

ACCOUNTS DEPARTMENT
ACCRUAL BASED ACCOUNTING SECTION
PALIKA KENDRA :NEW DELHI

**Subject:Annual Accounts &Financial statements on double entry
system of accounts on accruals for the financial year
2016-17**

Short details

In compliance of the orders of the Hon'ble Supreme Court of India, the Council vide Resolution No.3(xii) dated 24.4.2002 decided to switch over to double entry system of Accounting on accruals and is maintaining its Accounts and Financial Statements on accrual basis since 2004-05. There are more than 80 Accounting Units in NDMC which are responsible for Function wise management of the affairs of NDMC and accordingly maintain their accounts and accounting records in respect of income, expenditure, liabilities and assets. The Accounts of these Accounting Units are consolidated in the Accounting Unit named as Accrual Based Accounts Section (ABAS). As per New Delhi Municipal Council (Maintenance of Accounts) Regulations, 2010, the Council has to maintain the accounts monthly and annually and prepare the Financial Statements annually. From the year 2004-05 to 2008-09, these accounts were compiled manually in the ABAS. NDMCs' specific Finance and Accounts software i.e. e-financial application has been got developed by M/s e-Governments Foundation and the same is updated from time to time as required for compiling of accounts on double entry system of accounts on accruals. All the accounting transaction including the receipt and disbursement are being carried out on online accounting concept through the accounting software.

2 It is pertinent to mention that Tax Department, the Commercial Department of Electricity Wing, Water supply and Estate Departments have got developed their stand-alone software for creation of demand and online accounting of receipts being received in NDMC. Apart from these items the receipts in respect of yellow fever and other receipts through Net banking arrangement are also being accounted for on online accounting concepts. The Cash Book of NDMC is being maintained manually and is closed daily on the basis of cash details provided through software of these departments as well as accounting software and the accounts are prepared on the basis of the transactions appearing in the e-finance application after proper reconciliation of receipts in both software applications on day to day basis. For safe guard of the cash of NDMC a cash tally system is being maintained where the cash book being maintained manually is tallied with the cash book maintained in the system/software on daily basis.

3 The Annual Accounts & Financial Statements for the year 2016-17 as prescribed in the Accounting Regulations were to be finalized by 30.06.2017 but the targets could not be achieved because of the following reasons:

- I. Nullifying of JVs/C.Bills which were created during the year 2015-16 but remained unpaid even after closing of the Financial Year.
- II. Correction of wrong Function Code, wrong Chart of Accounts, adverse balances and minus entries etc.
- III. Rectification in frequent integration failure between e-Fin software and stand alone software i.e. CC & B application developed by M/s Vyam Tech. for Commercial & Estate Department, and PTS for Property Tax Department.
- IV. Frequent Changes in closing balances of Accounting of previous years accounts in the e-finance applications due to technical reasons related with up-gradation of software application.
- V. Non receipt of information about Capitalization of fixed asset, age-wise break of receivables, information about contingent liabilities, information regarding Foreign service Contributions.
- VI. Non acceptance of the Inter Unit Transactions (IUTs) by various Accounting Units.
- VII. Reconciliation of net banking receipts with the amount transferred to main bank accounts of NDMC maintained with the SBI.

In addition to above, it is important to mention that NDMC has appointed M/s SBI Capital Marketing to finalize the establishing of the Strategic Business Unit in NDMC to separate the accounts of Electricity Function to the extent possible as per requirement and satisfaction of the DERC. The department has made best effort to segregate the accounts. The brief detail for segregations of accounts are as under:-

NDMC being primarily a Municipal body is maintaining consolidated accounts for all its activities in accordance with the provisions of NDMC Act, and segregated accounts for the Electricity supply and Distribution activities are not maintained. To ensure transparent tariff setting, DERC has issued directions to NDMC for segregating the accounts pertaining to its Electricity Distribution function and to furnish separate details on independent accounts of Electricity Distribution function while filing the ARR (Annual Revenue Requirement). To comply with the directives issued by DERC, SBI Capital market ltd. (SBI CAP) was appointed as consultant vide Reso No. 06(B-17) dated 29.1.2014 to study the present set up of NDMC and suggest a plan for formation of Electricity Distribution Strategic Business Unit (EDSBU) within NDMC, and to assist in its implementation.

