

Dehiwala Mount Lavana Municipal Council

Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented for audit on 29 March 2018 and the report of the Auditor General on the financial statements had been forwarded to the Mayor on 06 September 2018.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Dehiwala Mount Lavana Municipal Council give a true and fair view of the financial position as at 31 December 2017 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial statements

1.3.1 Accounting Deficiencies

The following deficiencies were observed .

- (a) Provision for creditors had been made in the accounts for purchasing an official vehicle and a water bowser which aggregated Rs.15,850,000 made up of Rs.9,850,000 and Rs.6,000,000 respectively. However, neither the goods had been received nor payments had been made up to 30 April 2018. As a result, the creditors and the capital expenditure had been overstated by similar amounts.
- (b) Provision for creditors amounting to Rs.1,726,085 had been made in the accounts to purchase a multi purpose lever machine. However, a purchase order had not been issued and payments made and goods obtained even by 30 April 2018. As such, the creditors and the capital expenditure had been overstated by similar amounts.
- (c) While entering the revenue receivable from galie bowser services in the accounts as at the end of the year, the value of debtors alone had been accounted excluding other fees and the other fees recovered had been credited to the accumulated fund.
- (d) A sum of Rs.258,339 had been recovered in excess as loans from employees as at 31 December 2017. But, this amount had not been shown in the balance sheet under current liabilities. As a result, current liabilities had been understated by a similar amount.

- (e) Revenue from telecommunication towers had been shown as revenue from rates and taxes in the accounts.
- (f) Depreciation of fixed assets had been understated by Rs.14,292,022 in the financial statements.
- (g) The value of 04 vehicles vested with the Council by outsiders during 2013 and 2015 had not been assessed and brought to account.
- (h) The revenue from galie bowser services amounted to Rs.638,545 as per register of revenue from galie bowser services (arrears). This had been shown as Rs.464,545 in the financial statements resulting in an understatement of Rs.174,000 in financial statements.
- (i) The amount paid to the Waste Material Management Authority for disposal of garbage during the year amounted to Rs.57,093,145. However, the expenditure had been shown as Rs.62,766,562 in the financial statements resulting in an overstatement of Rs.5,673,417 in financial statements.

1.3.2 Contingent Liability

- (a) Thirty three cases had been filed against the Municipal Council by outsiders while the Council had filed 21 cases against outsiders. Any payments that may arise in this connection had not been disclosed as at the balance sheet date.
- (b) The Council had filed a case in the Supreme Court against the verdict given by the Commercial High Court with regard to the Berns company. The Berns company had claimed an extensive amount as compensation. In this regard, a sum of Rs.1,201,333 had been paid as legal charges by now.

1.3.3 Unreconciled Accounts

The following non reconciliations were observed.

- (a) A reconciliation of balances of 11 items of accounts shown in the financial statements with the related subsidiary registers/schedules showed a difference of Rs.31,071,253.
- (b) According to the ledger accounts and the schedules, the Provincial Council Aid Debtors balance amounted to Rs.8,520,625 whereas it was Rs.8,619,098 according to the financial statements showing a difference of Rs.98,473.

1.3.4 Accounts Receivable and Payable

(a) Accounts Receivable

The following observations were made.

- (i) Thirty cheques valued at Rs.836,274 received as revenue from 2002 to 2017 had been dishonoured subsequently. But, action had not been taken to recover cash on this behalf.
- (ii) Action had not been taken to recover the Galie Bowse revenue of Rs.272,545 due from 14 institutions for the period 2008 to 2017.
- (iii) Action had not been taken to obtain reimbursement for the balance of unsettled property loans interest advances of Rs.121,546 for the period 2006 and 2007 from the Department of Local Government.
- (iv) The allowances of Rs.1,827,000 paid to members in 2013, 2014 and 2015 had not been reimbursed even by 31 December 2017.
- (v) Action had not been taken to obtain reimbursement from the Department of Local Government for the salaries of Rs.133,533,581 for the period 2013 to 2017.

