value of Rs. 4,338,513 as per the financial statements.

audit did not object to this. However, according to the methodology presented by the Government Audit this year, it will be implemented from the year 2021 and the adjustment for the previous year will be presented with the final account of year 2021.

## 1.6 Non Compliance with Laws, Rules and Regulations

| Reference to laws<br>Rules and<br>Regulations etc.          | Non Compliance  | Comments of the<br>Management  | Recommendation   |
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| Public Finance Circular No. 01/2014 dated 17 February 2014. | The Authority had not prepared an annual action plan and only a corporate plan for the three-year period from 2020 to 2022 had been prepared. | An action plan for year 2020 had not been prepared, but an action plan for 2021 has been prepared, as the audit pointed out. | The annual action plan should be prepared in accordance with the circular. |

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a deficit of Rs. 3,927,000 and the corresponding surplus of the preceding year was Rs. 74,270,000. Accordingly, a decline in financial results amounted to Rs. 78,197,000 was observed. Decrease in Treasury Recurring Receipts by Rs. 25,679,000 and Fine Income by Rs. 17,268,000 during the year under review and increase in personal emoluments by 20,570,000 and arbitration expenses by Rs. 22,163,000 had mainly attributed to this decline.

### 3. Operating Review

#### 3.1 Management Inefficiencies

| <b>Audit Observation</b>  | <b>Comments of the Management</b>  | <b>Recommendation</b>   |
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| The amendment activities of the Consumer Authorities Act No. 09 of 2003 had been commenced in the year 2004 and even though 16 years had elapsed by the year under review, the amendment of the Act had not been completed. | The Committee has completed its meetings on the final draft review by May 2021. Similarly, a meeting was also held with the Minister of State. The Draft Cabinet Memorandum has been prepared and submitted to the Secretary of the Ministry for submission to the new Cabinet of Ministers. | The amendment activities of the Act should be completed within the stipulated time. |

#### 3.2 Operating Inefficiencies

| <b>Audit Observation</b>   | <b>Comments of the Management</b>   | <b>Recommendation</b>  |
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| (a) Even though the price had been controlled for laboratory tests by Gazette Notification No. 2186/17 dated 29 July 2020, the Consumer Affairs Authority had not carried out any raids to survey whether the price control had been passed on to consumers.   | Many laboratories have charged a control price, and raids have been conducted on one laboratory that has overcharged. (Recorded in Case No. 2021/84) Action will be taken to file a case in this regard in due course. All districts will be informed the urge to pay more attention to the price of laboratory test reports in due course. | Raids should be conducted on the price of laboratory test reports. |
| (b) 154 cheques worth Rs. 7,676,874 out of the fines sent by the Magistrate Courts in the year 2020 had been sent back to the court due to expiration. Even though fact that there was a period of about 45 days between the date of issuance of the cheques by the Magistrate Courts and the date on which the cheques had been returned to the courts was sufficient time to clear the cheques, the Authority had not acted accordingly. | Due to the Covid epidemic in the country last year (2020), the post offices had been closed and the areas had been isolated and restrictions on bringing employees to the offices, such amount of cheques had expired and had to be sent back to the courts to extend the validity period.  | Action should be taken to minimize dishonouring cheques.           |
| (c) 678 complaints out of 1,556 complaints registered with the Legal Division during the period  | 524 complaints out of 1,556 complaints registered by the Legal Division during the period   | Investigations of Consumer complaints                              |

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| <p>from year 2015 to 2020 had been resolved by 31 December 2020 and 166 complaints had been dismissed. Investigations into 256 complaints had not been completed and 456 complaints were to be called. 175 complaints out of the 456 complaints to be summoned were referred for investigations in year 2018. Only 04 complaints out of the 80 complaints referred for investigation during the year under review had been resolved, and 74 complaints had not been recalled.</p> | <p>from year 2015 to 2020 had been resolved by 31.12.2020 and 166 complaints had been dismissed. Investigations on 410 complaints had not been completed and 456 complaints had to be called. 175 complaints out of the 456 complaints to be summoned are the complaints referred for investigation in year 2018. Only 04 complaints out of the 80 complaints referred for investigation during the year under review had been resolved, and calls had not been made for 74 complaints.</p> | <p>should be completed expeditiously.</p> |
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| <p>(d)</p> | <p>The telephone service 1977 had been set up in year 2013 at a cost of Rs.9, 188,396 for customers to know instant market prices and to make quick complaints. The hotline service received 5,104 public complaints from March to December in year 2020 and by the end of the year under review no action had been taken on 3790 complaints. Accordingly, relevant actions had not been taken for 74% of the complaints received during the period of 10 months during the year under review. A database had not been maintained by the Authority for the two months of January and February during the year under review.</p> | <p>These duties had been carried out during the epidemic situation in the country in the year 2020, and a monthly report will be obtained from each district on the actions taken regarding 1977 complaints and accordingly monitor this process closely and take action on at least 80% of complaints received monthly. Action will also be taken to issue a series of written instructions to all District Offices for this purpose. In the year 2021, action will be taken to rectify the shortcomings pointed out in this audit report and to provide a better service to the customers.</p> | <p>Consumer grievance redressal should be completed expeditiously.</p> |
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| <p>(e)</p> | <p>15,923 raids had been conducted by the Authority during the year under review. This is a 34 percent decrease compared to the 24,061 raids performed in the previous year. Further, a fine income of Rs 39,094,340 had been earned in year 2019, and it is a decrease of 44 per cent to Rs 21,826,267 during the year under review.</p> | <p>Even though 26,004 raids had been planned for the year 2020 at the beginning of the year, the actual number of raids has been limited to 15,923 due to the inability to carry out field duties properly due to the spread of the Covid epidemic situation since March. Similarly, the value of the fines had fallen due to the fact that</p> | <p>Action should be taken to achieve raid targets.</p> |
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determining fines for raids is a matter outside the purview of the Consumer Affairs Authority, and due to the decrease in the number of court cases in the year 2020 as a result of that certain areas had been closed and limiting the work of the courts because of the Covid epidemic situation.

