CHAPTER-VII

COMMERCIAL ACTIVITIES

7.1 Overview of Government Companies and Statutory Corporations

Introduction

As on 31 March 2006, there were 20 Government Companies (16 working and four non-working*) and three Statutory Corporations (all working) as against 22 Government Companies (16 working and six non-working) and three Statutory Corporations as on 31 March 2005 under the control of the State Government. During the year 2005-06, two non-working Government Companies viz. Teletronix Limited and Kumaon Television Limited were wound up. The accounts of the Government Companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors appointed by the Comptroller and Auditor General of India (CAG) as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit by the CAG as per the provisions of Section 619 (4) of the Companies Act, 1956.

The audit arrangements of Statutory Corporations are as shown below:

Sl. No	Name of Corporation	Authority for audit by CAG	Audit arrangement
1	Uttaranchal State Road Transport Corporation	Section 33(2) of the Road Transport Act, 1950	sole audit by CAG
2	Uttaranchal Forest Development Corporation	Section 19(3) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971	audit by CAG** and also by Examiner, Local Fund Account
3	Uttaranchal Peya Jal Sansadhan Vikas Evam Nirman Nigam	Section 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971	sole audit by CAG

The State Government had formed the Uttaranchal Electricity Regulatory Commission and its audit is entrusted to the CAG under section 104(2) of the Electricity Act, 2003***.

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* Non-working Government Companies are those that are in the process of liquidation/closure/merger, etc.

** Audit is also being conducted by Examiner, Local Fund Account as the amendment in the Corporation's Act is still awaited.

*** Erstwhile Section 34(4) of the Electricity Regulatory Commission Act, 1998 repealed by the Electricity Act, 2003.

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

7.1.1 As on 31 March 2006, the total investment in 19 working PSUs (16 Government Companies and three Statutory Corporations) was Rs. 2,205.98 crore[*] (equity: Rs. 429.92 crore, share application money: Rs. 132.01 crore and long term loans[**]: Rs. 1,644.05 crore) against the total investment of Rs. 1,546.25 crore (equity: Rs. 130.76 crore, share application money: Rs. 139.76 crore and long term loans: Rs. 1,275.73 crore) in 19 working PSUs (16 Government Companies and three Statutory Corporations) as on 31 March 2005. The analysis of investment in working PSUs is given in the succeeding paragraphs.

Sector-wise investment in working Government Companies and Statutory Corporations

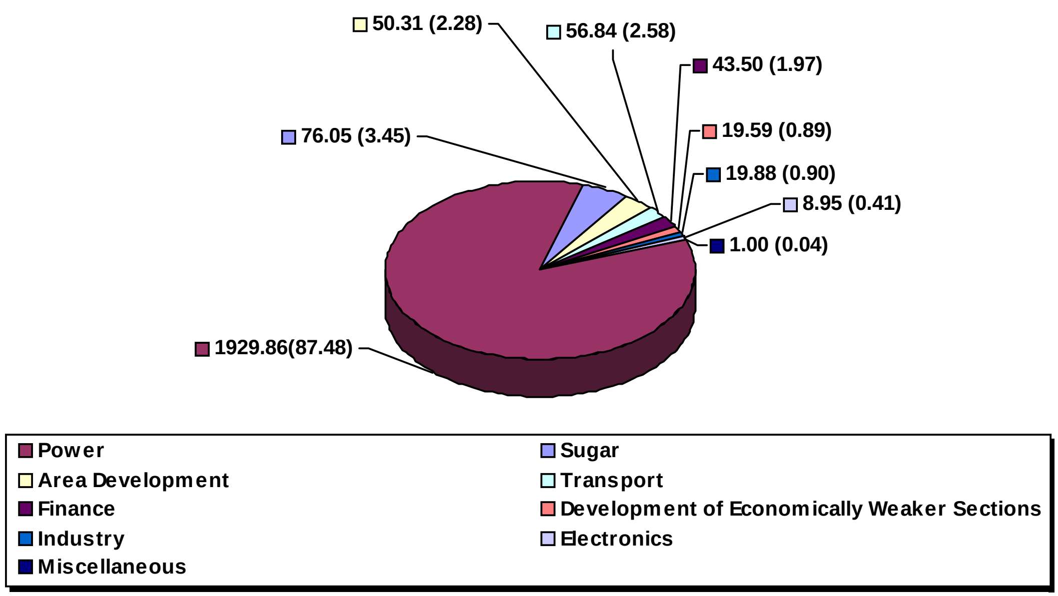
7.1.2 The investment (equity and long term loans) in PSUs under various sectors and percentage thereof at the end of 31 March 2006 and 31 March 2005 is indicated in Pie charts as follows:

[*] State Government investment was Rs. 919.59 crore (Others: Rs. 1286.39 crore). Figures as per Finance Accounts 2005-06 is Rs. 803.84 crore. The difference is under reconciliation.

