

Action Taken Notes on the comments on Accounts raised in the Separate Audit Report of Cochin Port Authority for the year ended 31.03.2023

	Audit Query	Reply
A	BALANCE SHEET	
	Application of Funds	
1	<p>Current Liabilities & Provisions (Schedule VIII) – ₹ 585.98 crore</p> <p>The Port did not provide the liability for contribution in Pension Fund, Gratuity Fund and towards leave encashment being the retirement benefits of employees amounting to ₹2,171.51 crore ₹101.95 crore and ₹61.05 crore respectively as ascertained through the actuarial valuation by Life Insurance Corporation of India for FY 2022-23. The above short provision of ₹2,334.51 crore is very high as compared to the Profit (₹5.83 crore) of the Port for FY 2022-23. In case the full provision is made in accounts, the Net Worth of the Port would decrease from (-) ₹335.73 crore to (-) ₹2,670.24 crore and profit for the year would turn in loss of ₹2,328.68 crore.</p> <p>Non-provision for the liability towards retirement benefits of employees resulted in understatement of provisions and overstatement of profit to the extent of ₹2,334.51 crore.</p>	<p>Port is providing contribution to pension fund fully in case of “current service cost” and in case of past service cost, based on availability of funds.</p> <p>Port could not make suitable provisions in connection with past service cost retirement benefit liabilities as per Actuarial valuation in case of pension, gratuity and leave encashment due to its financial crunch, which has huge past service cost.</p> <p>Further, it is to inform that mere providing the liability may not serve the purpose until funds have been transferred.</p> <p>As stated above, considering the availability of funds, past service liability is being made good to the extent of available profits in addition to contribution against “current service liability”.</p> <p>The above position i.e., actuarial liability, fund availability and shortfall thereon has been reported in the Notes to Accounts vide SL No.9.</p>



<p>2</p>	<p>Current Liabilities - Deposits from Merchants, Contractors & Others (Sch. VIII): ₹154.86 crore</p> <p>The amount of deposits from merchants, contractors & others was ₹371.90 crore. However, CoPA has netted off the amounts of Advances given to Contractors for Deposit work (₹33.71 crore) and Fixed deposit for deposit work (₹183.33 crore) with the above current liabilities.</p> <p>This resulted in understatement of Current Liabilities - Deposits from Merchants, Contractors and Others by ₹217.04 crore and Current Assets - Loans and Advances by ₹33.71 crore and Cash & Bank balances by ₹183.33 crore.</p>	<p>The deposit works represents projects carried out by the Port on behalf of other organisations apart from the normal business activity of the Port on centage basis and the projects are being executed out of the funds deposited by those organisations. Hence, disclosing the 'fixed deposits' and 'advance to contractors' made out of funds meant for deposit works and showing the total funds received under Current Liabilities as payable will not reflect true and fair view.</p> <p>Hence, in order to reflect a true and fair view of the financial position of the Port, the reclassification of accounts related to Deposit works are carried out and suitably disclosed in the Notes to Accounts vide SL No.11 under "Deposit Works".</p>
<p>3</p>	<p>Current Liabilities - General Provident Fund: ₹72.58 crore (Schedule VIII)</p> <p>The amount shown against General Provident Fund balance is understated by ₹69.38 crore due to netting off the account by amount of invested funds in fixed deposits & bank balances. This also resulted in understatement of Cash and Bank balances by ₹66.38 crore and accrued interest by ₹3.00 crore.</p>	<p>The surplus contributions of General Provident Fund are being invested with various banks under Fixed Deposits and such investments are not part of Port funds to reflect under "Cash & Bank balances" of the Port, as these funds are related to employees.</p> <p>Hence, in order to reflect a true and fair view of the financial position of the Port, the reclassification of accounts related to General Provident Fund are carried out and suitably disclosed in the Notes to Accounts vide SL No.10 under "General Provident Fund".</p>