(b) Accounts Payable

Action had not been taken in terms of Financial Regulation 571 with regard to deposits aggregating Rs.12,503,298 over 2 years as at 31 December 2017.

1.3.5 Lack of Necessary documentary Evidence for Audit

Three items of accounts aggregating Rs.11,297,740 could not be satisfactorily vouched in audit due to non rendition of information such as, schedules, confirmation of balances and agreements.

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

Instances of non-compliance with laws, rules, regulations and management decisions appear below.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
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	Rs.	
(a) Section 218 (Chapter 252) of the Municipal Councils Ordinance	-	The administrative report of the Council and a statement of receipts and payments had not been furnished.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka		
(i) Chapter XIX		
• Section 1	-	Government quarters had not been classified as scheduled quarters and general service quarters.
• Section 4.2.1	-	The officer selecting officers for allocation of quarters had not prepared a method for giving marks in terms of Appendix 18.
• Section 4.3.4		Separate waiting lists had not been maintained for each grade of quarters.
(ii) Section 13.6 of Chapter XXIV	-	Festival advances could be paid only once with a limitation of 12 months. However, employees of the Council had been paid festival advances despite the fact that their previous advances had not been fully recovered, contravening the requirement.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i) F.R. 104(3) and 4	-	Preliminary and complete reports had not been prepared for accidents caused to 03 vehicles in 2017.

(ii)	F.R. 110	-	A register of losses and damages had not been maintained.
(iii)	F.R. 188(2)	48,681	Action had not been taken regarding 5 cheques and 2 money orders deposited, but not realized.
(iv)	F.R. 341	-	Details of register of counterfoil books had not been noted in a register in Form No.GEN 20. Separate pages had not been allocated according to the types of books.
(v)	F.R.342(1)	-	Counterfoils books had not been serially and securely stored.
(vi)	F.RR.371(2)(a) and 371(5)	1,558,187	Ad-hoc imprests obtained should be settled immediately after the purpose is over. However, many instances were observed where advances had been settled after long delays as well as settlements had not been made before 31 December of the year.
(vii)	F.R 396(d)	35,550	Action had not been taken regarding 18 cheques issued but, not presented for payments, the validity period of which had expired.
(viii)	F.R 1653	-	Inoperative milometers of vehicles should be repaired without delay. However, there were 50 vehicles in the Council with inoperative milometers.
(d)	Paragraph 3.1 of the Public Administration Circular No.30/2016 of 29 December 2016	-	Consumption of fuel by vehicles of the Council had not been tested.

- (e) Treasury Circular No.IAI/2002/2 of 28 November 2002 - A separate register of fixed assets had not been maintained for computers and softwares.

1.3.7 Transactions without Adequate Authority

A sum of Rs.725,000 had been paid in 2013, 2014 and 2015 to purchase uniforms for officers participating in the monthly general meeting, contravening Section 188(1) of the Municipal Councils Ordinance,

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2017 amounted to Rs.341,690,299 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.349,470,297.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

Information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Source of Revenue	2017				2016			
	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Rates and Taxes	365,100	686,095	243,364	343,178	357,300	363,007	202,934	3,519
Rent	29,747	27,975	10,862	15,085	19,574	17,966	13,752	9,845
Licence Fees	34,235	94,318	18,893	62,782	31,235	40,546	20,232	33,296
Other Revenue	433,815	355,995	320,332	173,227	365,507	406,242	356,794	413,704

2.2.2 Performance in Collection of Revenue

The Council had failed to earn Rs.51,463,446 of the estimated recurrent revenue for the year 2017 while Rs.12,800,000 had been earned in excess of the budgeted capital revenue.

