

**Action Taken Notes on the comments on Accounts raised in the Separate Audit Report
of Cochin Port Authority for the year ended 31.03.2022**

A. Balance Sheet

A.I. Application of Funds

A.I.1 Loans and Advances (Sch. VII): ₹104.56 crore

The above includes an amount of ₹4.04 crore shown under advance to contractors against the first and second stage payments for the dry docking repairs of the vessel GHD Nehru Shatabdi. However, the same amount has also been booked as expenditure under operation and maintenance expenses, by wrongly crediting Sundry Creditors. This has resulted in overstatement of Current Assets, Loans & Advances and Current Liabilities & Provisions by ₹4.04 crore.

• During the year 2021-22, an amount of Rs.4,04,32,870/- was paid as advance to Cochin Shipyard Ltd for dry docking of GHD Nehru Shatabdi. Being an advance, the same was accounted as Special GL 'A' so as to reflect in the advance to contractors account.

Since, the dry docking of GHD Nehru Shatabdi was already commenced during 2021-22 and a considerable work was carried out during 2021-22, the advance of Rs.4,04,32,870/-was charged to revenue expenditure during 2021-22 by reversing the advance to revenue expenditure.

However, while passing the reversal entry, special GL A was not selected. Due to this, the reversal entry got reflected in sundry creditors account as against advance to contractors account. This has been rectified during the year 2022-23.

A.I.2 Current Liabilities and Provisions (Sch. VIII): ₹766.12 crore

The liability on account of pension and gratuity contribution of existing employees and pensioners works out to ₹3,031.33 crore as per actuarial valuation. However, the contribution made towards LIC and interest earned towards the contribution as on 31 March 2022 was ₹675.41 crore only. Thus there is a shortfall in contribution of ₹2,355.92 crore. The Port Authority has not made any provision on this account. This has resulted in understatement of Current Liabilities & Provisions and consequent understatement of Accumulated Loss by ₹2,355.92 crore.

• The current financial position of Cochin Port is not favorable to make huge provisions for liability accumulated over the last several years based on Actuarial Valuation of Pension & Gratuity Contribution. Such an action will result in huge losses in the books of accounts and may render Cochin Port ineligible for raising funds. The actuarial valuation of the liability and the actual investment against the liability has been disclosed in the notes to accounts.

A.II. Source of Funds

A.II.1 Grant in aid: ₹37.72 crore

The above includes interest earned on grant in aid funds amounting to ₹7.31 crore. Out of this CoPA has remitted an amount of ₹2.57 crore to the Government. Also the Ministry of Commerce had instructed to credit ₹1.40 crore (interest earned on ASIDE grant of Barge Berth) to the grant. However, the balance amount of interest earned on grant in aid amounting to ₹3.34 crore is shown as part of grants in aid. As per Rule 230 (8) of General Financial Rules 2018, 'All interests or other earnings against Grants in aid or advances (other than reimbursement) released to any Grantee institution should be mandatorily remitted to the Consolidated Fund of India immediately after finalisation of the accounts. Such advances should not be allowed to be adjusted against future releases.' As such, this amount should have been shown under Current Liabilities. This has resulted in overstatement of Grants in aid and understatement of Current Liabilities by ₹3.34 crore.

- *From the year 2022-23 onwards, interest accrued on grant which is to be repaid to the respective Ministries will be disclosed under current liabilities instead of Grant in Aid.*

B. Profit & Loss Account

B.I. Income

Cargo Handling & Storage Charges (Sub Sch. – C): ₹270.87 crore

As per the Accounting Policy of CoPA on Recognition of Revenue (Item 12), Revenue on Cargo Services is to be recognized on Completion of Service only. However, following deviations of the Accounting Policy were noticed:

- i) Cargo discharge (42549.5 MT of Clinker) from foreign Vessel BATIS was undertaken in April 2022. However, wharfage income of ₹39,72,847 was wrongly accounted as income on 31 March 2022.
- ii) Cargo discharge (32000 MT of Naftha) from foreign Vessel ARDMORE SEALEADER was completed in April 2022. However, wharfage income of ₹38,42,240 was wrongly accounted as income on 31 March 2022.

This has resulted in overstatement of income and profit for the year by ₹78,15,087.

