CHAPTER II
THEMATIC AUDIT

PUBLIC WORKS DEPARTMENT

2.1 Execution of Government works through Public Sector Undertakings

2.1.1 Introduction

The Engineering Departments, viz, Public Works (PWD), Water Resources (WRD) and Harbour Engineering (HED) are the prime agencies for executing works on behalf of Government[1] and are responsible for the planning, designing, estimation, execution and maintenance of works in the respective areas allotted to them. These Departments have design wings like Design Research Investigation and Quality Control Board (DRIQ), Irrigation Design and Research Board (IDRB) etc. and are manned by technical hands for execution and supervision. The departments execute the works through contractors on the basis of competitive bidding.

In order to overcome the difficulties of delay and high rates, the Government decided to entrust the works to Public Sector Undertakings (PSUs) as a contractor (since 1975) and later as a consultant. Government also granted various concessions, price preferences, interest-free mobilisation advances and exemptions from pre-qualification etc. to these PSUs. But these PSUs got the works executed by contractors. As a result, the concessions extended to PSUs became a source of benefit to contractors.

2.1.2. Major Government departments that entrusted works to PSUs

Home Department, Tourism Department, PWD, WRD, Health and Family Welfare Department, Education Department, Scheduled Castes/Scheduled Tribes Development Departments (SC/STDD), etc. are the major departments that entrusted Government works to PSUs.

The major PSUs to which works were entrusted during the period covered in audit were Kerala State Construction Corporation Ltd. (KSCC), Kerala State Industrial and Technical Consultancy Organisation Ltd. (KITCO), Small Industries Development Corporation Ltd. (SIDCO), Kerala State Warehousing Corporation, Kerala State Police Housing Construction Corporation Ltd. (KSPHCC), Roads and Bridges Development Corporation Kerala Ltd. (RBDCK), Kerala Shipping and Inland Navigation Corporation Ltd. (KSINC), Kerala State Maritime Development Corporation Ltd. (KSMDC), Travancore Cements Ltd (TCL), etc.

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[1] Mandated by Art.165 of Kerala Financial Code, Vol.I

2.1.3 Scope of Audit

A thematic audit was conducted to ascertain the relative merits of entrusting works to PSUs overlooking these Engineering departments during the period 2009-2012. The selection of PSUs was made on the basis of volume and cost of work awarded. During the period 2009-2012, Government entrusted/ awarded 128 works costing ₹ 888.50 crore to five PSUs, which were included in the budget for execution by PWD/WRD. Of this, 29 works costing ₹ 123.05 crore (**Appendix 2.1**) were entrusted as consultants[2] and 99 works costing ₹ 765.45 crore were awarded as contractors[3] as shown in **table 1**. Test check of records relating to the 128 works were conducted between April and May 2012 covering the period between April 2009 and May 2012 with emphasis on the works allotted to PWD. Audit also examined 20 works entrusted to three PSUs as contractors under the Twelfth Finance Commission (FC) award.

Table 2.1: Profile of works entrusted/awarded to PSUs

Sl. No	Name of PSU	Name of Department	No. of works entrusted/awarded as			Amount (₹ in crore)		
			Contractor	Consultant	Total	Contractor	Consultant	Total
1	KSCC	PWD	79	19	98	629.00	35.01	664.01
2	KITCO	SC/STDD	Nil	10	10	Nil	88.04	88.04
3	KSINC	WRD	19	Nil	19	119.45	Nil	119.45
4	KSMDC & TCL	WRD	1	Nil	1	17.00	Nil	17.00
Total			**99**	**29**	**128**	**765.45**	**123.05**	**888.50**

1 Source: Department files 2. Sl. No. 3 and 4 represented 20 works under Twelfth FC

2.1.4. Audit objectives

The objectives of audit were to examine whether:

- the entrustment of works to PSUs was justified;
- the works awarded and executed by the PSUs were carried out efficiently and effectively without any time/cost over-run; and
- concessions/privileges extended to PSUs were justified and in the best interest of works.

2.1.5. Audit criteria

The Audit findings are bench marked against the following:

- Kerala Financial Code;
- Kerala Budget Manual;
- Budget documents;
- Public Works Department Manual;
- Orders issued by Government

[2] The person/firm providing advice for construction works
[3] The person/firm through which the Engineering departments carry out works

2.1.6. Audit findings

Audit found that by entrusting the works to five PSUs, Government had to incur loss/excess liability of ₹ 104.81 crore on the 128 works costing ₹ 888.50 crore. The findings are discussed in the succeeding paragraphs.

2.1.6.1 Avoidable expenditure on consultancy charges

PWD is the statutory authority for designing, planning, monitoring, constructing and undertaking maintenance of public works of State Government. The PWD is having a separate wing for construction and maintenance of Government buildings which is headed by Chief Engineer (Buildings) with man power at circle, division, section levels.

The funds are kept at the disposal of PWD by the Legislature to specifically execute each item of work. Disregarding the system, Government had been entrusting works to PSUs as consultants. The scope of their services included preparation of design, estimate, issue of technical sanction, arrangement and supervision of works and passing of bills. The PSUs were entitled for consultancy charges ranging from five to eight *per cent* of the cost of works.

It was observed that during the period 2009-12, Government entrusted 29 building construction works costing ₹ 123.05 crore (**Appendix 2.1**) for consultancy to two PSUs, viz, KSCC and KITCO.

On assigning the works, the PSUs charged consultancy fee at the rate of five to eight *per cent* depending on the cost of works, from SC/STDDs. In addition, SC/STDDs had to bear service tax at the rate of 10.3 *per cent*. The total liability created on this account was ₹ 7.49 crore, **(Appendix 2.1)** out of which ₹ 2.93 crore was already released to the PSUs as on March 2012. This was an avoidable expenditure had these works not been transferred from PWD to PSUs.

2.1.7 PSUs as Contractors

In the case of works entrusted to PSUs as contractors, Engineering Departments do all preliminary works such as planning, designing, estimation etc. The PSUs execute works either through competitive bidding or negotiations as discussed below:-

- The KSCC, a PSU was constituted in February, 1975 to take up the construction works like bridges, major NH projects, dams, canals, road works etc.
- Government declared the PSU as 'pre-qualified'[4] for any civil works put to tender by Government Department. The PSU is also allowed Mobilisation Advance (MA) though the Kerala Public Works Account Code (KPWAC) prohibits advances to the contractors and requires to ensure that no payments are made except for work actually done. The PSU was also exempted from supervision and measurement by PWD Engineers in respect of works undertaken.