B PROFIT & LOSS ACCOUNT	
	Expenditure
1	<p>Finance & Miscellaneous Expenditure ₹ 395.96 crore (Schedule M)</p> <p>CoPA did not transfer a minimum of three <i>per cent</i> of the Capital Employed to two reserves viz Reserve for Replacement, Rehabilitation and Modernisation of Capital Assets; and Reserve for Development, Repayment of Loans and Contingencies as per the Ministry's direction (22 September 1976).</p> <p>This resulted in understatement of Finance & Miscellaneous Expenditure and overstatement of Profit for the year by ₹2.51 crore.</p> <p>This was non-compliance was pointed out in SAR for the year 2021-22 also. However, no corrective action was taken by the Port.</p>
	<p>It is to mention that Port is giving utmost importance to recoup the shortfall in Pension and Gratuity fund from available surpluses after meeting the operational and statutorily mandatory exigencies as the shortfall in Pension and Gratuity funds are very huge.</p> <p>In view of the above, the expenditure, if any, incurred for Rehabilitation and Modernisation is being met from surplus revenue funds as against the 3% reserve. However, necessary contributions to statutory reserves will be made for Replacement, Rehabilitation and Modernisation of Capital Assets and for the Development, Repayment of Loans and Contingencies from FY 2023-24 onwards, subject to availability of profit after tax, if any.</p>
C NOTES TO ACCOUNTS	
1	<p>CoPA took over (October 2021) the land extending to 50.52 cents and buildings having total area of 1357 square meter. However, no disclosure about the details of the buildings were made in the notes to the accounts of CoPA for the year 2022-23 as per the Accounting policy disclosed under note no 15.</p>
	<p>The matter of M/s. Vazhakkala Rubbers is still under litigation, the property has not been leased out to any other party and the cost of these buildings were also not paid /adjusted against its dues.</p> <p>Further, even though the building is under the possession of CoPA, the legal possession of the building is not yet completed and hence, no disclosure is made on the same in the Notes to Accounts.</p>

D	GENERAL	
1	<p>Major Port Authorities (Corporate Social Responsibility) Rules, 2021 (1 of 2021) stipulates creation of a social responsibility budget and to allocate funds to the Corporate Social Responsibility projects. As per the Central Government's Revised Guidelines on Corporate Social Responsibility (CSR) for Major Ports (March 2020 and December 2021) a separate paragraph/chapter of the Annual Report of the port on the implementation of the CSR activities/projects including the facts relating to physical and financial progress should be included. However, the annual accounts of the Port do not disclose these facts.</p>	<p>As per the directions of the then Ministry of Shipping, necessary annual contributions are being made towards CSR Scheme and the status of such scheme as on 31.03.2023 is disclosed under Sl. No. 7 of Notes to Accounts.</p> <p>As required as per the guidelines, a separate paragraph/chapter of the Annual Report of the Port on the implementation of CSR activities/projects including the facts relating to physical and financial progress will be included in the Annual Administration Report from 2022-23 onwards.</p>
E	<p>GRANT IN AID</p> <p>Opening balance of Grant in Aid as on 01 April 2022 was ₹37.71 crore. Grant received by the Port during 2022-23 was ₹ 7.38 crore. A sum of ₹9.87 crore was expended during the year 2022-23 of which ₹0.36 crore was spent from Port's own funds. Interest earned during the year 2022-23 amounts to ₹1.18 crore and interest to be repaid to Ministry amounts to ₹4.21 crore as on 31 March 2023. A sum of ₹32.55 crore remained towards unutilized Grant as on 31 March 2023.</p>	<p>Factual except Opening Balance of grant-in-aid of ₹37.72 crore and ₹0.35crore spent from Port's own fund.</p>



ANNEXURE I

<p style="text-align: center;">1</p>	<p>Adequacy of Internal Audit :-</p> <p>No discrepancies were noticed in the Internal Audit</p>	<p>Factual</p>
<p style="text-align: center;">2</p>	<p>Adequacy of Internal Control System:</p> <p>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:</p> <p>i) All the balances of various funds are maintained/ deposited together in different bank accounts and treated as a single pool, hence, the exact amount of interest earned pertaining to specific funds like CSR fund is not ascertainable.</p> <p>ii) System of obtaining confirmation of balances from Sundry Debtors and Sundry Creditors was not effective. No confirmations were produced for verification.</p>	<p>With reference to the interest on CSR funds, there was no specific mandate is exists in the Corporate Social Responsibility guidelines issued by the Ministry, from time to time, for creation of a dedicated fund towards CSR and hence, Cochin Port has not created any fund towards CSR and hence, not earned any interest from the unspent balance.</p> <p>Port generally obtains confirmation from the sundry debtors and accordingly, Port has received confirmations from 58 Nos. of sundry debtors. Since, Audit had not sought any documents in respect of confirmations from debtors, the same was not made available to Audit for verification.</p> <p>With regard to sundry creditors, generally the vendors request the port . for balance confirmation. However, as per the information available with the Finance Department, no confirmation has been sought.</p> <p>With regard to the deposit works of Indian Navy, NTRO etc, fund status is reported by way of Monthly Expenditure Report/ Quarterly Expenditure Report etc.</p>