Based on those clarification, discussions and suggestions the ABAS, accounting units initiated the process for implementation of the various recommendations as submitted by M/s SBICAP. The recommendations of SBICAP can be broadly categorized as under:-

1. ***Administrative Changes***
2. ***Accounting Changes***
3. ***Accounting Software related changes***

1. ***Administrative Changes: The broad steps for the formation of EDSBU which have been taken are as under:-***

- a. Designating the Core Electricity Supply & Distribution Activity related departments/Divisions into EDSBU.
- b. Carving out Sub-divisions from other departments/ Divisions catering to the Electricity Supply & Distribution Function (S&D), to the extent possible and merging these into EDSBU.
- c. Wherever such carving is not possible suitable expenses sharing mechanism to put in place based on apportionment of Income and Expenditure.

2. Accounting Changes:- The Accounting structure of NDMC has been suggested to be segregated in the following 3 verticals/ divisions.

- a. Municipal Division (MD)
- b. Electricity Distribution Strategic Business unit (EDSBU)
- c. Shared Function Division (SFD)

Apart from the verticals/ Accounting segments suggested by M/s SBI CAP, Water supply & Sewerage Division has been added by NDMC as a vertical at the Vertical Level for preparation of separate accounts of Water supply & Sewerage Function. For financial accounting purpose, all the fields & sub-fields of NDMC have been classified under one of the aforesaid vertical.

3. Accounting Software's Related Changes:- Major changes in the accounting software have been done on the basis of re-organization plan suggested by M/s SBICAP.

To comply the directions of DERC & implemented the suggestion of M/s SBI CAP several meetings were also held with representative of M/s e-gov foundation and necessary support and road map was given to them for carrying out changes/modifications/ customization in the existing accounting system. While discussing the changes in the software with M/s e-gov a provision have also been made to create a separate business unit for WATER SUPPLY also.

The monthly account upto the month of February 2017 has already been approved by the Chairman NDMC. Now the annual accounts have to be finalized very shortly. While compiling the accounts it has been observed that Transaction which are existing in the SFD (Shared Function division) which has to be transferred to EDSBU, WS&SD, and M.D are not being done by the system due technical error.

The meeting was with the representative of SBICAP to discuss the transactions related to SFD. After that we come to conclusion that separate division and separate chart of account may be created to transfer the amount of SFD into EDSBU, WS&SD and MD. They have suggested that Income and expenditure will be charged to other verticals based on fixed rate contract on month to month basis through Head office accounts as Indirect Treatment. They have suggested to use Employee number as criteria for determination of fixed monthly rate to be charged to from EDSBU, WS&SD and MD.

The accounts upto the February 2017 have been approved and month to month transferring the amount is not possible. As

such to give up the true picture in annual accounts single entry for the whole year to be done.

The fixed rate contract formula method has been adopted for transferring of funds from SFD to other verticals. For the purpose of calculation fixed rate contract formula the department has obtain the information of NDMC employee where they are exists and Pensioner where they were exists on the date of superannuation from the CBS and Pension branch. The calculation made in the notes to accounts .

However as far as possible and practicable the action with respect to audit observations has been taken and the accounts compiled accordingly. Since the Accounts for the financial year 2016-17 cannot be kept open any further, these have been closed and the unattended comments will be taken care of during the finalization of accounts of ensuing year. These facts have also been incorporated in the notes to accounts appended with the financial statements and also the Audit department has been intimated accordingly.

ACCOUNTS OF 2016-17

4 The balance sheet of NDMC is to be compiled on accrual system of accounting as per guide lines provided in the NDMC Accounts Manual drafted on the basis of National Municipal Accounts Manual adopted by NDMC vide Resolution No. 15(D-13) dated 26.08.2005.

5 The accounts of 2016-17 have been finalized as per the transactions entered by the working Accountings Unit of NDMC and after completing the year end procedures. All the year end procedures have been accounted for in the accounts of March 2017. The Accounts upto Feb. 2017 have already been approved by the Chairperson, NDMC and submitted to the Chief Auditor, NDMC for further necessary action.