- *The facts and figures given by Audit are noted. From the year 2022-23 onwards, such cases will be accounted as "Income received in Advance".*

B.II. Expenditure

B.II.1 Finance & Miscellaneous Expenditure (Sch. M): ₹382.92 crore

Non-compliance to Ministry's direction (22 September 1976), to transfer a minimum of 3 per cent of the Capital Employed each to two reserves viz Reserve for Replacement, Rehabilitation and Modernisation of Capital Assets; and Reserve for Development,

Repayment of Loans and Contingencies, resulted in understatement of Finance & Miscellaneous Expenditure and overstatement of Profit for the year by ₹6.15 crore.

•Till last year, while calculating Capital Employed, interest payable on Government of India loan was treated as current liabilities. If the same principal is followed in 2021-22, the capital employed would be negative during 2021-22 also and there will be no requirement for creating statutory reserves during 2021-22 as per the Government Guideline.

However, during the course of Audit for 2021-22, Audit has calculated capital employed by considering interest on GOI loan as a capital debt and not as a current liability unlike previous year due to which capital employed is positive during 2021-22 which was accepted by CoPA during the course of Audit while confirming the financial ratios.

Now, since the Ministry and IPA is in the process of formulating new accounting format and accounting standards to be followed by Major Ports in line with Major Port Authorities Act, necessary statutory reserves will be created from FY 2022-23 onwards considering the then prevailing guidelines.

C. General

C.1 As required by Accounting Standard (AS) 15, 'Accounting for Retirement Benefits in the Financial Statements of Employers', the Port has neither carried out Actuarial Valuation nor provided for the Liability towards EL Encashment of its employees in the Accounts for the year 2021-22.

• Annual Accounts of Cochin Port Authority are prepared based on the recommendations given in the Billimoria Report which neither specifies the need for Actuarial Valuation of EL Encashment nor providing liability towards the same. Hence, Port does not follow the practice of taking Actuarial Valuation of EL Encashment of employees.

Also the financial position of Cochin Port is not favourable to make adequate provision for EL encashment.

D. Grants in Aid

Opening Balance of grant as on 1 April 2021 was ₹20.02 crore. Grant in aid received by the port during 2021-22 was ₹27.14 crore of which a sum of ₹25 crore was received during March 2022. A sum of ₹7.33crore was expended during the year 2021-22and ₹1.86 crore was adjusted against expense met out of Port's own fund in earlier years. Interest accrued during the year 2021-22 amounted to ₹0.30 crore and repaid interest amounted to ₹0.55 crore which includes the interest of previous years. A sum of ₹37.72 crore remained towards unutilized grant as on 31 March 2022.

•Factual

ANNEXURE I

1) Adequacy of Internal Audit:

No discrepancies were noticed in the Internal Audit

2) Adequacy of Internal Control System:

Internal Control system provides a reasonable assurance on the achievement of the objectives of an organisation regarding efficiency and effectiveness of operations, compliance with rules and regulations and the adequacy of financial reporting system. Audit has noticed the following lapses in the system:

- i) CoPA was holding huge stock of Dredged Sand valuing ₹565 per Cubic Meter. However, it has not framed a system to measure the exact stock of Dredged Sand.

- *Dredging being a continuous process, exact quantity of dredged material cannot be assessed. It is not practical to monitor the sand stock since it is dumped at shore and subject to erosion.*

- ii) CoPA has not framed a system to assess the market demand and to fix accordingly the reserve price of dredged sand sold through e-tendering.

- *The reserve price of dredged sand is fixed based on the highest rate offered in the auctions. The rates offered in the auction reflect the actual market demand and is more reliable.*

Considering the highest discovered market rate during the auction held on 22.09.2020, the base rate of sand was fixed as Rs. 553 per cu.m., with the approval of Competent Authority which was adopted in the auctions held on 08.04.2021 and 28.09.2021, till highest offer of Rs. 565 per Cu.m. was received on 28.09.2021. On 16.11.2021 and 07.01.2022, auctions were conducted with the revised base rate of Rs. 565 per Cu.m.

3) Physical verification of Fixed Assets

No discrepancies were noticed in the system of verification of Fixed Assets.

- *Factual*

4) System of Physical Verification of Inventories

No discrepancies were noticed in the system of verification of Inventories.

- *Factual*

5) Regularity in payment of Statutory dues

The Port was regular in making payment of undisputed statutory dues.