[4] Screening of contractor with reference to their past experience, expertise and equipment available for execution of work

- During the period 1975 to 1998-99 KSCC participated in the PWD tender process and were executing the works directly. From 1998-99 onwards, KSCC stopped direct execution of works, and switched over to system of subcontracting the works as a whole.
- KSCC had failed to execute 12 works entrusted to it during the period from 1997-2008. In the case of seven out of twelve works terminated between October 1997 and June 2008, PWD fixed the risk and cost liability at ₹ 5.70 crore being the extra expenditure incurred on award of the works. Of this, ₹ 5.68 crore **(Appendix 2.2)** is yet to be remitted to Government by KSCC. The past failures of the PSU raises concern over the 79 works costing ₹ 629 crore awarded during the period under audit.

2.1.7.1 Execution of works through subcontracting – post award

Audit found that KSCC subcontracted[5] three[6] works costing ₹ 50.97 crore to contractors during the period of audit at much lesser rates than the rates at which they were awarded by PWD. Thus KSCC made a profit of ₹ 3.68 crore as an intermediary agency, which in turn was a loss to Government.

2.1.7.2 Impact of subcontracting and execution of work by PSU

> KSCC entered in pre-tender tie up and participated in tenders floated by PWD. When the work was executed through contractors the PSU deducted ₹ 9.03 crore as upfront fee.

The condition in the agreements executed between awarder (PWD) and contractor (KSCC) restricts subcontracting the work. However, from September 2009 onwards, KSCC started subcontracting the works through pre-tender tie up with registered contractors. Under this system, on publication of tenders by PWD, contractors submit their expression of interest (EoI) to KSCC in respect of the works they were interested in. Based on the EoI of contractors, KSCC entered into pre-tender tie up with contractors in the form of a Memorandum of Understanding (MoU). After executing the MoU with the selected contractor at the agreed rate, KSCC participated in the tender floated by PWD at that rate. Thus, KSCC realised upfront fee[7] of ₹ 9.03 crore at the rate of five *per cent* from each work bill related to 106 works during the period 2009-10 to 2011-12.

Audit found that apart from creation of the extra liability, the entrusting of works to PSUs, resulted in time over-run and cost over-run as discussed below:

2.1.7.3 Time over-run in the works executed by KSCC

The objective of Government in entrusting works to the PSUs was to avoid the delay in arranging and execution of works. But KSCC did not adhere to the time schedules in the works awarded to it as contractor as discussed below:

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5 Sub contract refers to the contract awarded by the PSU to other contractors.

6 (1) construction of MBA Block of Engineering College, Thiruvananthapuram costing ₹ 5.42 crore, (2) construction of Thuruthoor-Poyya Bridge in Ernakulam costing ₹ 2.85 crore and (3) construction of second annexe building for Government Secretariat, Thiruvananthapuram costing ₹ 42.70 crore

7 The fee deducted by KSCC at the rate of five *per cent* on the basis of MoU from the Contractors' bill

Out of the 79 works awarded to KSCC during 2009-2012, details of only 58 works were made available to Audit, as per which, 35 works **(Appendix 2.3)** were to be completed as of March 2012. Of the 35[8] works, three works only were completed in time and 32 were delayed, the details of which are given below:

- As of March 2012, 26 works **(Appendix 2.4)** were yet to be completed, the delays of which ranged from one month to one year. In eight out of the 26 works, even 50 *per cent* progress had not been achieved.
- Six works were completed after delays varying from four to 17 months.

KSCC stated (July 2012) that paucity of funds delayed the completion of works.

2.1.7.4 Loss on account of cost over-run

There was cost over-run due to various reasons like revision of rates in Schedule of Rates (SoR), revision of estimates etc. As per details given by KSCC, six works were delayed badly which necessitated the revision of original estimates of ₹ 52.73 crore to ₹ 97.51 crore resulting in an increase of ₹ 44.78 crore which was 85 *per cent* of the original estimate (**Appendix 2.5**). The cost over-run in respect of other works could be assessed only on their completion.

2.1.7.5 Entrustment of work violating Central Vigilance Commission guidelines

In February 2010, Coastal Shipping and Inland Navigation Department (CSIND) entrusted 20 works costing ₹ 136.45 crore under the Twelfth FC Award to three PSUs viz. KSINC, KSMDC and TCL through negotiation. The awarding of works through negotiation violated the Central Vigilance Commission(CVC) guidelines.

CVC issued (October 2005) guidelines on the award on tender stipulating that there should not be any negotiations. In one of the reiterations, CVC based its directions on the observation of the Supreme Court regarding the entrustment of works without tendering. It was observed that the award of public works through tender was to ensure the elimination of corrupt practices by the authorities. Disregarding the CVC guidelines, CSIND entrusted works costing ₹ 136.45 crore to the PSUs after negotiations.

The three PSUs, viz, KSINC, KSMDC and TCL whose activities are different from civil works, subcontracted the works to private contractors for ₹ 31.92 crore after inviting tenders. These PSUs had obtained the works at ₹ 46.72 crore, making a profit of ₹ 14.80 crore, **(Appendix 2.6)** which was 46.36 *per cent* of the cost at which the works were subcontracted. This was an indication that the works were awarded to the PSUs at prohibitive rates and the rates arrived at by the department on negotiation lacked justification. Thus,

[8] 23 works were not analysed as the due date of completion was after March 2012

the department executed the works incurring an extra expenditure of ₹ 14.80 crore.

2.1.7.6 Splitting of work and lack of co-ordination between PSUs led to stoppage of works

The work "Deepening and Side Protection of Veli-Akkulam Lake" in the Twelfth FC award works was at a standstill since June 2011. Audit conducted a detailed study of the causes of stoppage of the work and found that the work involved "dredging" and "side protection" of the lake. Accordingly, the work was split into two and awarded to two PSUs. The dredging part was awarded jointly to TCL and KSMDC at a cost of ₹ 17 crore which was subcontracted to a contractor at ₹ 11.59 crore and the side protection work was awarded to KSINC at a cost of ₹ 13 crore and the work was subcontracted to a contractor at ₹ 9.82 crore. This resulted in following lapses:

- KSINC, entrusted with the work of side protection, took a decision that backfilling of the side protection wall be done with the dredged spoil obtained from the lake which was under the custody of TCL and KSMDC. But the PSUs stopped dredging as they were not ready to dump the spoil for backfilling.

- The work, "Deepening and Side protection of Veli-Akkulam Lake" which was to be completed by January 2011 was extended upto September 2011. As the progress of the work was very poor and the contractor discontinued after completing 500 metres out of 4000 metres of protection works, the department terminated the agreement with KSINC (August 2011) and KSINC in turn terminated the work of the sub-contractor without risk and cost. The expenditure incurred on the work was ₹ 64.26 lakh.