2.2.3 Rates and Taxes

(a) Rates

- (i) The rates billed for the year under review amounted to Rs.367,408,597. The Council had not taken action to recover 36 per cent of it amounting to Rs.132,912,366.
- (ii) The balance of arrears of rates as at 31 December 2016 amounted to Rs.306,489,840 of which 36 per cent amounting to Rs.109,008,030 had been recovered resulting in an arrears of Rs.197,481,810.
- (iii) The balance of rates as at 31 December 2017 amounted to Rs.357,578,962. Of this, the amount due from 396 units with arrears of over Rs.100,000 was Rs.140,499,759. Action had not been taken to recover this.
- (iv) State organizations with arrears of over Rs.100,000 had not paid rates and taxes for the year under review as well. As such, the balance of rates had increased annually.
- (v) Forty seven cheques received for rates and taxes during 2017 had been dishonoured. Action had not been taken to receive cash for 19 of these cheques valued at Rs.2,171,626.

(b) Garbage Tax

- (i) Legal action could not be taken to recover garbage fees from institutions where the Council collect garbage for disposal as agreements had not been entered into in this regard. Action had not been taken to recover arrears of garbage fees in terms of the Council's decision No.08 (10)35 of 18 November 2003 and the instructions of the Finance Working Committee. As a result, the arrears of garbage revenue as at 31 December 2017 amounted to Rs.9,768,276.
- (ii) Garbage disposal services had continued during the year under review too at 173 institutions which had brought forward arrears from the previous year. Action had not been taken to recover the arrears/the amount due for the year even during 2017.

(c) Other Taxes

Action had not been taken to recover the arrears of Cable T.T revenue of Rs.3,594,953 as at 31 December 2017.

2.2.4 Rent

Action had not been taken even during the year under review to identify and recover the arrears of Rs.2,471,517 due from meat stalls included in the miscellaneous revenue receivable from years prior to 2014.

2.2.5 Licence Fees

- (a) The business tax revenue billed for the year under review amounted to Rs.38,237,000. However, action had not been taken to recover 78 per cent of it amounting to Rs.29,867,980.
- (b) The arrears of business tax as at 31 December 2016 amounted to Rs.32,395,547 of which Rs.4,521,543 representing 14 per cent had been recovered resulting in a further arrears of Rs.27,874,004.

2.2.6 Court Fines

Court fines due for the period 2013 to 2017 amounted to Rs.143,299,238.

3. Operating Review

3.1 Performance

The following matters were revealed with regard to duties to be fulfilled by the Council in terms of Section 4 of the Municipal Councils Ordinance such as regularization and control of matters relating to public health, common amenities and public highways, healthy environment of the public, facilities, welfare etc.,

(a) Non-achievement of the Expected Benefits

The work of the Windsor Park Preparatory School valued at Rs.1,550,750 had been completed on 03 July 2017. However, it remained idle without being used as a preparatory school.

(b) Solid Waste Material Management

Non degradable garbage of 33,498 tons representing 65 per cent of the entire garbage was in existence within the area of the Council during 2017. As there was no proper

management in collection of garbage, the Council had to pay Rs.25,003,328 in excess on behalf of mixed garbage.

(c) Projects Abandoned

A project valued at Rs.499,928 to be executed under the decentralized aid and 02 projects valued at Rs.9,250,000 to be executed under the provision of the Ministry of Provincial Councils and Local Government had been cancelled.

(d) Delay in Execution of Projects

Eight projects valued at Rs.70,260,140 to be executed under the funds of the Council had not been completed.

3.2 Management Inefficiencies

(a) Approval of Plans and Issue of Compliance Certificates

- (i) A register had not been maintained for details of applications relating to compliance certificates and the issue of compliance certificates. As such, the issue of compliance certificates requested for, could not be confirmed. Meanwhile, compliance certificates had been issued in 2017 for applications for compliance certificates made in 2014, 2015 and 2016, after a long delay.
- (ii) The applications for compliance certificates received at the Council had not been date stamped and as such it could not be confirmed whether there was delay in issue of compliance certificates.
- (iii) Instances were observed where copies of compliance certificates issued had not been referred to divisions concerned as well as the originals of compliance certificates had not been issued to the respective applicants.

(b) Assessment Revenue

The gazette notification No.1992 of 04 November 2016 issued to levy registration fees for names and addresses of land and buildings for the year 2017 contained deficiencies and contradictions.

3.3 Human Resources Management

The information regarding the approved and actual cadre of the Council as at 31 December 2017 appear below.