- *Factual*

ANNEXURE II**REVIEW OF ACCOUNTS OF COCHIN PORT AUTHORITY FOR THE YEAR ENDED 31 MARCH 2022
BY THE COMPTROLLER & AUDITOR GENERAL OF INDIA**

Note: This review of accounts has been prepared without taking into account the audit observations/ comments contained in the Audit Report of the Comptroller and Auditor General of India

1. Financial Position:

The following table summarises the financial position of the Port Authority at the end of each of the three years ending 31 March 2020, 2021 and 2022.

(₹ in crore)

PARTICULARS		2019-20	2020-21	2021-22	FACTUAL
A	LIABILITIES				
(i)	Capital Reserves	84.84	84.84	84.84	
(ii)	Other reserves	34.26	37.42	55.11	
(iii)	Borrowings - Capital debts, Loan from Govt.	206.51	206.51	446.82	
	Other loans	0.30	0.30	0.30	
(iv)	Current liabilities and Provisions	868.39	971.06	768.42	
(v)	Other liabilities	68.35	70.98	-	
	Total	1262.65	1371.11	1355.49	
B	ASSETS				
(i)	Fixed Assets	676.60	702.36	704.27	
(ii)	Less: Depreciation	(306.00)	(324.30)	(340.63)	
(iii)	Net fixed assets	370.60	378.05	363.64	
(iv)	Capital work in progress	28.23	3.70	8.03	
(v)	Investments	1.15	1.15	0.15	
(vi)	Current assets, Loans & advances	370.23	502.97	507.34	
(vii)	Accumulated deficit	492.44	485.24	476.33	
	Total	1262.65	1371.11	1355.49	
C	Working Capital ¹	(-)498.16	(-)468.09	(-)261.08	
D	Net worth ²	(-)373.34	(-)362.98	(-)336.38	
E	Capital employed ³	(-)127.55	(-)90.04	(+)102.56	
F	Return on capital employed ⁴ (in %)	(+)16.70	(+)8.00	(+)8.68	
1	Working capital represents current assets less Current liabilities including Interest accrued on loans.				
2	Net worth represents Capital reserves and Other reserves and Surplus less Accumulated deficit.				
3	Capital employed represents Net fixed assets and Working capital				
4	Return on Capital employed represents percentage of Net surplus/deficit (before appropriation) to Capital employed.				

2. Working Results:

The working results of the Port Authority for the three years ending 31 March 2022 are summarized below:-

(₹ in crore)					
	PARTICULARS	2019-20	2020-21	2021-22	
A	Revenue				FACTUAL except notes below:-
(i)	Operating income	649.03	683.32	715.80	
(ii)	Non-operating income	43.20	43.66	43.32	
	Total	692.23	726.98	759.12	
B	Expenditure				
(i)	Operating Expenditure	355.88	343.43	367.30	
(ii)	Non-operating expenditure	315.05	376.35	382.92	
	Total	670.93	719.78	750.22	
C	Net surplus/deficit before appropriation	(+) 21.30	(+) 7.20	(+) 8.90	
D	<u>Less:</u> Appropriations / <u>add:</u> transfers (net)	0	0	0	
E	Surplus/deficit transferred to revenue Reserve	(+) 21.30	(+) 7.20	(+) 8.90	
F	Percentage of net surplus/ deficit to:				
(i)	Operating income	(+) 3.28	(+) 1.05	(+) 1.24	
(ii)	Net fixed assets	(+) 5.75	(+) 1.90	(+) 2.45	
(iii)	Net worth	(+) 5.70	(+) 1.98	(+) 2.65*	
	*Note The revised figures on percentage of net surplus / deficit to Net Worth			NA	

3. Ratio Analysis:

Some important ratios on liquidity and solvency of the Port Authority are shown below:-

Percentage of Current assets to Current liabilities was 42.63, 51.80 and 66.02 during 2019-20, 2020-21 and 2021-22 respectively.	FACTUAL
Percentage of Quick assets to Current liabilities was 33.89, 43.88 and 52.32 during 2019-20, 2020-21 and 2021-22 respectively.	
Percentage of Sundry debtors to Operating income was 9.57, 7.59 and 7.44 during 2019-20, 2020-21 and 2021-22 respectively.	
Capital debt to Capital reserves & General reserves Ratio was 2.02, 2.02 and 4.37 during 2019-20, 2020-21 and 2021-22 respectively.	

**FINANCIAL ADVISER &
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