- Government handed over the remaining work of side protection to TCL and KSMDC which was doing the dredging work also. The PSUs jointly arranged the balance work costing ₹ 6.99 crore at a higher rate through the same contractor who had delayed the work of side protection under KSINC. The tender on re-award was 60.50 *per cent* above Estimated Probable Amount of Contract(EPAC) as against tender excess of 33.50 *per cent* of original cost under KSINC.

- As of January 2013, only 1300 m of side protection work was completed out of the target of 4000 m for which ₹ 3.02 crore spent by KSINC out of ₹ 12.35 crore advanced by CSIND. In the case of dredging work, expenditure incurred as of May 2012 was ₹ 7.20 crore out of the agreed PAC of ₹ 17 crore. The work was idling as of January 2013.

- The achievement of PSUs in respect of dredging was only 243896 cum (38.58 *per cent* of target) against the targeted quantity of 632250 cum. TCL, to which the work of side protection was re-awarded, decided to carry out the side protection work along with dredging work but was able to achieve only 32.50 *per cent.*

Thus the splitting up of the work and lack of coordination among the PSUs led to the termination of the work without risk and cost by KSINC and entrustment of the work to the same contractor on re-award resulted in additional expenditure of ₹ 1.88 crore.

2.1.8 Lack of assurance on quality of works executed

Paragraph 16.7 of the KPWD Manual describes the method and the areas of supervision of departmental officers during execution of works.

> Engineering Department made random check of the quality and found that the works executed by the PSUs were of poor quality.

However, while entrusting the works to KSCC, Government, in contravention to the PWD Manual provisions, relieved (August 1983) the departmental site engineers of their duty to supervise and measure the work. Later, in September 2010, exemption of departmental supervision was extended to works under Twelfth FC award executed by three PSUs. Thus, all the 99 works of the four PSUs were exempted from supervision by PWD/WRD.

Even though Government had dispensed with the supervision by Engineering departments, these departments made random checks (September 2010 and September 2011) of the quality of works by the PSUs to ascertain the position of works executed in the context of termination of contracts and reportedly found of poor quality due to flaws in the execution of two works of CSIND.

Thus the dispensation of supervision by departmental officers encouraged the PSUs to carry out the works compromising quality.

2.1.9 Excess liability due to excess over SoR

The EPAC of the work, 'Side Protection and Beautification of Veli—Akkulam Lake' was ₹ 7.35 crore and was awarded to KSINC at an Agreed Probable Amount of Contract (APAC) of ₹ 13 crore with a tender premium of 76.87 *per cent.* The estimate was prepared in the year 2009 based on 2009 SoR, but with an additional element of 20 *per cent* over the rates of 12 out of 22 items which were labour intensive. This was stated to be made in anticipation of revision of SoR. But, there was no system of enhancing the rates in the estimates anticipating rate revision. The total amount thus added in the estimate was ₹ 0.91 crore and the excess liability when added with the tender premium worked out to ₹ 1.61 crore. Lack of diligence on the part of the department (CSIND) rendered the preparation of estimates unrealistic.

2.1.10 Concessions to PSUs

Government extended to KSCC concessions like price preference, interest-free mobilisation advance and exemption from pre-qualification etc. during tendering, awarding and execution of works. These concessions were granted by Government to KSCC at a time when they were executing the works by themselves. As KSCC dispensed with the system of direct execution and started subcontracting works, such concessions were not required. Ultimately, the benefit of concessions granted to PSUs were actually enjoyed by the sub contractors and this had created additional liability as explained below.

2.1.10.1 Excess liability due to price preference

Government allowed (April 1988) KSCC a price preference of 10 *per cent* over the lowest bidder on works bagged by it through competitive tenders. Price preference is a privilege enjoyed by the PSU over the other contractors in which the PSU gets the work even though the rates quoted by it was up to 10 *per cent* above the lowest tender. KSCC obtained 29 works through price preference during the period 2009-2012. The difference in price of lowest tenderers and that of KSCC in these works came to ₹ 14.14 crore **(Appendix 2.7)** which was an excess liability on Government. Since the works were executed on the basis of MoU and KSCC was entitled for an upfront fee of five *per cent* only, the price preference extended to KSCC in excess of five *per cent* was passed on to the sub contractors. The undue benefit received by the sub contractors amounted to ₹ 2.69 crore in 15 works **(Appendix 2.8).** The collection of upfront fee not only benefited the PSU, but also benefited contractors under pre-tender tie up.

2.1.10.2 Mobilisation Advance

Government ordered (April 1997) to allow Mobilisation Advance(MA) at the rate of 20 *per cent* of the contract amount to KSCC for the works bagged by it through competitive tenders whereas the PWD contractors are not allowed any advances. The granting of MA to PSU was relevant at the time when PSU was executing the works directly (which was dispensed with from 1998-99 onwards) and advance lost relevance when the PSU became an intermediary. During the period 2009-12, PWD released ₹ 80.33 crore **(Appendix 2.9)** as MA to KSCC in respect of 49 works, out of which KSCC disbursed ₹ 69.74 crore to the contractors under pre-tender tie up at an interest rate of nine *per cent*. The sanctioning of MA resulted in the following irregularities.

- KSCC earned a sum of ₹ 4.73 crore (**Appendix 2.9)** by giving the interest free MA received from Government to contractors under pre-tender tie up at nine *per cent* per annum which was utilised for meeting their administrative expenditure. The action of KSCC in utilizing the interest earned on Government money for meeting administrative expenditure was irregular. KSCC stated (June 2012) that, as it was not being given any budgetary assistance, it had to find other sources of income for meeting administrative expenditure other than the profit share obtained from the sub contracting of works.

- Government dispensed with (October 2010) the grant of MA for works awarded to KSCC. A total amount of ₹ 11.29 crore was paid as MA to KSCC in respect of seven works in disregard of the dispensation of the advance.

The MA had been a source of income for KSCC since the advance was used for lending at the rate of nine *per cent.* The sub-contractors also benefitted in the form of loan at lower rates.

2.1.10.3 Failure to recover Mobilisation Advance from contractors

Agreement provisions between KSINC and subcontractors did not provide for payment of advances prior to execution of work. However, audit scrutiny revealed that ₹ 1.74 crore was paid as MA to the sub-contractors. Further, it was observed that no recovery of the MA was done from part bills. In response to audit query on the non-recovery of advances, KSINC replied that MAs were treated as part payments and hence no recoveries were made. The reply was not tenable as the MA to sub-contractors was against the provisions of the contract agreement and it amounts to providing undue benefit to the sub-contractors.