Category of Employee	Approved Cadre	Actual Cadre	Vacancies	Excess
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Senior Level	23	17	06	-
Teritary Level	12	06	06	-
Secondary Level	342	292	50	-
Primary Level	1,398	1310	88	-
Others(Casual)	-	30	-	30
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Total	1775	1655	150	30
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The following observations are made.

- (a) Vacancies by end of the year under review were 150.
- (b) The activities of Council could not be efficiently and beneficially carried out due to the 06 vacancies in the senior level
- (c) An employee recruited on a permanent basis in terms of the Public Administration Circular No.25/2014 of 12 November 2014 had not been included in the approved cadre even by end of the year under review. As such, the Council could not get reimbursement for salaries paid to him.
- (d) In addition to the approved cadre, 30 sanitary labourers had been recruited on casual basis in 2017 and 2 employees had been recruited on a day's pay basis in 2013 and 2014.
- (e) Action had not been taken with regard to the arrears of employees' loans of Rs.6,783,961 due as at 31 December 2017.
- (f) Newspaper advertisements had been published by spending Rs.416,806 in October 2017 to recruit 07 vacancies in the posts of drivers. But, the time granted for forwarding applications, that is , 14 days was not adequate and an extra sum of Rs.18,078 had been spent to extend the date. Three persons only had been recruited.

3.4 Operating Inefficiencies

(a) Rent of Stalls

- (i) Arrears of rent were due from 239 out of 371 stalls of the Council. Although, many stalls had been given on lease, agreements had not been entered with lessees. Meanwhile, renewal of agreements had not been done with reference to agreements that had lapsed.

- (ii) The Council had not acted in accordance with the rent agreement with regard to continuous non payment of rent for 03 months. Meanwhile, action had not been taken to register the names of stall holders and 11 stalls remained closed without business being conducted.

(b) S. De S Jayasinghe Auditorium

- (i) There were over 700 fibre glass chairs in Hall “A” of the S De S Jayasinghe auditorium. However, certain chairs were broken and certain doors of the air conditioned hall too were broken. The electricity connection at the stage was inoperative and the electric lamp at the steps needed repairs. The main curtain of the hall could not be closed at certain instances and the toilet needed repairs.
- (ii) The revenue earned from the auditorium during January to July of the year under review amounted to Rs.1,938,735 and the Council had incurred an expenditure of Rs.2,999,221 on the maintenance of auditorium, excluding the payment of overtime. Accordingly, the excess of expenditure over revenue amounted to Rs.1,060,486.
- (iii) The electricity charges incurred in respect of the auditorium in 2016 amounted to Rs.3,883,005, The total revenue earned during that period amounted to Rs.3,542,757. Further, the revenue earned during March to July of 2017 was not even enough to pay the electricity bill of those months.

(c) Preparatory School Management

- (i) All preparatory schools within the province should be registered under Section 13 of the Preparatory School Enactment No.01 of 2013 of the Western Provincial Council published in Part IV of the Gazette Extra Ordinary No.1826/23 of 04 September 2013 of the Democratic Socialist Republic of Sri Lanka. However, 07 preparatory schools had not registered so. According to Part vii of the Enactment, preparatory school teachers should be registered and identity cards issued to them accordingly. However, 08 teachers of the preparatory schools maintained by the Council had not been registered so.
- (ii) According to Section 12(1) h of the above enactment, a preparatory school should contain only 20 students per teacher at the time of registration. However, number of students per teacher in 5 preparatory schools of the Council ranged from 24 to 35.
- (iii) Preparatory schools had been conducted without safeguarding the preparatory school premises with a safety parapet wall or fence, without facilities/space to play in the preparatory school, without a pleasant environment in the premises

of the preparatory school and without containing preliminary equipment as required by 12(1) (c), 12(1) (f) and 12(1) (g) supposed to be the preliminary and minimum facilities needed for students expected to be in a preparatory school as per Part V of the enactments referred to above.

