

**REPLIES TO THE POINT CONTAINED IN SEPARATE AUDIT REPORT ON
ACCOUNTS OF COCHIN PORT TRUST FOR THE YEAR 2018-19**

A. Balance Sheet:

A.I. Application of Funds:

A.I.1 Current Liabilities and Provisions: Rs.747.66 crore

- (i) The liability on account of pension and gratuity contribution of existing employees and Pensioners as per actuarial valuation worked out to Rs.2774.26 crore as on 31 March 2019 against which the investment in the Pension and Gratuity Fund was Rs.178.05 crore, leaving a shortfall of Rs.2596.21 crore. This has resulted in understatement of Current liabilities & Provisions by 2596.21 crore as well as overstatement of profit to the same extent. This comment was also issued in the Separate Audit Report for the years 2016-17 and 2017-18. However, no corrective action has been taken by the Port.
- *The current financial position of Cochin Port is not favourable to make huge provisions based on Actuarial Valuation of Pension & Gratuity Contribution, which will result in huge loss and may also render Cochin Port Trust ineligible for Government Grant in Aid/raising funds from financial institutions.*
- (ii) Above is understated by Rs.1.66 crore payable to Indian Port Association towards Port Community System and Consultant Fees for Benchmarking & Reuse of Waste water. This has resulted in understatement of Current liabilities & Provisions and overstatement of Profit by Rs.1.66 crore.
- *CoPT had not made provision for Rs 1.66 crores claimed by IPA towards PCS Contribution, Consultant Fee for Bench marking and Consultant fee for Reuse of Waste water as the same was pending for approval before the competent authority and was uncertain whether the port would admit the entire claim raised by IPA.*
The claim towards PCS Contribution amounting to Rs 35.02 lakhs was paid in June 2019 when the approval of the competent authority was obtained. Regarding the other two claims ie Consultant Fee for Bench marking amounting to Rs 86.53 lakhs and Consultant fee for Reuse of Waste water amounting to Rs 44.54 lakhs, it was decided to get the comments from other Ports regarding the action taken by them. Hence, the admissibility of the claim is still not finalised. In view of the above uncertainty, provision was not created for the same during 2018-19.

B. Profit & Loss Account

B.I. Income

B.I.1 Estate Rentals: Rs.108.33 crore

Above does not include Rs.0.13 crore receivable from M/s Penna Cements Industries Limited towards electricity charges (including Rs.0.01 crore for Electricity duty) for the month of March 2019. This has resulted in understatement of Income by 0.12 crore, Current liabilities & Provisions by 0.01. crore and Sundry Debtors by 0.13 crore.

- *The Electricity charges of Penna Cements was manually posted in SAP since the multiplication factor for meter installed at Penna Cement was not available in ISU module. However, while manual posting, the same was wrongly accounted under Sundry receipts account by oversight which will be correctly accounted in future. Necessary steps have been initiated to make required configuration in ISU module. The Electricity duty and surcharge omitted to be paid were paid in July 2019. In future, it will be ensured that necessary provisions are made for Electricity charges and duties for the month of March in the respective years.*

B.I.2 Finance and Miscellaneous Income : Rs.46.61 crore.

The Port accounted Rs.0.25 crore, by writing back Earnest Money Deposit payable to M/s Jaisu Shipping Co (P) Ltd., against which an arbitration case is pending. This has resulted in over statement of Income as well as Profit and understatement of Current Liabilities & Provisions by 0.25 crore.

- *Necessary rectification entry has been passed during 2019-20 reversing the write back of the EMD of M/s Jaisu Shipping Co.(P) Ltd.,*

C. General

C.1 The Port has neither carried out Actuarial Valuation nor provided liability towards Earned Leave Encashment of its employees in the accounts. This comment was also issued in the Separate Audit Reports for the years 2016-17 and 2017-18. However, no corrective action has been taken by the Port.

- *The Annual Accounts of Cochin Port Trust 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. Cochin Port does not follow the practice of taking Actuarial Valuation of EL Encashment of employees.*

D. Grants in Aid

Opening balance of Grant as on 01 April 2018 was Rs.5.69 crore. Grant in aid received by the Port during 2018-19 was Rs.54.68 crores of which a sum of Rs.6.37 crore was received during March 2019. A sum of Rs.31.20 crore was expended during the year 2018-19 and Rs.3.32 crore was adjusted against the expenses spent from Port's own funds during earlier years. A sum of Rs.25.85 crore remained towards unutilized grant as on 31 March 2019.

- *Factual*

ANNEXURE I

1) **Adequacy of Internal Audit:**

The Internal Audit of the Port was entrusted to Chartered Accountants. The Internal Audit Report for the second half year for 2018-19 is yet to be issued by them.

- *The Internal Auditors have issued the Internal Audit Observations for the second half of 2018-19 and the port is in the process of providing management responses.*

2) **Adequacy of Internal Control System**

Internal Control System provides a reasonable assurance on the achievement of the objectives of an organization regarding efficiency and effectiveness of operations, compliance with rules and regulations and the adequacy of financial reporting system.

