Annexure - II

Action taken note on Management Letter of the C&AG on the Annual Statement of Accounts of NMPA for the year ended 31-03-2023

<table>
<tr><th>Para No</th><th>Audit observation</th><th>Action taken notes</th></tr>
<tr>
<td>1.</td>
<td>
Upfront Premium received on Land: ₹140,95,15,230
(i)As per the Significant Accounting Policies: 11-Accounting for Leases, “Upfront premium received on lease of land from long term lease is amortised over the term of lease period and proportionate amount is accounted as income in the year”.

However, NMPA accounted the amortisation of Upfront premium based on Present Value method, which is in contravention of the above Accounting Policy resulting in excess accounting of lease premium to Income.

The fallowing is the details of lease amount Io be accounted as income as per the Accounting Policy and actual amount accounted as income during 2022-23:
<table>
<tr><th>Area (Sq m)</th><th>Period</th><th>Upfront premium (₹)</th><th>Total no of days (lease period)</th><th>Total days upto 31.03.23</th><th>Amount credited to income (₹)</th><th>Amount to be taken as income as per Accounting Policy</th><th>Excess amount credited to Income (₹)</th></tr>
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</td>
<td>
The Upfront Premium received on lease of land has two portions, Income from rent and other is Interest, while Income portion is amortized over the lease period and proportionate amount based on Present value, calculated on Government Security rate is accounted as income over the years and interest portion is earned on the investment of upfront premium received.
Therefore, booking of income for number of days over the years may not be logical since the interest is earned on the upfront premium received.
However, proper and clear policy will be framed in new Common Framework for Financial reporting.
</td>
</tr>
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						(₹)	
	Party: Indian Coast Guard, Mangalore						
4813	09-07-2022 to 08-07-2052	583912037	10958	266	24532266	14174174	10358092
12000	20-02-2020 to 06-12-2048	55477813	10518	1136	10115963	5991899	4124064
	TOTAL	**639389850**			**34648229**	**20166073**	**14482156**

Thus, excess accounting of lease premium to income resulted in overstatement of "Income-Estate Rentals" and understatement of "Upfront Premium Received on Land" and consequent overstatement of profit by ₹1,44,82,156.

Similarly, the Upfront Lease Premium[i A/c pertaining to M/s. Indian Oil Corporation Limited (IOCL), Mangalore as on 31.03.2023 is arrived at after adjusting the proportionate lease rent accounted as Income in respective years as detailed below-

Year	Opening balance	Transferred to income	Closing balance
2018-19	89,04,89,050	5,27,91,150	83,76,97,900
2019-20	83,76,97,900	5,79,85,684	77,97,12,216
2020-21	77,97,12,216	5,47,02,882	72,50,09,334
2021-22	72,50,09,334	5,19,80,114	67,30,29,220
2022-23	67,30,29,220	4,92,79,169	**62,37,50,051**

In contradiction to the Accounting Policy -11 above, NMPA accounted the lease rent income during the years 2018-19 to 2022-23, based on annual discounted value of the rent worked out for fixing the upfront lease premium payable by the lessee.

This has resulted in understatement of ‘Upfront Lease Premium Received on Land’ by ₹10,67,22,920 and overstatement of ‘Estate Rentals’ by ₹1,64,11,487 and ‘General Reserve’ by ₹9,03,11,433. Consequently, profit for the year was overstated by ₹1,64,11,487.