The annual accounts and the financial statements being submitted include the following:-

A Annual Accounts

1. Basic consolidated ledger as per Chart of Accounts for the annual accounts of 2016-17.
2. Abstract of Liability/Capital Receipts and Assets/Expenditure for the year 2016-17.
3. Income and expenditure statements for the year 2016-17.
4. Ledger on Cash based for the year 2016-17 on the pattern of Budget adopted in NDMC.

B Financial Statements

1. Basic consolidated ledger for financial statements of 2016-17.
2. Balance sheet as on 31.3.2017

3. Income and Expenditure Accounts for the year 2016-17 in support of surplus/ deficit carried out to the balance sheet.
4. Receipt and payment account for the year 2016-17
5. Cash Flow Statements
6. Schedules to Balance Sheet.
7. Schedules to Income and Expenditure Account.
8. Significant Accounting policies.
9. Notes to Accounts

Basic consolidated ledger for 2016-2017 has been prepared where each line in statement of accounts represent ledger (in linear form) for a particular type of transaction corresponding to the respective chart of account under the particulars function and accounting unit and as per voucher-wise details maintained in the system (accounting soft-ware). The accounting heads used for drawing up these Financial Statements and the underlying accounts, ledgers etc. are as per NDMC Accounts Manual.

DESCRIPTION OF THE ACCOUNTS

Balance-sheet :

Liabilities :

Liabilities of NDMC are inclusive of New Delhi Municipal Reserve Fund & Surplus, grants, contribution for specific purposes, Loans, Current liabilities and provisions. Total liabilities including the Reserves and surplus totaling **₹9630,35,45,794.66** have been worked out at **₹ 104,22,47,98,582.60**.

Assets

This statement includes fixed assets of NDMC (accounted for nominal value of Rs.1 for each asset) capital work in progress, current assets, including stock in hand, sundry debtors, Deposit work, Replacement work, cash and bank balances. Total Assets have been worked out at **₹ 104,22,47,98,582.60**.

Schedules to Balance Sheets :

These schedules are the details of balances incorporated in the balance sheet. The figures in the schedules have been grouped as per nature of the transaction and also as described in the NDMC Accounts Manual. The sub-groups included in the schedule are as per new chart of account. Schedules No.01 to B-22, assigned to various categories of transactions are as per guidelines of the Manual. The schedules No. B 1 to B-10 represent the transaction pertaining to various liabilities of the New Delhi Municipal Council and B-11 to B-20 represent the various types of assets held by NDMC. In the Schedule-21 the Significant Accounting Policies have been highlighted

and Schedule 22 takes care of the Notes to Accounts about various actions taken for compiling of accounts

Income & Expenditure Statement :- 'I'

It comprises of details of Income category-wise i.e. Tax revenue, Assigned Revenue, Rental Income, Fee and User Charges, Sale and hire charges, Revenue Grants, Income from Investment and other Income for the financial year 2015-16.

The receipts from deposit works mentioned in budget of NDMC, has been excluded from the Income expenditure account and grouped into Liabilities accounts. The amount of demands raised i.e. bills issued, in respect of Property Tax, Electricity/Water charges, License fee in respect of Commercial Shops, Buildings, Parking Lots etc. have been taken as the income and the amounts received, as shown in the budget estimates is the amount actually received in the corresponding receivables. Similarly income from investment is taken as per the modified accrual basis and the amount which has become due but not received has been taken in the receipt and payment account of 2016-17. Total Income on accrual Basis has been worked out to **₹33,80,56,11,577.**

The expenditure as per Income & Expenditure account has been categorized as Establishment Expenses, Administrative Expenses, Operation and Maintenance, Interest and Finance charges, Programme Expenses Revenue Grants, Provision & Write Off, Misc. Expenses Depreciation.

The amount pertaining to transfer to various depreciation funds has been excluded from the Expenditure Account of cash basis. This amount is shown as expenditure in the Budget Estimates of NDMC. However, this amount has been shown as transfer to Reserve Funds/Segments after working out gross surplus of income over expenditure.