The following deficiencies were noticed:

- (i) The Port did not account depreciation of Rs.1.81 Lakh for three Sub Assets due to technical issues in SAP System.
 - *Necessary rectification will be made in 2019-20 with regard to depreciation omitted to be calculated for the 3 Sub Assets capitalized during 2018-19.*
- (ii) Clearing Account balances should be reconciled periodically and balance should be zero at the end of the financial year. However, unreconciled balances existed in clearing Accounts, which reflects inadequacy of Internal Control.
 - *Clearing accounts will be analyzed during 2019-20 and efforts will be made to clear the same periodically and maintain zero balance at the end of every financial year.*

3) **Physical Verification of Fixed Assets**

The Physical Verification of the Fixed Assets was carried out during 2018-19.

- *Factual*

4) **System of Physical Verification of Inventories**

As per the Common Framework for Financial Reporting for Major Ports, the Port was required to make a policy for the depreciation of slow/non moving items of inventory. The Port in its reply to SAR for 2017-18 assured to formulate depreciation Policy. However, it has not adopted any policy for depreciation of slow / non-moving items of inventory. In the absence of such policy, the correctness of value of inventory carried in

the Balance Sheet and the consequent impact on the Profit could not be checked by Audit.

- *In the case of depreciation on slow moving / non moving of inventory, majority of the stock items in CoPT are of consumable nature which are procured for the day to day operational requirement of the port and hence the volume of slow moving or non moving inventory would be very negligible due to which the Port has not made any Policy for depreciation of slow/non moving inventory though provided in the Billimoria report. Since different Ports are following different policy for depreciation on inventory, IPA is in the process of framing a uniform policy for all Major Ports and the same will be complied with as and when the final decision on the matter is taken by IPA.*

5) Regularity in payment of Statutory dues.

The Port is paying statutory dues such as Provident Fund, ESI, Income Tax, Service Tax, GST etc., on due dates.

- *Factual*

ANNEXURE II

1. Financial Position:

The following table summarizes the financial position of the Port Trust at the end of each of the three years ending 31 March 2017, 2018 and 2019.

(Rs. In Crores)

PARTICULARS		2016-17	2017-18	2018-19	
A	LIABILITIES				FACTUAL
(i)	Capital Reserves	84.84	84.84	84.84	
(ii)	Other reserves	35.06	22.97	43.21	
(iii)	Borrowings - Capital debts, Loan from Govt.	258.14	258.14	232.33	
	Other loans	0.66	0.66	0.30	
(iv)	Current liabilities and Provisions	955.7	975.08	955.25	
(v)	Other liabilities	60.25	61.03	64.95	
	Total	1394.65	1402.72	1380.88	
B	ASSETS				
(i)	Fixed Assets	695.17	685.02	688.71	
(ii)	<u>Less:</u> Depreciation	-277.69	-283.75	-302.34	
(iii)	Net fixed assets	417.48	401.27	386.37	
(iv)	Capital work in progress	18.5	24.59	20.54	
(v)	Investments	0.15	0.15	0.15	
(vi)	Current assets, Loans & advances	412.05	443.79	460.08	
(vii)	Accumulated deficit	546.47	532.92	513.74	
	Total	1394.65	1402.72	1380.88	
C	Working Capital ¹	(-543.65)	(-531.29)	(-495.17)	
D	Net worth ²	(-426.57)	(-425.11)	(-385.69)	
E	Capital employed ³	(-126.17)	(-130.02)	(-108.80)	
F	Return on capital employed ⁴ (in %)	(-21.54)	(+10.42)	(+17.63)	
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 Trust for the three years ending 31 March 2019 are summarized below:

(Rs. In Crores)					
	PARTICLUARS	2016-17	2017-18	2018-19	
A	Revenue				FACTUAL
(i)	Operating income	496.23	526.79	585.51	
(ii)	Non-operating income	48.8	51.15	46.61	
	Total	545.03	577.94	632.12	
B	Expenditure				
(i)	Operating Expenditure	368.51	367.22	374.67	
(ii)	Non-operating expenditure	203.69	197.18	238.27	
	Total	572.2	564.4	612.94	
C	Net surplus/deficit before appropriation	(-)27.17	(+)13.54	(+)19.18	
D	<u>Less:</u> Appropriations / <u>add:</u> transfers (net)	0	0	0	
E	Surplus/deficit transferred to revenue Reserve	(-)27.17	(+)13.54	(+)19.18	
F	Percentage of net surplus/ deficit to:				
(i)	Operating income	(-)5.48	(+)2.57	(+)3.28	
(ii)	Net fixed assets	(-)6.51	(+)3.37	(+)4.96	
(iii)	Net worth	(-)6.37	(+)3.18	(+)4.97	

3. Ratio Analysis:

Percentage of current assets to current liabilities was 43.11 and 45.51 and 48.17 during 2016-17, 2017-18 & 2018-19 respectively	FACTUAL
Percentage of quick assets to current liabilities was 33.79, 37.18 and 39.53 during 2016-17, 2017-18 & 2018-19 respectively.	
Percentage of Sundry Debtors to operating income was 28.51, 27.97 and 23.59 during 2016-17, 2017-18 & 2018-19 respectively.	
Capital Debt to Capital Reserves & General Reserves ratio was 2.54, 2.53 and 2.28 during the years 2016-17, 2017-18 & 2018-19 respectively.	

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