2.	**Sundry Debtors ₹77,49,84,126** Above balance was arrived at after deducting Provision for Bad & Doubtful Debts of ₹1,31,94,390, which was created in earlier period. The port is not having the system of age wise analysis of Sundry Debtors. Details of debtors that were considered as Bad/Doubtful also were not furnished for verification. Further, Accounting Policy of the Port on Sundry Debtors (Sch. 13, item No. 13) state that No debt considered as bad irrespective of any time limit. In the absence of analysis of balances, the necessity/adequacy of the provision for Bad & Doubtful Debts could not be verified by Audit. As net debtors was arrived at after deducting provision for Bad & Doubtful Debts, the Accounting Policy adopted by NMPT and the accounting treatment effected are not in conformity.	Above provision towards *Provision for bad and doubtful debt* was created from FY 1998-99 till FY 2014-15. There Is no party wise reference for the same. No provision was created from FY 2015-16 till date. Therefore, as per the audit observation necessary steps will be taken to write back the provision created from FY1998-99 to FY 2014-15 during FY 2023-24.
3.	**Non-Government Dues: ₹46,85,88,353** The above included ₹1,78,34,643 towards penalty on estate dues, pertaining to old periods for which details are not available. Though NMPA had stated in the Action taken note on the SAR (comment No. A.3) for the year 2021-22 that, efforts would be made to reconcile and review the balances, no modification has been effected in the Balance Sheet for the year ended on 31.03.2023. This has resulted in overstatement of Sundry Debtors and understatement of Expenses to the extent of ₹1,78,34,643 with consequent overstatement of profit for the year to the same extent.	Out of total outstanding amount of RS 1,78,34,643/- towards penalty on estate dues, amount of Rs.1,52,87,371/- relating to Party M/S Universal Storage Tank Terminal Ltd. On enquiring the same with Estate Section during the year 2022-23 ,they informed us that the dispute is pending in the District Court of Mangalore vide Case no-514/2020. Hence once the case is disposed off necessary action will be taken in this regard. Remaining balance amounting to Rs.25,47,272/- pertaining to the period prior to 2002,before implementation of the OLIFS (old ERP till 2011) system

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<tr><td></td><td></td><td>software and efforts are being made to reconcile and review those balances.</td></tr>
<tr><td>4.</td><td> Cash & Bank Balances (Sch. 5) ₹21,62,56,379 Above consists of cash with Other Departments ₹3,61,500 and Balances with Nationalized Banks ₹21,58,94,879. Though Sch. 5 was referred for this item, only details furnished in the schedule was Cash at Bank ₹21,58,94,879 and Cash in Hand ₹3,61,500. Details such as bank wise/account type wise balances etc. were not disclosed in the schedule. As, both details are similar in nature, need for inclusion of schedule 5 to the balance sheet could not be ascertained. </td><td>As per Common Framework for Financial Reporting (CFFR) cash & Bank balances needs to be shown separately and in case of banks, same needs to be shown as schedule banks & other banks. Further it requires it to classify bank account as current account, call account & deposit account. All bank accounts of the port are with scheduled banks & consist of saving bank account only. Audit Observation is noted and will be disclosed as per the CFFR in future.</td></tr>
<tr><td>5.</td><td> Deposits from Contractors and agents ₹1,55,69,61,987 The above includes ₹4,41,51,073 being the unclaimed credit balances in respect of Deposit from Contractors/Sundry Deposits held for more than 12 years in the following General Ledgers:
<table>
<tr><th>Sl No</th><th>GL Code</th><th>Description</th><th>Balance for more than 12 years(₹)</th></tr>
<tr><td>1</td><td>26060651</td><td>Deposit from Contractors</td><td>3,67,32,237</td></tr>
<tr><td>2</td><td>26060661</td><td>Sundry deposit</td><td>74,18,836</td></tr>
<tr><td></td><td></td><td>Total</td><td>4,41,51,073</td></tr>
</table></td><td>Audit observation is noted and unclaimed deposits will be reviewed and settled during the FY 2023-24.</td></tr>
</table>

	The Port did not take any action for detailed review/reconciliation of individual balances in respect of above unclaimed Deposits pending for long period and not taken action for writing back the same to Income with proper approval. This has resulted in overstatement of the Liabilities and understatement of Profit by ₹4,41,51,073.	
6.	**Income from BOT Contracts ₹74,94,02,808** The above income includes the royalty from PPP contracts with JSW MCTPL (₹49,88,59,785) towards container operation and M/s. Mangalore Coal Terminal P Ltd (₹17,44,62,612) towards Bulk Cargo handling during 2022-23. Royalty payable to the Port by the Bulk Cargo operator and Container operator were worked out based on the gross revenue chargeable on bulk cargo handled and based on Twenty foot Equivalent Unit (TEU) of contained handled respectively as the concession agreements. Though the Port has a right to conduct special audit of financial statements, gross revenue chargeable / TEU of container handled as per the respective concession agreements, the Port has not resorted to such Special Audit to ascertain the actual royalty to be collected from the concessionaires. In the absence of such Special Audits, correctness of the income recognised on the PPP Contracts amounting to ₹67,33,22,397 could not ensured by Audit.	The above referred parties M/s JSW Container Terminal Pvt Limited and M/s MCTPL are submitting Statutory Auditor's certificate on statement of gross revenue and the Port is relying on the same. As per the concession agreements, port has the option to conduct the special audit on the quantity handled and the financial statement. Port has invited tender for engagement of auditor for special audit.