2.1.10.4 Exemption from pre-qualification

In view of the experience in construction works, expertise and equipments available for direct execution of works, Government declared (February 1992) KSCC as pre-qualified for submitting financial bids for any works. However, the exemption of pre-qualification was allowed also in respect of other contractors with whom the PSU entrust the works obtained from PWD. Thus the exemption allowed to KSCC being a PSU was passed on to the non pre-qualified contactors helping them to procure major contracts indirectly. Also, it was discriminatory in nature, as the other contractors who had not entered into tie-up with KSCC, had to qualify in the technical bids.

2.1.10.5 Advances given to PSUs deposited in commercial banks.

Amount of ₹ 25 crore and ₹ 15 crore received by KSINC and by TCL were deposited in commercial banks without any utilisation due to slow progress of work.

The Finance Department issued letter of credit for ₹ 40 crore in March 2010 to be drawn by Executive Engineer, Inland Navigation Division, Kollam under the head of account 5075-60-800-89 (P) for incurring expenditure before 31 March 2010. The Department drew ₹ 40 crore (**Appendix 2.10)** and advanced it to PSUs. The amounts advanced to the PSUs were exhibited in Government accounts as utilised even though the works were not commenced and expenditure incurred. There was, therefore, overstatement of capital expenditure in Government accounts as of March 2010. The action of the department was irregular and against financial propriety. The agreement conditions with the PSUs did not provide for such advances either.

Amounts of ₹ 25 crore and ₹ 15 crore received by KSINC and TCL respectively from Government were kept in fixed deposits of commercial banks. The deposits remained unutilised due to slow progress of works. The PSUs earned ₹ 4.55 crore towards interest (March 2012). It was observed that retaining Government money in commercial banks was against the instructions issued by Government in January 1996, wherein it was directed that PSUs should not keep Government funds in commercial banks.

2.1.11. Conclusion

The PSUs were also not able to complete the works without time and cost over-run. There was no mechanism available with the Department to ensure that quality was maintained in respect of works executed by PSUs. The Department did not exercise control over the concessions and privileges extended to PSUs and was not able to ensure that the benefits were not enjoyed by ineligible contractors.

2.1.12 Recommendations

Government should conduct a detailed study to:

- Ascertain the real problems in execution of works by engineering departments so as to take corrective measures;
- Government may study the privileges and concessions extended to PSUs to ensure level playing and that the system does not result in additional cost to projects/schemes.

TOURISM DEPARTMENT

2.2 Grand Kerala Shopping Festival

2.2.1 Introduction

Grand Kerala Shopping Festival is an annual shopping event in Kerala. The festival, commenced in 2007[9], as an yearly event lasting for 46 days from first December. The festival is conducted by the Tourism Department in co-ordination with the Industries and Commerce Department, Finance Department and Local Self Government Department. The aim of the festival is to transform the State of Kerala into a hub for international shopping experience within five years and to promote and develop commerce, trade and industrial sector of Kerala apart from creating employment from developing traditional trade centres.

The expenditure incurred and the Government funds received for the conduct of festival in each year (referred as 'season' by GKSF) is as shown below:

Table 2.2: Expenditure and Government funds received

(₹ in crore)

Year	Season	Expenditure	Government funds received
2007-08	Season one	18.51	15
2008-09	Season two	23.53	20
2009-10	Season three	26.91	20
2010-11	Season four	34.36	25
2011-12	Season five	40.14	25
Total		**143.45**	**105**

Source: Annual accounts and Government orders
Though ₹ 105 crore were allotted, only ₹ 95.88 crore were accounted as shown in table 2

The table above indicates that 73 *per cent* of the total expenditure was met out of Government funds and 27 *per cent* was met from various receipts such as sponsorship fee, registration fee of Mercantile Establishments(MEs) etc.

2.2.2 Festival Profile

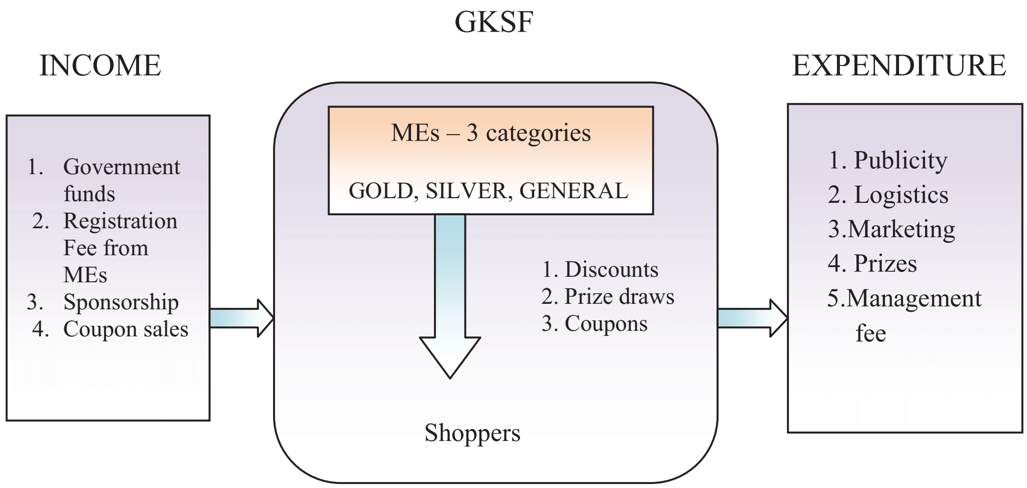
Mercantile Establishments, registered with the local bodies under the Kerala Shops and Commercial Establishment Act 1960, which took registration with GKSF, were the participants of the festival. There were three categories of membership viz; Gold, Silver and General partners for which the registration fee[10] were ₹ 25,000, ₹ 5,000 and ₹ 1,000 respectively. Gold and Silver partners were entitled for 350 and 50 coupons[11] respectively, free of cost at the time of registration. Additional coupons were required to be purchased if needed at the rate of ₹ 15. The participating MEs issue coupons to all customers against purchases above a particular value determined by MEs.

9 GO(Ms) No.311/07/TSM dated 4 June 2007

10 In first year (2007-08) the registration fee were ₹ 20000, ₹ 15000 and ₹ 5000 respectively

11 In first year (2007-08) free coupons for Gold, Silver and General categories were 300, 250 and 50 respectively.

With every coupon a customer would get three chances to win a prize viz. scratch and win/instant prize (up to season four), weekly and mega prize. Scratch and win prizes except gold coins were given on the spot by MEs. The weekly prizes were based on draws at district headquarters. The mega prize was based on a State level draw after completion of the event. The funds for meeting the expenses of the festival such as marketing and logistics, purchase of prizes for distribution etc. were met from Government funds, ME registration fees, sponsorship fees, amount received through sale of additional coupons etc.