(d) Crematoriums and Cemeteries

- (i) The values and extents of crematoriums at Galkissa, Kohuwala, Nedimala and Attidiya had not been entered in the register of Land and Buildings. Details of acquirement and title deeds necessary to confirm the ownership of crematoriums had not been furnished to audit.
- (ii) The reason for alterations in extent was not observed according to the register of land and buildings and the survey plan in 2009. The register of assets had not been updated.
- (iii) Receipts and issues of cremation and burial licences received by the Solid Waste Material Division from the stores had not been properly entered in registers.
- (iv) The correctness of fees recovered could not be confirmed due to weaknesses such as, conducting the funeral ceremonies contrary to what had been stated in the death certificate without written permission, originals of licences not filed of record and not making entries about the funeral activities in the registers maintained at the crematoriums.

3.5 Assets Management

3.5.1 Idle / Under utilized Assets

The following matters are observed.

- (a) Two compactor vehicles of the Council remained inoperative for over 02 years expecting repairs. Action had not been taken to repair and make use of them even by 30 April 2018.
- (b) Action had not been taken to acquire 11 stalls remaining closed and 37 stalls which had been sealed and to give them on lease to other lessees and earn revenue.
- (c) The snowkal vehicle of the Council which became inoperative in January 2017 had not been repaired till April 2018.
- (d) A two storied building of the Municipal Council at No.368, Galle Road, Galkissa repaired by paying an advance of Rs.171,352 remained idle without any revenue being earned by the Council.

- (e) Uniforms valued at Rs.127,530 and electrical goods valued at Rs.66,360 remained at the stores without being issued for a long time.
- (f) Action had not been taken to repair and make use of/to dispose of 14 vehicles which had been kept aside for 01 to 06 years.

3.5.2 Vehicle utilization

- (a) The Municipal Commissioner had made use of 02 vehicles. The amount spent on 2283 litres of fuel for the extra vehicle used during January to December was Rs.251,130.
- (b) Eighty five drivers, 36 labourers and 2 machine operators had been employed to attend to 158 vehicles in usage. But, there were 35 vacancies for drivers.
- (c) Action had not been taken to obtain compensation from the insurance for 03 accidents caused to vehicles in 2014.
- (d) An ambulance had met with an accident on 02 February 2017. After obtaining reimbursement for losses from the insurance, it was recommended to recover the balance of Rs.490,070 from the driver of the ambulance. However, action had not been taken to make recoveries even by 31 December 2017.
- (e) A sum of Rs.636,561 had been spent to repair 03 vehicles which had met with accidents in 2016 and 2017. A part from obtaining compensation from insurance, action had not been taken to recover the loss caused to the Government from the officers who were negligent. As a result, the loss caused to the Council amounted to Rs.100,151.
- (f) Although the Council had 245 vehicles, it had obtained 04 tractors, 01 lorry, 08 vans, 02 cars and 04 three wheelers on hire. The rent of 19 vehicles obtained on hire for the period January to October 2017 amounted to Rs.12,283,180.
- (g) Entries in running charts of certain tractors had not been properly completed. The performance and the time spent relating to certain tractors were at a very low level and it was observed that the drivers had not marked their attendance in the finger print machine on certain days.
- (h) As a result of lack of proper management in utilization of vehicles, certain hired vehicles had not performed the required minimum hours and certain vehicles had exceeded the time stipulated for them resulting in additional expenditure to the Council.

3.6 Uneconomic Transactions

- (a) There was no supervision over payment of electricity and water bills of official quarters. As a result, an arrears of water charges amounting to Rs.87,844 had been paid by the

Council for the official quarters at No.14, Anagarika Dharmapala Mawatha. Action had not been taken to recover this from the occupant.