7.	**Significant Accounting Policies (Schedule 18)** The following accounting policies are not in line with the Common Framework for Financial Reporting (CFFR)/relevant Accounting Standards:	As per Common Framework for Financial Reporting (CFFR) page no.20. Inventories of consumable stores and maintenance supplies should ordinarily be valued at weighted average cost. In appropriate circumstances, however, this may be valued at below cost. Since the inventories of port mainly consist of maintenance spares, tools and consumables, the policy followed according to CFFR is reiterated in the accounting policy. Accounting Policy Ref. 8 Major portion of port investment consists of long-term investments only. Therefore, accounting policy followed with regard to long term investment is stated in the accounting policy. However, in future disclosure with regard to inventories & investments in accounting policies will be shown as it is disclosed in the CFFR.

Accounting Policy reference	Subject	Accounting policy disclosed	As per CFFR	As per Accounting Standard
2	Inventories	Inventories are valued at cost, determined on weighted average basis.	Inventories should be valued at lower of weighted average cost and net realizable value (Para 5(b)).	As per AS-2-Inventories, inventories are valued at cost or net realizable value whichever is less.
8	Investments	Investments are valued at cost.	Current investments must be valued at lower of cost and fair market value whereas long term investments must be valued at cost.	Current investments are valued at lower of cost and fair value whereas long term investments are valued at cost.

8.	**Railway Bill** It was stated in the note that Railway has raised bill for ₹1,06,62,641 for the years 2019-20 to 30.06.2024 with regard to Railway Marshalling Yard, which was disputed by the port, hence not provided in the books. However, there was a committed contractual liability on the part of Port to pay the **establishment** cost to Southern Railway, as the bill for ₹1,06,62,641 for the years 2019-20 to 30.06.2024 with regard to Railway Marshalling Yard has been raised. Hence, the same should have been provided in the books instead of showing it under Contingent Liability. Amount payable upto 31.03.2023 would work out to ₹87,46,343. This has resulted in understatement of Administration & General Expenditure by ₹16,36,158, Prior Period Expenses by ₹71,10,185 and Current Liabilities by ₹87,46,343, with consequential overstatement of Profit by ₹87,46,343.	Port has requested Southern Railways to renew the agreement since 2013, but railway has not responded to request. The staffs deployed by Southern Railway are not carrying work of port and railway's is collecting freight from the users for the services rendered by them. Therefore port has requested Southern Railway not to charge manpower deployment. Therefore, the claim of railway sliding charges shown under contingent liability instead of booking the expenditure.
9.	**Land acquisition by NHAI** During the year 2022-23, Special Land Acquisition Officer & Competent Authority (SLAO&CA)- National Highways Authority of India (NHAI)acquired 23,571 sqm of land at Kudupu village, Mangalore (17903 sqm land owned by Port and 5668 sqm owned jointly by NMPT and public)for "widening of NH 169 road". Ministry of Ports, Shipping & Waterways accorded (March 2023) post facto approval for handing over of above land to SLAO & CA. The amount of compensation to be paid by NHAI on account of acquisition of the above land is ₹15.92 crore and the amount pertaining to NMPA land is	As per AS-9, recognition of revenue requires that revenue is measurable and at the time of Acquisition/Transfer and it would not be unreasonable to expect the ultimate collection. Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising the claim, revenue recognition is postponed to the extent of such uncertainty involved.

	yet to be received. Though NHAI already acquired the above port land, NMPA did not account the above transaction in the books of accounts for the year 2022-23. In the absence of required data, impact of the non-accounting of the above in the Annual Statements of accounts could not ascertained/worked out by Audit.	Hence the amount of Rs.15.92 crore to be received by NMPA on account of compensation for compulsory acquisition of land will be recognized when such compensation is received by the port.