2.2.3 Scope of Audit

Thematic audit on working of GKSF was conducted in the office of the Director, GKSF between January 2012 and June 2012 covering the period from 2007-08 to 2011-12. During the course of audit, the records relating to the receipt of funds from Government and other sources, Minutes of Apex and Executive committee meetings, payment vouchers, cheque issue registers, files relating to selection of Event Management Agencies (EMAs), annual performance reports of GKSF seasons, agreement entered into with title sponsors, co-sponsors etc. were scrutinized and the data/information obtained from Commercial Taxes Department were analysed and brought out in the succeeding paragraphs.

2.2.4 Audit Objective

The objectives of the review were to ascertain:

- Whether GKSF was properly planned and executed;
- Whether there were any deficiencies in the implementation stage;
- Whether any criteria were set by Government to assess the performance of each festival season;
- Whether there was any impact on the trade and commerce sector in the State of Kerala due to GKSF;
- Whether the performance of the EMA was according to the norms; and
- Whether Government funds were utilised effectively

2.2.5 Audit Criteria

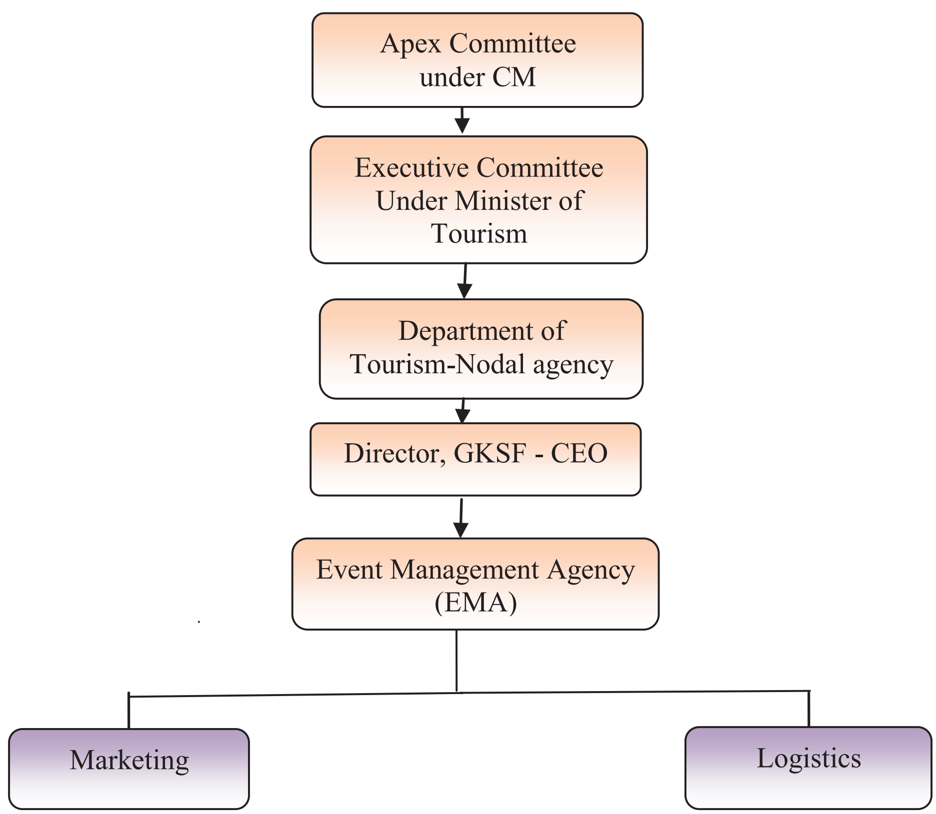
The audit criteria were adopted from the following:

- Government Orders and Proceedings of Department of Tourism;
- Minutes of Executive committee and Apex Committee meetings;
- Law of Contracts, Kerala Financial Code, Kerala Treasury Code; and
- Agreement with Event Management Agencies

2.2.6 Organisational set up

An Apex Committee was constituted for overall supervision of the festival under the chairmanship of Minister of Tourism up to season four (i.e. upto 2010-11) and thereafter the Chief Minister of Kerala took over the chairmanship. An Executive Committee was formed for speedy execution, subject to the approval of Apex Committee. Tourism department was the nodal agency for the purpose of handling of funds and other administrative matters. Director GKSF, a senior Government official appointed by Government, was the Chief Executive Officer. An EMA appointed by the Apex Committee organizes the logistical and marketing aspects of the festival.

Organisational Chart of GKSF is as shown below



Audit findings

The Audit findings are mentioned in the succeeding paragraphs.

2.2.7 Sources of funds and expenditure of GKSF

The various sources of funds for the conduct of GKSF is given in the table below.

Table 2.3: Details of sources of funds for GKSF

(₹ in crore)

Source of fund		Season one 2007-08	Season two 2008-09	Season three 2009-10	Season four 2010-11	Season five 2011-12	Total	Percentage to source of funds
A	Government Funds	14.88	15.84	15.00	25.16	25.00	**95.88**	**67.60**
B	Other sources							
	1. Registration fee from MEs	1.58	1.42	2.81	3.36	2.24	**11.41**	**8.04**
	2. Sale of coupons	1.04	1.95	3.19	4.63	6.27	**17.08**	**12.04**
	3. Other Income including sponsorship	1.00	1.91	3.94	5.57	5.05	**17.47**	**12.32**
	Sub total – other sources	**3.62**	**5.28**	**9.94**	**13.56**	**13.56**	**45.96**	**32.40**
C	**Total source of funds**	**18.50**	**21.12**	**24.94**	**38.72**	**38.56**	**141.84**	
D	**Total expenditure**	**18.51**	**23.53**	**26.91**	**34.36**	**40.14**	**143.45**	

Source: Annual accounts of GKSF

During the five seasons the cost of conduct of GKSF was ₹ 143.45 crore. The festival was mainly dependant on Government funds – ₹ 95.88[12] crore – (68 *per cent* of the total receipts*)* as the other receipts were not very significant.