3	<p>Physical verification of Fixed Assets</p> <p>No discrepancies were noticed in the system of verification of Fixed Assets.</p>	Factual
4	<p>System of Physical Verification of Inventories</p> <p>No discrepancies were noticed in the system of verification of Inventories</p>	Factual
5	<p>Regularity in payment of Statutory dues</p> <p>The Port was regular in making payment of undisputed statutory dues except for an amount of ₹ 4,70,042 payable towards property tax (in respect of 2nd Half Yearly Property Tax for the period from 1st October 2022 to 31st March 2023).</p>	<p>Generally, Port is releasing the property tax after adjusting the amount payable by Cochin Corporation. In line with the above, port had issued cheque of ₹ 2,103/- towards property tax for 2nd half of 2022-23 after adjusting the dues of ₹4,67,939/- payable by the Municipal Corporation to Cochin Port Authority, which was denied by Cochin Corporation.</p> <p>The reasons quoted by Cochin Corporation for non-acceptance of payment of ₹4,67,939/- is under examination and suitable decision will be taken on the merits of the case during FY 2023-24.</p>



ANNEXURE II

**REVIEW OF ACCOUNTS OF COCHIN PORT AUTHORITY FOR THE YEAR ENDED
31 MARCH 2023 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 2021, 2021 and 2023.

					(₹ in crore)	
PARTICULARS		2020-21	2021-22	2022-23	FACTUAL	
A	LIABILITIES					
(i)	Capital Reserves	84.84	84.84	84.84		
(ii)	Other reserves	37.42	55.11	49.93		
(iii)	Borrowings - Capital debts, Loan from Govt.	206.51	446.82	446.82		
	Other loans	0.30	0.30	0.30		
(iv)	Current liabilities and Provisions	971.06	768.42	588.32		
(v)	Other liabilities	70.98	-	-		
	Total	1371.11	1355.49	1170.21		
B	ASSETS					
(i)	Fixed Assets	702.36	704.27	716.40		
(ii)	Less: Depreciation	(324.30)	(340.63)	-358.10		
(iii)	Net fixed assets	378.05	363.64	358.30		
(iv)	Capital work in progress	3.70	8.03	1.71		
(v)	Investments	1.15	0.15	67.90		
(vi)	Current assets, Loans & advances	502.97	507.34	271.80		
(vii)	Accumulated deficit	485.24	476.33	470.50		
	Total	1371.11	1355.49	1170.21		
C	Working Capital ¹	(-)468.09	(-)261.08	(-)316.52		
D	Net worth ²	(-)362.98	(-)336.38	(-)335.73		
E	Capital employed ³	(-)90.04	(+)102.56	(+) 41.78		
F	Return on capital employed ⁴ (in %)	(+)8.00	(+)8.68	(+)13.95		
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)			FACTUAL
	PARTICULARS	2020-21	2021-22	2022-23	
A	Revenue				
(i)	Operating income	683.32	715.80	763.57	
(ii)	Non-operating income	43.66	43.32	63.66	
	Total	726.98	759.12	827.23	
B	Expenditure				
(i)	Operating Expenditure	343.43	367.30	425.44	
(ii)	Non-operating expenditure	376.35	382.92	395.96	
	Total	719.78	750.22	821.40	
C	Net surplus/deficit before appropriation	(+) 7.20	(+) 8.90	(+)5.83	
D	Less: Appropriations / add: transfers (net)	0	0	0	
E	Surplus/deficit transferred to revenue Reserve	(+) 7.20	(+) 8.90	5.83	
F	Percentage of net surplus/ deficit to:				
(i)	Operating income	(+) 1.05	(+) 1.24	(+)0.76	
(ii)	Net fixed assets	(+) 1.90	(+) 2.45	(+)1.63	
(iii)	Net worth	(-) 1.98	(-) 2.65	(-)1.74	

3. Ratio Analysis:

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

<ul style="list-style-type: none">❖ Percentage of Current assets to Current liabilities was 51.80, 66.02 and 46.20 during 2020-21, 2021-22 and 2022-23 respectively.❖ Percentage of Quick assets to Current liabilities was 43.88, 52.32 and 30.99 during 2020-21, 2021-22 and 2022-23 respectively.❖ Percentage of Sundry debtors to Operating income was 7.59, 7.44 and 8.18 during 2020-21, 2021-22 and 2022-23 respectively.❖ Capital debt to Capital reserves & General reserves Ratio was 2.02, 4.37 and 4.37 during 2020-21, 2021-22 and 2022-23 respectively.	FACTUAL
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FINANCIAL ADVISER &
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