

ITEM NO. 14 (D-4)

1. **Name of the Subject/Project :**

Approval of the New Delhi Municipal Council (Maintenance of Accounts) Regulations, 2007

2. **Name of the Department :**

Accounts Department

3. **Brief History of the Subject/Project :**

- (i) Prior to the enforcement of the New Delhi Municipal Council Act 1994, the New Delhi Municipality was being administered under the Punjab Municipal Act, 1911 (Punjab Act 3 of 1911), as applicable to New Delhi. At present the accounts are being compiled and maintained as prescribed in the Punjab Municipal Accounts Code 1930, which was made applicable to Delhi with certain modifications by Chief Commissioner's Notification No. B.4 (118)/33-Education dt.2.1.1934, as amended from time to time.
- (ii) Under the Punjab Municipal Accounts Code 1930, the accounting system is on cash basis, where revenue is recognized on actual receipt of cash and expenditure is booked on actual payments. In this system, only receipts and payment accounts are prepared. In the absence of a balance sheet, true and fair position of assets and liabilities is not available.
- (iii) Under Section 416 (2) (a) of the NDMC Act 1994 any rule, bye law etc. issued or made under the said Punjab Municipal Act 1911 and in force immediately before the establishment of the Council, continues in force, in so far as it is not inconsistent with the provisions of the NDMC Act, and is deemed to have been made or issued under the provisions of the latter Act.
- (iv) In the affidavit of the Government of India filed before the Hon'ble Supreme Court in the case of Almitra H. Patel & Anr. Vs. Union of India & Ors. [Writ Petition (Civil) No.888/1996] it was recommended that Urban Local Bodies (ULBs) should maintain their accounts on mercantile system of accounting, i.e. double entry system. The Hon'ble Supreme Court in its order dated 13.12.2001 observed that perhaps "the Government of

India will have to amend the regulations as a result of which the urban local bodies in Delhi, namely, MCD, NDMC and Cantonment Board will be required to maintain accounts as per the mercantile system of accounting." When the matter was placed for consideration and decision of the Council, it approved (vide its Resolution No.3(XII) dt. 24.4.2002) the change in Accounting System from Single Entry System on cash basis to Double Entry System on accrual basis. It may be added that the system of accounting on accrual basis seeks to present a more reliable state of the financial health of the organization and is more intelligible to the stakeholders. As the accrual system of accounting based on double entry system is more easily comprehensible and makes financial appraisal of an organization easier, it paves the way for raising money from the open market, as and when the occasion arises.

- (v) Based on the guidelines issued by the Ministry of Finance, Government of India, the Comptroller and Auditor General of India constituted a Task Force which suggested adoption of accrual basis of accounting by ULBs. Thereafter the Ministry of Urban Development, Government of India, formulated a National Municipal Accounts Manual (NMAM) detailing accounting policies, procedures, guidelines designed to ensure correct, complete and timely recording of municipal transactions and produce accurate and relevant financial reports. The Manual is a comprehensive document and defines accounting concepts, accounting conventions, accounting principles, Chart of Accounts and Accounts Codification Structures, General Accounting Procedures, Accounting for transactions like property and other Taxes, Cess, Water Supply, Rentals, Fee and Other Incomes, Public Works, Health and Sanitation, Reconciliation procedures, Financial Statements, Specimen of Forms, Registers, etc.
- (vi) The Council vide its Resolution No.15(D-13) dt.26.8.05 resolved that the NMAM with suitable modifications as per requirement of NDMC may be adopted in terms of the provisions of section 58 of the NDMC Act, 1994. The Council further resolved that the Chairperson, NDMC is authorized to effect such modifications/amplifications in

consultation with the Financial Advisor, NDMC as are deemed necessary. The work of modifying the NMAM is in hand and will be submitted to the Council for approval shortly.

(vii) However, section 58 of the NDMC Act, 1994 is as under:-

“58. Accounts to be kept – There shall be kept in such manner and in such form as may be prescribed by regulations the General Account of all receipts and expenditures of the Council.”

Since section 58 requires that the manner and form of keeping accounts is to be prescribed by the Regulations, a draft of the NDMC (Maintenance of Accounts) Regulations 2007 has been prepared **(Annexure-I See pages 67 - 76)**.

4. **Detailed Proposal on the Subject/Project :**

The following are some of the main topics included in the NDMC (Maintenance of Accounts) Regulations 2007 :-

- (i) **Commencement**:- Ordinarily the date of commencement of any rule/regulation/bye-law is the date of its publication in the Official Gazette. However, it is preferable that any new system of accounting should begin from the start of the financial year. It has, therefore, been provided that the Regulations shall come into force from such date as the Council may appoint and that different dates may be appointed for different provisions [Regulation 1(2)].
- (ii) **Manual** :- Since the Council vide Resolution No.15(D-13) dated 26.8.05 has already approved that the NMAM may be adopted with suitable modifications/amplification to be made by the Chairperson, in consultation with the Financial Advisor, the provisions to be incorporated in the Manual do not find a place in the draft Regulations. The Manual with suitable modifications/amplifications is under preparation and will be brought before the Council for approval shortly. In view of the above, the expression “Manual” has been defined as a Manual approved by the Council which shall include matters as laid down in Regulation 2(1) (d).
- (iii) **Accounting System** :-

