

Action Taken Notes on the comments on Accounts raised in the Separate Audit Report of Cochin Port Trust for the year ended 31.03.2020

A. Balance Sheet:

A.I. Application of Funds:

A.I.1 Current Liabilities and Provisions: Rs.694.21 crore

The liability on account of pension and gratuity contribution of existing employees and pensioners as per actuarial valuation worked out to Rs.3193.34 crore as on 31 March 2020 against which the investment in the Pension and Gratuity Fund was Rs.335.86 crore, leaving a shortfall of Rs.2857.48 crore. This has resulted in understatement of Current Liabilities & Provisions by Rs.2857.48 crore as well as overstatement of Profit to the same extent. The comment was also included in Separate Audit Report for the years 2016-17, 2017-18 and 2018-19. 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. Hence, provision not made for shortfall in contribution to Pension & Gratuity funds.*

B. Profit & Loss Account:

B.I. Income:

B.I.1 Finance & Miscellaneous Income (Sch. N) – Rs.43.20 Cr

CoPT applied for SEIS scrip valuing Rs.7.98 Cr for the year 2018-19 on 19-03-2020 and recognized 98.78% of the same as income during the year. As the approval from the DGFT is pending and the realization of the scrip is contingent upon successful auction of the same in the open market, recognition of income as on 31.03.2020 was incorrect. This has resulted in overstatement of above income by Rs.7.88 Cr with corresponding overstatement of Profit.

- *The application for SEIS scrip for the year 2018-19 was filed on 19.03.2020 and, it usually takes around two to three months time for the scrip to be issued by JDFT as per past experience. At the time of finalisation of accounts, there was no contingency and port expected the scrip to be issued in the normal course of time as in earlier years. Hence, the provision was created at an average realisable value of 98.78% of the value of scrip applied by the Port, based on past data.*

The SEIS scrip was subsequently issued to Port on 09.07.2020 for Rs 7.98 crores.

C. Notes to Accounts:

C.1 In the Notes to Accounts, CoPT disclosed [Item No. 26(a)] the details of One Time Settlement concluded with Petronet LNG Ltd. However, the details of lease rent income writtenoff amounting to Rs.31.17 crore has not been stated.

- *In the Notes on Accounts for the year 2019-20, only the net impact of one time settlement with M/s. PLLL has been disclosed as the matter is already settled and has no further financial implication. Moreover the subject was deliberated in detail during the Board meetings held on 23.10.2019 & 17.12.2019 in which the detailed workings was separately disclosed.*

C.2 CISF had claimed Rs.21.48 crore towards penal interest for delayed payment towards Cost of Deployment upto 31st March 2020. Request for waiver of penal interest has not been accorded by Ministry of Home Affairs and is pending with Ministry of Shipping. These facts have not been disclosed in the Notes to Accounts.

- *The Penal interest on CISF payments mainly got accumulated during the period 2014-15 and 2015-16 when the Port withheld the COD bills from February 2014 to May 2015 due to delay on the part of CISF in finalising of restructuring of CISF strength through resurvey.*

As per the instruction of Ministry of Shipping to reduce expenditure on CISF, the port had requested CISF authorities to conduct resurvey to reduce CISF strength at CoPT. Accordingly, resurvey was initiated in September 2013. However, the finalisation of resurvey got delayed for which the resurvey Board members of CISF are solely responsible. Since the port's financial situation got worsened, CoPT was forced to withhold the payment of COD bills from February 2014 to May 2015 which was done by CoPT after giving advance notices and after giving ample time to resolve the crisis. The amount withheld was released to CISF after finalisation of resurvey in June 2015. Hence, CoPT has never accepted the penal interest charged by CISF since the delay occurred mainly due to lapse on the part of CISF.

Further, COD payment of CISF deployment at ICTT, Vallarpadam since the year 2011 was not being paid by M/s IGTPL. The deployment of CISF at ICTT was discontinued after December 2015. The share of COD bill attributable to ICTT amounts to Rs.13.41 crores which has also been withheld by the Port as its financial position is not favourable to meet this payment out of its internal resources. It was communicated to CISF that the matter was under arbitration with IGTPL and will be settled based on the outcome of arbitration. The arbitration award in respect of IGTPL dues has been challenged by the Port before the District Court. Despite the above facts, CISF has been charging Penal interest on the same which has not been accepted by the Port.

Apart from the above two instances, CISF has been charging penal interest on certain amounts like excess security deposit recovered by the Port, amount withheld and paid by

the port as per direction of Service Tax Department etc which itself is not payable by the Port .

Since CoPT has never accepted the liability of penal interest charged by CISF, provision has not been created in the books of accounts. Even in the case of penal interest accrued on Government of India loan, the Port had not created any provision in the books of accounts as the Port was pursuing the matter with the Ministry for its waiver. Finally, provision was created only for that component of the penal interest which was mandatorily required to be paid by the Port as per direction of the Ministry.

Similarly, in the case of CISF penal interest also, the port is still pursuing the matter with the Ministry. The Ministry of Shipping has recently vide its letter dated 09.07.2020 sought certain details from the Port on outstanding payments to CISF so as to take up the matter of waiver of penal interest with the Ministry of Home Affairs. Hence necessary provision will be created if required in future based on the direction from the Ministry.