A sum of **₹151,68,26,189.06/-** has been shown as provisional expenditure for provisions towards doubtful receivable for Property Tax, E/Water Charges and License Fee as the department are not maintaining the age-wise breakup of the receivables. A sum of **₹15,99,51,424/-** has been charged to expenditure as depreciations on Plant & Machinery, Vehicles, Office Equipment, Furniture and other fixed assets. The works completed during the current financial year have not been included in the depreciation account in the absence of details from the concerned division. These transactions will be updated and squared up during the next financial year.

After considering the above items of Income and Expenditure the Gross surplus of income over expenditure has been worked out to **₹937,28,47,693.33/-**. A sum of **₹ 47,56,660/-** has been shown as prior period expenses. A sum of **₹346.60 Crores** has been transferred from the gross profit to Various reserve fund/ segment in the Municipal Fund the net surplus of different verticals carried over to Municipal Fund works out to **₹ 590,20,91,033.33.**

At the same time some assets /liabilities income or expenditure might have escaped notice and remained out of the accounts. For want of full details of completion of assets, the work of capitalizing the assets has not been achieved properly and actual capitalization of assets and its depreciation will be carried out in the ensuing financial year so that updation of accounts may be achieved in a real sense. But that does not detract from the values of these accounts as a true and fair presentation of the affairs of the Council for the relevant year i.e. 2016-17. Therefore, the following aspects of this project need further attention in the Next years or ensuing years:

- i) Re-verification of fixed assets, listed so far, their location and integration with GIS data base including the BOT assets
- ii) Addition to the list of assets that may have escaped notice during the on going efforts as and when a transaction in relation, thereto, arises.
- iii) Valuation of fixed and other assets taken at ₹1/- in the opening balance sheet on a fair and rational basis
- iv) More accurate computation of depreciation on fixed assets.
- v) Age wise classification of NDMC dues in arrears on account of Tax as well as Non Tax Revenue and provisioning there against.
- vi) Revisit the accounts with respect to capitalization of the assets under the head WIP (Work in progress)

Schedule to Income/Expenditure Account. Flag 'K'

The detail of income and expenditure accounts has been maintained in various schedules named as schedules to income/expenditure. These schedules contain the consolidated amount under various types of income/expenditure of different vertical and are based on the figures grouped in consolidated ledger.

These schedules are based on the pattern mentioned in NDMC Accounting manual. The schedule I-1 to I-9 represent various types of income where as I-10 to I-19 represent the expenditure and I-20 represents the transfer to various reserve funds/segments.

In view of explanations in the foregoing note, the following are submitted for consideration:-

(a) The accounts for the month of March 2017 where all the accounting entries for yearend procedures were carried out have been submitted separately. The delay in submission of monthly accounts of March,2017, the annual accounts for FY 2016-17 and the financial statements as on 31.03.2017 have been delayed as per reasons explained in Paragraph 3 of the above notes was beyond control of this office and the accounts could only be

finalized after setting right most of the discrepancies. The delay may kindly be condoned.

The segregated accounts in four verticals i.e EDSBU, WS&SD, M.D and SFD of NDMC have been maintained by the accounting staff of NDMC without any help of any accounting firm and it will be appreciated that the quality of accounts is improving considerable from year to year. It is the first time in History of NDMC that segregated accounts have been prepared.

Accordingly, the Annual Accounts for the year 2016-17, and the Financial Statements including Balance sheet of NDMC as on 31.3.2017 are submitted for consideration of the Chairperson.

The Chairperson, NDMC may kindly approve as prepage and above and approve the Annual Accounts of Financial year 2016-17, along with Financial Statements as on 31.3.2017, so that accounts may, thereafter, be submitted to the Chief Auditor, NDMC for carrying out audit and certification of accounts on the basis of provisions in the NDMC Accounts Manual based on the National Municipal Accounts Manual.

Sd/-
(RAHUL GAUTAM)
AAO (ABAS)

Sd/-
A.O.(ABAS)

Sd/-
Director(Accounts)

Sd/-
Financial Advisor

Sd/- (06.10.2017)
Chairperson