- (f) An agreement had been reached with the SICPA Security Solutions Switzerland on 24 January 2014 with the aim of developing a system to facilitate the customers to identify the products of the right quality, and the International Chamber of Commerce had intervened for arbitration in this regard in year 2018 due to non-implementation with the relevant institution as per the agreement. According to the Board Memorandum No. CAA / L & E / 20/2020, approval has been received to settle up to Rs. 55 million from the Authority's fund regarding this case. Even though the Consumer Affairs Authority Act No. 09 of 2003 specifies the expenditure payable from the funds mentioned in Section 49 (3) of the Act, approval has been given for reimbursement of expenditure of Rs. 55 million during the year under review, and based on that approval, the Fund had incurred an expenditure of Rs. 22,162,690 on the above arbitration from July to December 2020.
- SICPA Security Solutions SA has filed the arbitration lawsuit at the International Court of Arbitration of the International of Commerce on 24.01.2014 for non-compliance of implementation of the agreement reached between SICPA Security Solutions SA and the Consumer Affairs Authority. The arbitration proceedings was held in 2 phases, and the Attorney General's Department had previously stated that the professional service fee of the Attorney General's Department for the second phase was Rs.3,950,000/-.Therefore, a sum of Rs. 22,162,690 was to be spent on the arbitration proceedings. However, according to the invoice sent to the Authority by the Attorney General's Department dated 22.03.2021, the Attorney General's Department has stated that the professional service charge of the department for the second phase is Rs. 1,247,000. Accordingly, the Authority has so far spent an amount of Rs. 19,763,982 on the aforesaid arbitration proceeding.
- Action should be taken in accordance with the provisions of the Act.
- (g) According to Section 60 (6) of the Consumer Affairs Authority Act No. 09 of 2003, the names and addresses of persons who have been convicted of multiple previous offenses have not been disclosed by
- As pointed out by the Audit and Management Committee, action will be taken to publish this information on the Authority's website from year 2021.
- Action should be taken in accordance with the Act.

the Authority in a manner deemed appropriate and the consumer had not been informed.

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| <p>(h) According to Section 61 (3) of the Consumer Affairs Authority Act No. 9 of 2003, despite 112 samples out of 299 samples tested in the year 2020 were found to be in compliance with the specified standard and the specification, no action had been taken to detain the products without the required standards and non-compliant with the specifications.</p> | <p>The number of samples tested in the year 2020 was 299 out of which 165 samples were found to have adverse results. Not all samples with adverse effects are non-standardized. This is because some samples are taken and tested on various complaints. There may be times when the quality test is not performed.</p> | <p>Action should be taken in accordance with the Act.</p> |
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### 3.3 Human Resource Management

| <b>Audit Observation</b>   | <b>Comments of the Management</b>  | <b>Recommendation</b>   |
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| <p>The approved cadre of the Consumer Affairs Authority was 667 and the actual cadre was 531 and there were 136 vacancies. Even though Rs.831,222 had been spent on periodic newspaper advertisements to fill the vacancies in the year 2020, only 3 vacancies had been filled up by the date when audit was conducted 22 February 2021. Similarly, despite the shortcomings such as suspension of salaries due to disciplinary action, failure to pass the Efficiency Bar Examination by the stipulated date, appointments had been given to 04 senior investigation officers on 01 October 2019, and no criteria had been set for the marks given for additional /professional qualifications.</p> | <p>82 vacancies out of 136 vacancies are for investigating officers. However, 207 investigating officers had been recruited in year 2018, as per a Cabinet decision without justifying the staffing requirement. There is no need to recruit investigating officers as there are enough investigating officers. Newspaper advertisements have been published for the recruitment for 10 posts. Recruitments had been made for 04 posts out of them. The Board of Directors have decided to conduct a preliminary investigation into the manner in which these 04 officers had been given promotions.</p> | <p>Investigations into the appointment of Senior Investigating Officers should be completed expeditiously and necessary action should be taken.</p> |