D. General:

The Port has neither carried out Actuarial Valuation nor provided liability towards Earned Leave Encashment of its employees in the accounts.

D.1 The comment was also included in Separate Audit Report for the years 2016-17, 2017-18 and 2018-19. However, no corrective action has been taken by the Port.

- *We are in receipt of the above said Audit Enquiry and hereby state that Annual Accounts of 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. Hence, Port does not follow the practice of taking Actuarial Valuation of EL Encashment of employees.*

E. Grants in Aid

Opening Balance of Grant as on 01 April 2019 was Rs.25.85 crore. Grant in aid received by the Port during 2019-20 was Rs.13.13 crore (including interest accrued Rs.1.02 crore) of which a sum of Rs.0.54 crore was received during March 2020. A sum of Rs.24.19 crore was expended during the year 2019-20 of which Rs.2.07 crore was spent out of Port's own fund. A sum of Rs.16.86 crore remained towards unutilized grant as on 31 March 2020.

- *Factual*

ANNEXURE I

Internal Audit & Internal Control:

1) Adequacy of Internal Audit:

The Internal Audit of the Port was entrusted to Chartered Accountants. Internal Audit for the year 2019-20 was completed.

- *Factual*

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. No major discrepancies were noticed in the Internal Control System.

- *Factual*

3) Physical verification of Fixed Assets

The physical verification of Fixed Assets was carried out during 2019-20.

- *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 is paying Statutory dues such as Provident Fund, ESI, Income Tax, GST, etc. on due dates.

- *Factual*

ANNEXURE II

REVIEW OF ACCOUNTS OF COCHIN PORT TRUST FOR THE YEAR ENDED 31 MARCH 2020 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 summarizes the financial position of the Port Trust at the end of each of the three years ending 31 March 2018, 2019 and 2020

(Rs. in crore)

PARTICULARS		2017-18	2018-19	2019-20	
A	LIABILITIES				
(i)	Capital Reserves	84.84	84.84	84.84	
(ii)	Other reserves	22.97	43.21	34.26	
(iii)	Borrowings - Capital debts, Loan from Govt.	258.14	232.33	206.51	
	Other loans	0.66	0.30	0.30	
(iv)	Current liabilities and Provisions	975.08	955.25	868.39	
(v)	Other liabilities	61.03	64.95	68.35	
	Total	1402.72	1380.88	1262.65	
B	ASSETS				
(i)	Fixed Assets	685.02	688.71	676.60	
(ii)	<u>Less:</u> Depreciation	(283.75)	(302.34)	(306.00)	
(iii)	Net fixed assets	401.27	386.37	370.60	
(iv)	Capital work in progress	24.59	20.54	28.23	
(v)	Investments	0.15	0.15	1.15	
(vi)	Current assets, Loans & advances	443.79	460.08	370.23	
(vii)	Accumulated deficit	532.92	513.74	492.44	
	Total	1402.72	1380.88	1262.65	
C	Working Capital ¹	(-)531.29	(-)495.17	(-)498.16	
D	Net worth ²	(-)425.11	(-)385.69	(-)373.34	
E	Capital employed ³	(-)130.02	(-)108.80	(-)127.55	
F	Return on capital employed ⁴ (in %)	(+10.42	(+17.63	(+16.70	
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.				

Factual

2. Working Results:

The working results of the Port Trust for the three years ending 31 March 2020 are summarized below:

(Rs. in crore)

	PARTICULARS	2017-18	2018-19	2019-20	
A	Revenue				Factual
(i)	Operating income	526.79	585.51	649.03	
(ii)	Non-operating income	51.15	46.61	43.20	
	Total	577.94	632.12	692.23	
B	Expenditure				
(i)	Operating Expenditure	367.22	374.67	355.88	
(ii)	Non-operating expenditure	197.18	238.27	315.05	
	Total	564.40	612.94	670.93	
C	Net surplus/deficit before appropriation	(+)13.54	(+)19.18	(+) 21.30	
D	<u>Less:</u> Appropriations / <u>add:</u> transfers (net)	0	0	0	
E	Surplus/deficit transferred to revenue Reserve	(+)13.54	(+)19.18	(+) 21.30	
F	Percentage of net surplus/ deficit to:				
(i)	Operating income	(+)2.57	(+)3.28	(+)3.28	
(ii)	Net fixed assets	(+)3.37	(+)4.96	(+)5.75	
(iii)	Net worth	(+)3.18	(+)4.97	(+)5.70	

3. Ratio Analysis:

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

<ul style="list-style-type: none">Percentage of Current assets to Current liabilities was 45.51, 48.17 and 42.63 during 2017-18, 2018-19 and 2019-20 respectively.	Factual
<ul style="list-style-type: none">Percentage of Quick assets to Current liabilities was 37.18, 39.53 and 33.89 during 2017-18, 2018-19 and 2019-20 respectively.	
<ul style="list-style-type: none">Percentage of Sundry debtors to Operating income was 27.97, 23.59 and 9.57 during 2017-18, 2018-19 and 2019-20 respectively.	
<ul style="list-style-type: none">Capital debt to Capital reserves & General reserves Ratio was 2.53, 2.28 and 2.02 during the years 2017-18, 2018-19 and 2019-20 respectively.	

**FINANCIAL ADVISOR &
CHIEF ACCOUNTS OFFICER**