2.2.7.1 Allotment of funds without defining implementation programme

One of the intentions of GKSF was to give a big fillip to the sectors of trade and commerce in Kerala, especially in the hill produces like spices, traditional products of coir, handlooms and handicraft and to upgrade infrastructure facilities of ancient traditional market places. Government had released ₹ 10 crore[13] exclusively for the upgradation/development of infrastructure of traditional markets places, without specifying any guidelines/direction for the implementation. Director GKSF diverted ₹ 5.47 crore for meeting the expenditure in connection with the festival and the balance amount of ₹ 4.53 crore was kept in current account till January 2011 and thereafter as fixed deposit. Since no interest was earned from current account, the interest loss suffered on this account for the period (January 2010 to January 2011) was

[12] Out of the total funds of ₹ 105 crore, ₹ 10 crore was earmarked for the development of infrastructure

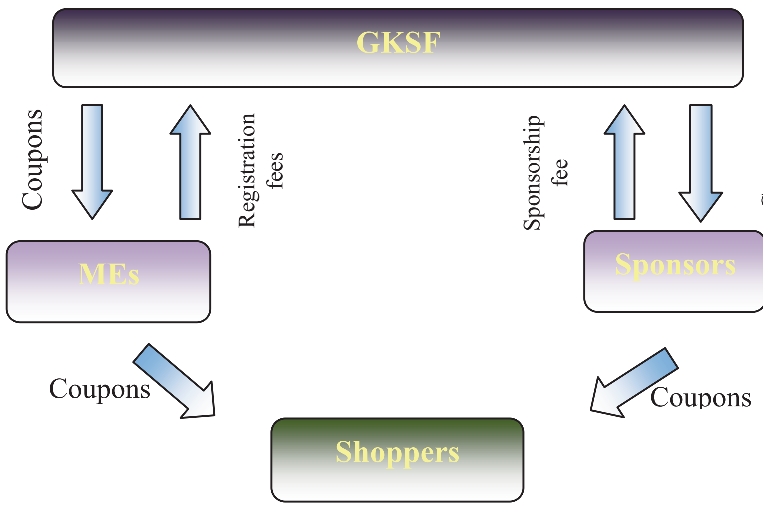
[13] ₹ five crore each during 2008-09 and 2009-10 (December 2008 and January 2010)

₹ 14.53 lakh[14]. From the amount kept as fixed deposit, the Director had withdrawn ₹ one crore for meeting the expenses towards purchase of gold coins for season five.

Thus the fund sanctioned exclusively for the development of traditional market could not be utilised in the absence of guidelines for implementation.

2.2.8 Inadequate response – MEs, Sponsors and Shoppers

The department did not prescribe any guidelines to determine the objectives and hence audit tried to assess the extent of achievement of GKSF through the interest shown by various participants viz. MEs, Sponsors and Shoppers.



Audit found that all the three sets of participants did not show any interest in GKSF as their participation was much below expectation as revealed from the following paragraphs.

2.2.8.1 Lack of interest by MEs other than jewellers and textile dealers

Mercantile Establishments were the main participants of GKSF. On analysis of the MEs registered in all the 14 districts, audit found that maximum numbers of coupons were purchased either by jewellers or textile dealers. Thus the State specific industries and products like spices, cashew, marine products, handicrafts and handlooms had no active participation in GKSF.

2.2.8.2 Under achievement of target set for registration

Even though the department has fixed very low targets, the interest of the MEs was very less and the registration of MEs was much below the targets especially under gold category. The target and achievement under gold, silver and general categories were as shown below:

[14] Calculated at the rate of 3.5 *per cent* for 11 months.

Table 2.4: Details of targeted and actual registration of MEs

Year	Total no. of traders	Targeted registration of MEs				Achievement			
		Gold	Silver	General	Total	Gold	Silver	General	Total
2007-08		No target fixed for 1st year				175	222	1,798	2,195
2008-09	1,59,207	1,000	4,000	0	5,000	243	1,996	193	2,432
2009-10	1,59,665	500	2,000	0	2,500	337	4,587	84	5,008
2010-11	1,69,298	334	4,583	83	5,000	298	5,977	30	6,305
2011-12	1,86,987	400	5,990	50	6,440	265	3,340	1,943	5,548
Total		**2,234**	**16,573**	**133**	**18,940**	**1,318**	**16,122**	**4,048**	**21,488**

Source: Tentative budgets and Analysis reports for GKSF, Minutes of Apex committee meeting

The table above depicts that target set for each category of members was not based on the previous year's achievement. In the case of gold category of members, against the achievement of 175 registrations in 2007-08, the target fixed for 2008-09 was 1000, whereas the achievement was 243. Again in 2009-10, against the achievement of 243 registrations in 2008-09, the target fixed was 500, whereas the achievement was 337. Thus, GKSF failed to consider the response of the MEs while fixing the targets and therefore, the targets were unrealistic.

2.2.8.3 Lack of response from Co- Sponsors

Big MEs, banks, public and private sector companies can also participate in the festival as title sponsor or as co-sponsor by paying sponsorship fee as agreed by the participant and GKSF. GKSF expected participation from large number of co-sponsors who could use the festival as a platform for publicity. However, it failed to attract co-sponsors as expected and as a result only very meagre amount could be collected as sponsorship.

Table 2.5: Details of sponsorship fee received for five years

(₹ in crore)

Year	Season	Title sponsor	Fee	Co-sponsors	Fee	Total sponsorship
2007-08	Season one	Nil	Nil	4 nos	0.91	0.91
2008-09	Season two	Federal Bank	1.25	2 nos	0.35	1.60
2009-10	Season three	Federal Bank	1.50	8 nos.	2.20	3.70
2010-11	Season four	Federal Bank	1.80	14 nos	3.23	5.03
2011-12	Season five	South Indian Bank	2.50	7 nos	2.13	4.63
Total			**7.05**		**8.82**	**15.87**

Source: Department figures

Audit also found that about half of the sponsorship was from a single sponsor known as "Title sponsor". Thus if the title sponsor is excluded, the sponsorship collected from co-sponsors was very meagre confirming the lack of interest in the GKSF by commercial establishments.

2.2.8.4 Infructuous expenditure on printing charges of unsold coupons – an indication of the lack of interest from shoppers

As per GKSF pattern, MEs were to issue coupons to shoppers for purchases above a particular value, fixed by MEs. MEs could get a certain amount of coupons free at the time of registration and additional coupons could be purchased at the rate of ₹ 15 per coupon. The total number of coupons printed, the coupons remained as unsold stock and the printing charges are as detailed below.

Table 2.6: Expenditure on printing charges of unsold coupons

Year	Season	Number of coupons printed	Number of unsold coupons	Printing charges per coupon (including service tax) in ₹	Total printing charges for unsold coupons ₹ in lakh
2007-08	Season one	26,00,000	17,04,850	4.67	79.62
2008-09	Season two	18,00,000	3,26,600	4.49	14.66
2009-10	Season three	33,00,000	3,23,300	4.08	13.19
2010-11	Season four	40,00,000	3,51,850	4.08	14.36
2011-12	Season five	50,00,000	50,850	4.46	2.27
	Total	**1,67,00,000**	**27,57,450**		**124.10**

Source: Department figures and stock verification statement by CAs

Substantial number of coupons remained unsold in all the seasons except season five which indicated lack of interest by the shoppers in the festival. In season five, as per agreement, 4.5 lakh coupons were given free of cost to a single sponsor against their outright purchase of 5.5 lakh coupons. Audit found that an amount of ₹ 1.24 crore became infructuous towards printing charges of the unsold coupons. The only option was to destroy the unsold coupons. On being pointed out by audit, the Director justified the printing charges by stating that it was impossible to have a zero balance in the coupon account, as there was always a need for a stock till the end of the festival. However, the Director could have analysed the trend in sales of previous years while fixing the targets for printing.