- (b) The official quarters at No.04, Udyana Road remained closed from 01 September 2015 to 27 September 2016. The Council had to pay Rs.4,710 as water charges due to the leakage of water.
- (c) Occupants of official quarters should pay their electricity and water charges. Separate water and electricity meters had not been installed in the official quarters occupied by 05 Family Health Service Officers. As a result, the water and electricity charges of those quarters had been paid by the Council.
- (d) The entire retention money of the contractor had been released to him without recovering Rs.409,294 for electricity and water charges due from him during the Dehiwala Central Library Modernization Project.
- (e) Advance of Rs.171,352 had been paid on 16 January 2017 for the agreement entered into on 28 November 2016 for repairing the 02 storied building of the Municipal Council at No.368, Galle Road, Galkissa. But, the work to be completed by 31 January 2017 had not been completed by 31 December 2017. Further action had not been taken in this regard.

3.7 Identified Losses

Salaries and allowances amounting to Rs.1,413,903 had been paid to an employee who had been suspended from duties from 11 November 2011 to April 2016. This amount had not been recovered even by end of the year under review.

3.8 Irregular Transactions

The books relating to crematorium charges given to the crematorium keeper at week ends and on public holidays are handed over to the Council on the next working day. But, the acknowledgement of cash only had been checked. As a result, a loss of Rs.35,700 had been caused to the Council due to the variations in the amount denoted in the crematorium/ burial licence and the copies of receipts.

3.9 Procurement

3.9.1 Procurement Plan

A procurement plan had not been prepared for 2017. As such, the goods and services valued at Rs.25,544,085 included in the budget could not be purchased during the year.

3.9.2 Supplies and Services

- (a) Quotations had been called for, to obtain an air conditioned motor vehicle of hybrid type with an engine capacity of 1600 cc. However, the technical evaluation committee had selected vehicles with 1300 cc and 1490 cc capacities, contravening the requirement. As the quotations had been called for, without correctly identifying the specifications, the opportunity for many suppliers to forward their quotations had been lost.
- (b) Quotations had been called for, to obtain a lorry on hire, without correctly identifying the specifications. As a result, only one supplier had forwarded his quotation. The lorry concerned had been registered in 1996 and was in existence for over 20 years and could hold a weight less than a tractor. As a result, the committee could not make a decision.
- (c) A van registered in Sri Lanka within a period of 10 years was required for hire while stipulating conditions calling for quotations. However, the Council had hired 05 vehicles registered during 1997 to 2005.
- (d) According to the conditions laid down while calling for quotations for transport of goods by tractor, the tractor should carry a load of 3.5 tons. However, 02 vehicles which could carry a load of 1.5 tons each had been obtained on hire.
- (e) The security officers engaged on duties should be over 18 years and less than 55 years as per condition No.11 of the agreement to obtain private security service advertised in the newspaper. However, 11 employees exceeding the above age limit had been employed and payments made.

3.9.3 Contract Administration

- (a) A certificate stating that the work had been satisfactorily completed had not been furnished for projects executed.
- (b) Water enters the Kohuwala Sathosa shop of the trade complex during rainy days and the main door had not been fitted properly. In spite of this, a sum of Rs.6,984,130 had been paid to the society which carried out the contract for repairs.

4. Accountabilty and Good Governance

4.1 Budgetary Control

- (a) The entire sum of Rs.64,350,000 allocated for 12 Objects on behalf of public welfare in the budget of the year under review had been saved.
- (b) No revenue had been earned from the budgeted revenue of Rs.2,039,000 relating to 10 items of revenue under the Revenue Head 07.

5. **Systems and Controls**

Deficiencies observed during the course of audit were brought to the notice of the Commissioner from time to time. Special attention is needed in respect of the following areas of control.

System	Deficiency
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(a) Accounting	(i) Omission in accounts. (ii) Understatements and overstatements in accounts.
(b) Revenue Administration	(i) Non recovery of arrears of revenue. (ii) Lack of assessment of tax on the due dates.
(c) Contract Administration	Lack of correct preparation of estimates.
(d) Budgetary Control	(i) Lack of preparation of feasible estimates of revenue. (ii) Extensive variations in items of revenue and expenditure.
(e) Debtors and Creditors Control	Non settlement of balances.
(f) Employees' Loan management	Lack of systematic recovery of loan balances
(g) Stock Control	Stocks not issued for a long time.
(h) Fixed Assets Control	(i) Idle assets (ii) Fixed assets not being brought to account.