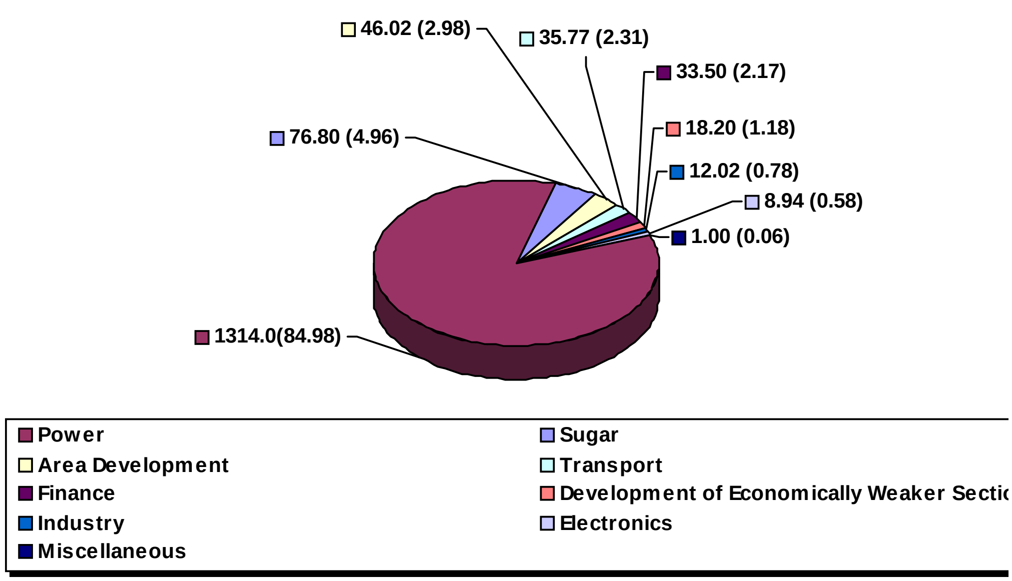
[**] Long term loans mentioned in paragraph 7.1.1, 7.1.2, 7.1.3 and 7.1.4 are excluding interest accrued and due on such loans.

Sector-wise investment in working
Government Companies and Statutory Corporations

As on 31 March 2006
Amount: Rupees in crore
(Figures in brackets indicate the percentage of investment)
Total investment - Rs. 2205.98 crore



As on 31 March 2005
Amount: Rupees in crore
(Figures in brackets indicate the percentage of investment)
Total investment - Rs.1546.25 crore



Working Government Companies

7.1.3 The total investment in working Government Companies at the end of March 2005 and March 2006 was as follows:

(Rupees in crore)

Year	Number of Companies	Equity	Share application money	Loans	Total
2004-05	16	102.76	139.76	1267.96	1510.48
2005-06	16	381.92	132.01	1635.20	2149.13

Investment in the current year has increased over the previous year mainly due to increase in equity and loans to the PSUs in the Power Sector.

As on 31 March 2006, the total investment in working Government Companies comprised 23.91 per *cent* of equity capital and 76.09 *per cent* of loans as compared to 16 *per cent* and 84 *per cent* respectively as on 31 March 2005.

The summarised statement of Government investment in working Government Companies in the form of equity and loans is given in ***Appendix 7.1.***

Working Statutory Corporations

7.1.4 Three Statutory Corporations (all working) were formed between the period May 2001 and October 2003 after the creation of the State of Uttaranchal. The first accounts of these Corporations had not been finalised as of September 2006. As per the available information, the total investment in these Corporations at the end of March 2005 and March 2006* was as follows:

(Rupees in crore)

Sl. No.	Name of corporation	2004-05		2005-06	
		Capital	Loan	Capital	Loan
1.	Uttaranchal State Road Transport Corporation	28	7.77	48	8.85
2.	Uttaranchal Forest Development Corporation	Not Available			
3.	Uttaranchal Peya Jal Sansadhan Vikas Evam Nirman Nigam				
	Total	**28**	**7.77**	**48**	**8.85**

As on 31 March 2006, the total investment in working Statutory Corporations comprised 84.43 *per cent* of equity capital and 15.57 *per cent* of loans as compared to 78 *per cent* and 22 *per cent* respectively as on 31 March 2005.