2.2.9 Deficiencies in the conduct of festival

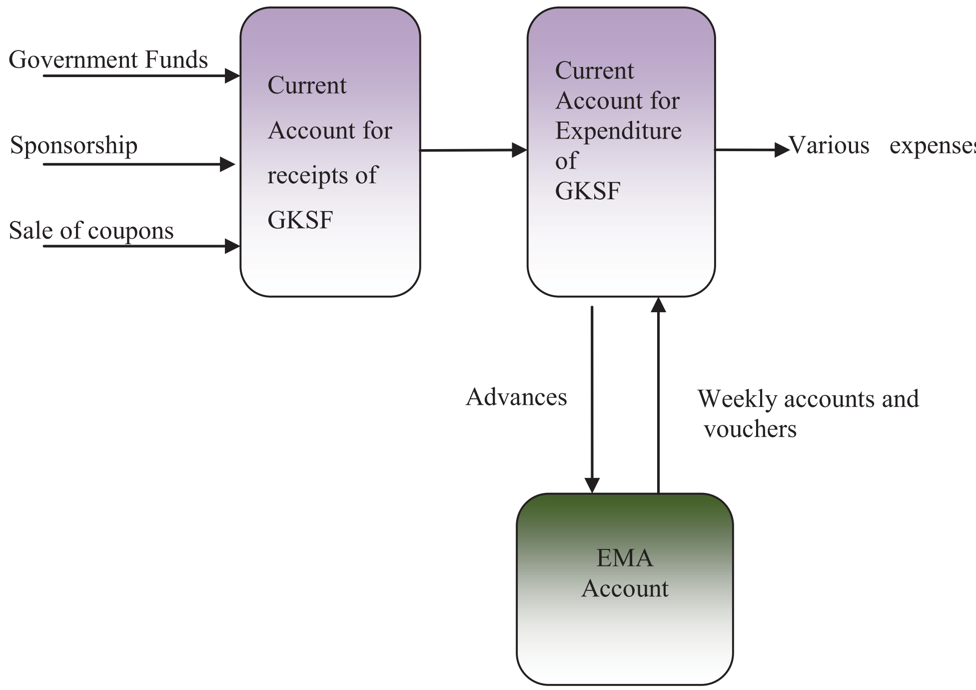
On scrutiny of various records maintained in GKSF such as agreements with EMA and title sponsor, annual performance reports, annual accounts etc., Audit noticed various deficiencies like failure to collect and account various dues, failure to settle advances etc. as detailed in the following paragraphs.

2.2.9.1 Transactions for GKSF through EMA – ₹ 40.60 crore expended without supporting vouchers

The GKSF Directorate conducted the festival through EMA. It was the responsibility of EMA to collect all receipts due to GKSF except Government funds. GKSF advances money to the EMA for various items of expenditure.

An amount of ₹ 40.60 crore was expended by EMA during the last five seasons without any supporting original vouchers.

As per the agreement entered into with the Director – GKSF, EMAs were required to produce the original vouchers from the actual vendors or firms on demand by the Director and shall submit a copy of weekly statement of bank account through which transactions of GKSF was accounted. These clauses were incorporated in the agreement to ensure authenticity of transactions incurred by the EMA as there was no scale or standard for expenditure. The system for receipt and payments were as shown below;



During the last five seasons, an amount of ₹ 40.60 crore was paid to EMAs as shown below:

Table 2.7: Year wise details of Event Management Expenses

Year	Event Management Expenses (₹ in crore)
2007-08	6.5
2008-09	7.92
2009-10	8.59
2010-11	9.25
2011-12	8.34
Total	**40.60**

Source: Annual accounts of GKSF

The entire amount of ₹ 40.60 crore (28.30 *per cent* of expenditure) was incurred by the EMA without any supporting original vouchers. As a result, audit was unable to comment on the admissibility of the claims. The Director while accepting the audit comment, assured compliance in future.

2.2.9.2 Non collection of Registration fees

As per schedule B of the agreements executed between EMAs and GKSF, EMAs were responsible for collecting registration fee from MEs through cheques and remit it directly to the bank account of GKSF. Audit found that there was a short collection of ₹ 1.20 crore as shown below.

There was short collection of registration fee by EMA amounted to ₹ 1.20 crore .

Table 2.8: Registration fee receivable and actually received

(₹ in lakh)

Year	Season	Name of EMA	Total registration fee receivable	Registration fee as per accounts	Difference
2008-09	Season two	Sercon	162.48	142.55	19.93
2009-10	Season three	Crayons	314.44	281.02	33.42
2010-11	Season four	Crayons	373.75	335.62	38.13
2011-12	Season five	Crayons	252.68	224.33	28.35
Total			**1103.35**	**983.52**	**119.83**

Source: Figures arrived at from Department records and annual accounts

While analysing the reasons for short collection of registration fees, audit found that there were many cases of bounced cheques on account of ME registration since season three (2009-10). On this being pointed out, the Director replied that notices were sent to shop owners concerned and legal action would be taken in case of defaulters.

2.2.9.3 Non-collection of dues from Kerala Travel Mart

Kerala Travel Mart promised to sponsor expense 15 MEs for visiting DSF amounting to ₹ five lakh and in return the logo of the KTM was included in the advertisement of GKSF. The promise was not adhered to.

Kerala Travel Mart (KTM) is a society of travel operators registered under Travancore-Cochin Literary, Scientific and Charitable Societies Registration Act, 1955. In lieu of including their logo in the advertisement released by GKSF season five, they promised to sponsor the expense (₹ five lakh) of 15 MEs for visiting Dubai Shopping Festival (DSF). Accordingly, the logo of KTM was included in the advertisement released by GKSF and GKSF offered a tour package to 15 MEs to visit Dubai during DSF. Since the DSF was in the January-February months, GKSF had taken 15 MEs to DSF as per the package and the expenditure of ₹ 4.20 lakh incurred was met from the administrative head of account of GKSF. Audit noticed that KTM has not yet paid the offered amount of ₹ five lakh, even though the logo of KTM was included in the advertisement released by GKSF. When this was brought to the notice of the Director, GKSF, it was replied that since the sanctioning of advance amount was within the financial delegation of the Director i.e. less than ₹ five lakh, the Director decided to provide the funds and the decision was ratified by the Executive Committee. Instead of realising the amount from KTM, the Director diverted the GKSF fund for meeting the travel expenses of MEs for which the sanction of Government was necessary.