- (a) Generally all accounting transactions of the Council shall be on accrual basis, using the double entry system and segment/sub-segments under the Accounts of the Council may be created, if necessary [Regulation 3 (1)].
 - (b) Account of all receipts and expenditures of the Council shall be kept in the format appended to the Manual to be approved by the Council [Regulation 3(2)].
 - (c) The work relating to Cash and Accounts shall be handled by different officials [Regulation 3(5)].
- (iv) **Correction of misclassified items**:- Necessary provisions have been made about the corrections of misclassified items [Regulation 5].
- (v) **Monthly and Annual Accounts** :- (a) At the end of each month, a monthly abstract of all ledger balances shall be drawn up by 15th of the second month following the month to which the accounts relate and placed before the Council for approval. Thereafter the approved accounts shall be forwarded to the Chief Auditor for his monthly examination and report to the Chairperson. Similarly annual abstract of accounts shall be prepared by 30th June each year.
- (b) The Chairperson has been clothed with the power to extend the above date/period, subject to certain conditions, and report to the Council, [Regulations 7 and 8].
- (vi) **Annual Financial Statement** :-
- (a) An Annual Financial Statement for the preceding year shall be prepared by 30th June each year. It shall be placed before the Council for approval and thereafter submitted to the Chief Auditor. [Regulation 9(1)].
 - (b) Audit of the Annual Financial Statement shall be completed by the Chief Auditor within six months from the close of the year, placed before the Council for approval and adoption within nine months of the close of the year [Regulations 9(4), 9(5)].
 - (c) Provisions as per para (v)(b) above has also been made for extension of dates/period referred to in (a) and (b)above, [Regulation 9(6)].

- (vii) **Financial Adviser as Technical Adviser** :- The Financial Advisor shall be responsible for the proper maintenance of all accounts and for their internal check and examination, subject to the superintendence, direction and control of the Chairperson [Regulation 14].
- (viii) **Asset Register** :- An asset register in the format specified in the Manual shall be maintained and regular physical verification of various assets will cause to be done [Regulations 15 and 16].
- (ix) **Computerized Accounting** :- The accounting records shall be computerized wholly or partly as per the discretion of the Chairperson [Regulation 17].

5. **Financial implications of the proposed project/subject :**

No financial implications are involved.

6. **Implementation schedule with timeliness for each stage including internal processing :**

After the draft Regulations have been approved by the Council, they will be sent, under sub-section (2) of section 387 of The New Delhi Municipal council Act, 1994, to the Central Government for approval. Thereafter, the Regulations would be sent to the Government of NCT of Delhi for publication in the Official Gazette. This exercise is likely to take about six months.

7. **Comments of the Finance Department on the subject :**

No comments.

8. **Comments of the Department on comments of Finance Department :**

Not applicable.

9. **Legal implications of the subject/Project :**

As stated in Para 3 above, these Regulations are being made under section 58 of the NDMC Act, 1994.

10. **Details of previous Council Resolution, existing law of Parliament and Assembly on the subject :**

As indicated in Para 3 above.

11. **Comments of the Law Department on the subject :**

“(1) Maintenance of accounts is the responsibility of Chief Accounts Officer and not Financial Advisor and as such F.A. be replaced by C.A.O. or any other officer subordinate to F.A. duly authorized in this behalf by Chairperson.

(2) Manual is also being prepared under section 58. What are contents of Manual are not known. How can we refer in our regulation of the Manual which is yet to be framed.

(3) The Regulations appear to recognize Cash Book, Ledgers, Vouchers, etc. It also recognizes in 2(d) C (i) general procedure for accounting of income or accrual or cash basis. It is against Government directive which provides for accrual double entry system. This is not coming in Regulations.

(4) Do not give any dates for finalization of accounts and submission to Audit. If you fail, this would itself be a good ground for objection.

(5) We may reconsider after Manual has been drafted. ”

12. **Comments of the Department on the comments of the Law Department :**

The comments of Finance Department seriatim on the points raised by Law Department in Para 11 above are as under:-

(1) F.A. has been defined as the F.A. of the Council and includes an officer subordinate to him, authorized by the Chairperson. While the designation “Financial Adviser” appears in section 46 of the Act, the designation of “C.A.O.” does not so appear. In any case, the C.A.O. is subordinate to F.A. In view of the definition given in regulation 2(1) (c), the point raised by Law Department has been squarely met.

(2) "Manual" has been defined in regulation 2(1)(d) and the main contents of the Manual have been indicated therein.

(3) Regulations 2(d)(C)(i) and (ii) have been suitably modified as per advice of Law Department.

(4) While it is necessary to specify the dates/period within which the accounts are to be prepared/completed, power has been given to Chairperson to extend the prescribed date/period, subject to certain conditions and report to the Council.

(5) While the Manual is a very comprehensive documents as indicated in Para 3(v) above, the Accounting Regulations deal with broad outlines of the manner and form in which the General Accounts of receipts and expenditures of the Council are required to be kept. The regulations need not be held up on that score.

13. **Recommendations :**

The draft regulations were circulated on 12.11.2007 to the Members of the Committee set up under section of the NDMC Act, 1994 for advising the Council on framing Bye-laws/ Regulations with the request to sent to their response by 16.11.2007, so that the Regulations are placed before the Council in the next meeting. Since no response has been received from the members, it is recommended that the draft Regulations as per **Annexure-I (See pages 67 - 76)** be approved by the Council and that they may be sent to the Central Govt. for approval. Thereafter they may be sent to the Govt. of NCT of Delhi for publication in the Official Gazette.

14. **Draft Resolution :**

Resolved by the Council that the NDMC (Maintenance of Accounts) Regulations 2007 is approved and after obtaining the approval of the Central Govt., they be sent to the Govt. of NCT of Delhi for publication in the Official Gazette.

COUNCIL'S DECISION