2.2.9.4 Grant left in Private bank violating Government instructions

Department of Tourism, while releasing the amount sanctioned for the first four seasons (2007-08 to 2010-11) of GKSF had specifically stated that the amount should be transfer credited to the designated nationalised bank account jointly operated by Director of Tourism and Director, GKSF. However, audit noticed that Government funds were drawn from treasury and deposited in current account of private scheduled banks from season two (2008-09) onwards contrary to Government direction.

When this was pointed out, the Director GKSF stated that the order of release of fund issued by DoT to keep the account in the nationalised bank is a discrepancy and this would be brought to the notice of Director (Tourism) for rectification. Further report has not been received.

2.2.10 Violation in agreements with EMAs and Sponsors

2.2.10.1 Ineligible commission paid to EMAs

The EMAs appointed through competitive procedure were paid management fee and commission for their services, as per the agreement entered into with the Director, GKSF. The amount paid to the EMAs for the five seasons during the period 2007-08 to 2011-12 were as below:

Table 2.9: Details of management fee and commission paid to EMAs

(₹ in lakh)

Season	EMA	Management fees	Commission including commission for sponsorship in kind	Total
Season one	Sercon	10.00	30.64	40.64
Season two	Sercon	10.00	Not available	10.00
Season three	Crayons advertising Ltd.	4.50	18.33	22.83
Season four	Crayons advertising Ltd.	4.50	31.64	36.14
Season five	Crayons advertising Ltd.	4.50	56.50	61.00
	Total	**33.50**	**137.11**	**170.61**

Source: Department figures

Due to the very poor response of the sponsors in the first season, GKSF entered into an agreement with EMAs to rope in a minimum sponsorship of ₹ two crore[15] in cash from season two onwards. This was a mandatory requirement to make the EMAs eligible for commission. However, the EMA could mobilise only ₹ 1.10 crore and ₹ 1.92 crore towards sponsorship in cash, in season three and season four respectively and hence did not qualify for the commission. GKSF reckoned the title sponsorship also to make the EMA eligible for commission and paid ₹ 45.33 lakh (₹ 16.50 for season three + ₹ 28.83 for season four) as commission for sponsorship in cash, violating the agreement conditions.

2.2.10.2 EMA did not have an exclusive bank account

As per the agreements with GKSF, EMAs were required to open and operate an exclusive bank account at Thiruvananthapuram for the festival and all the transactions shall be routed only through the account. The EMAs were to submit a copy of the bank account transactions every week to the Director, GKSF till the settlement of accounts. However, EMAs did not open an exclusive bank account and the bank account already operated by EMA was made use of for the transactions connected with the festival. Had a separate bank account opened, it was possible to reconcile all expenditure with the

[15] ₹ 2.5 crore in season five

receipts and balances in the accounts. But in the absence of a separate account, even this audit trail was lost.

2.2.11 Internal control deficiencies of GKSF

2.2.11.1 Non recovery of amount diverted for Nishagandhi Festival

Department of Tourism was the nodal agency for the conduct of Nishagandhi Festival, an annual cultural event. As DoT was facing acute shortage of funds for the conduct of Nishagandhi Festival 2009, the Director (Tourism) requested the Director (GKSF) for an amount of ₹ 50 lakh, with the condition that it would be repaid once funds were allotted by the Government. The Executive Committee of GKSF decided to release the amount and the Director, GKSF, released funds in January 2009. Audit noticed that DoT repaid only ₹ 46 lakh till date and an amount of ₹ four lakh is pending repayment (March 2013).

When the matter was pointed out, the Director GKSF stated that efforts would be taken to recover the balance amount from Department of Tourism. Further developments have not been reported (March 2013).

2.2.11.2 Utilisation Certificates not provided

Government order[16] releasing funds for season five specifically mentioned that Director (Tourism) shall obtain the utilisation certificate and that too within a period of three months from the release of Government funds. But utilisation certificate was not issued (March 2013). Director accepted the lapse and assured that action would be taken to issue the utilisation certificates. Further report has not been received (March 2013).

2.2.11.3 Authorisation of expenditure in excess of delegated powers

The Apex Committee meeting (September 2011) enhanced the financial powers of the Director, GKSF to ₹ one lakh from earlier limit of ₹ 25,000. Later, the Executive Committee decided (October 2011) to enhance the powers up to ₹ five lakh and the decision was not ratified by the Apex Committee. Audit found that the Director authorised expenditure without any ceiling- even above ₹ one crore - far in excess of financial powers delegated to him.

On being pointed out, the Director justified the violation of the delegated financial powers stating the urgent need of funds. However, Apex Committee had not given any ex-post facto approval of these violations.

The Government may examine the extent of compliance of delegation of financial powers to ensure that the authorisation of expenditure is in accordance with the prescribed rules and procedures.

[16] G.O (Rt) No.9290/11/TSM dated 9 December 11 and G.O (Rt) No. 1041/2012/TSM dated 6 February 2012

2.2.12 Other deficiencies

i. An amount of ₹ 85 lakh towards sponsorship fee for season five was not recovered from Tata Motors and LIC of India.

ii. Government (June 2007) ordered to open a separate bank account operated jointly by Secretary (Tourism) and Director (Tourism), for the conduct of GKSF. As the main fund for the festival was Government funds, the balance amount, if any, in the account should be transferred to the Government account at the end of each financial year. But, specific instruction for the same was not given by the Government.

iii. There was no proper system for the timely settlement of the advances drawn/given to various agencies for the conduct of the festival.

2.2.13 Conclusion and Recommendations

Absence of proper guidelines and yearly action plan to achieve the objectives affected the conduct of the festival. Violation of agreement conditions by EMAs and sponsors were not viewed seriously by the Director. The Government had not fixed any criteria for assessing the success of each festival season. Hence audit could not ascertain whether the State was transformed into an international shopping destination over the period of five years.

- As Government is spending substantial amount, detailed procedure/ guidelines should be issued for incurring expenditure by EMA.
- Fixing of targets for ME registration may be made taking into account the total number of traders and the response of the MEs in the previous seasons.
- Outcome of each festival season may be analysed to improve the functioning of the festival.
- Expenditure should be sanctioned only on the basis of supporting documents to prove the claim. Registers for watching advances paid to various agencies and its final settlement may be ensured. Prompt action may be taken for dishonoured cheques besides insisting on DD/Electronic Fund Transfer.