The summarised statement of Government investment in working Statutory Corporations in the form of equity and loans is given in ***Appendix 7.1.***

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

7.1.5 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of the working Government Companies and Statutory Corporations are given in ***Appendices 7.1** and **7.3**.*

* Figures are provisional.

The budgetary outgo in the form of equity, loans and grants/subsidies from the State Government to working Government Companies and Statutory Corporations for the three years up to March 2006 are given below:

(Rupees in crore)

Particulars	**2003-04**				**2004-05**				**2005-06**			
	Companies		**Corporation**		**Companies**		**Corporation**		**Companies**		**Corporation**	
	No.	**Amount**	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**	**No.**	**Amount**
(i)Equity Capital outgo from budget	3	18.91	1	3.00	3	139.76		-	3	271.41	1	20.00
(ii) Loans given from budget	4	26.62	1	3.00	4	56.32	1	4.25	3	115.96	-	-
Total A (i) + (ii)	**6**	**45.53**	**2**	**6.00**	**5**	**196.08**	**1**	**4.25**	**5**	**387.37**	**1**	**20.00**
(i) Grant towards Projects/ Programmes/ Schemes	4	142.67	2	126.62	2	178.84	-	-	3	50.22	-	-
(ii) Subsidy	-		-	-	1	9.60	-	-	2	12.42	-	-
Total B (i) + (ii)	**4**	**142.67**		**126.62**	**3**	**188.44**	**-**	**-**	**5**	**62.64**	**-**	**-**
Total outgo A+B	**6***	**188.20**	**2***	**132.62**	**6***	**384.52**	**1**	**4.25**	**8***	**450.01**	**1**	**20.00**

During 2005-06, the Government had guaranteed loans aggregating to Rs. 1246 crore obtained by two working Companies. At the end of the year, guarantees amounting to Rs. 1257.61 crore against four working Companies and Rs. 17.17 crore against one corporation were outstanding. Guarantee commission of Rs. 31.18 crore is payable by these companies to the State Government.

Finalisation of accounts by working PSUs

7.1.6 The accounts of the Government Companies for each financial year are required to be finalised within six months from the end of the relevant financial year under Section 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of the financial year. Similarly, in case of Statutory Corporations their accounts are to be finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

None of the 16 working Government Companies and three Statutory Corporations finalised their accounts for the year 2005-06 within the stipulated period. During the period from October 2005 to September 2006, eight working Government Companies finalised nine accounts for the previous years.

* Indicate actual number of Companies/Corporations, which received budgetary support in the form of equity, loans, grants and subsidies from the Government in respective years.

The accounts of all the working Government Companies and three Statutory Corporations were in arrears for periods ranging from one to 19 years as on 30 September 2006 as detailed below:

Sl. No.	Number of working		Year from which accounts are in arrears	Number of years for which accounts are in arrears	Reference to serial number of *Appendix 7.2*	
	Government Companies	Statutory Corporations			Government Companies	Statutory Corporations
1	1		1987-88 to 2005-06	19	A-8	
2	1		1990-91 to 2005-06	16	A-7	
3	1		1994-95 to 2005-06	12	A-4	
4	1		1997-98 to 2005-06	9	A-2	
5	2		1998-99 to 2005-06	8	A-3,6	
6	2		2000-01 to 2005-06	6	A-1,5	
7		1	2001-02 to 2005-06	5		B-2
8	2	1	2002-03 to 2005-06	4	A-9,13	B-3
9.	1	1	2003-04 to 2005-06	3	A-11	B-1
10.	3		2004-05 to 2005-06	2	A-12,14,15	
11.	2		2005-06	1	A-10,16	

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within the stipulated period. Though the concerned administrative departments of the Government were apprised quarterly by the audit of the arrears in the finalisation of accounts, no remedial measures have been taken by them and as a result of which the net worth of these PSUs could not be assessed.

Financial position and working results of working PSUs[*]

7.1.7 The summarised financial results of working PSUs (Government Companies and Statutory Corporations) as per their latest finalised accounts are given in ***Appendix 7.2.***

According to the latest finalised accounts of 15[**] Companies, eight companies had incurred an aggregate loss of Rs. 73.82 crore and six had made a profit of Rs. 8.49 crore and in the case of one company (A-3) only pre-operative expenses were incurred.

Working Government Companies

Profit earning working Government Companies and dividend

7.1.8 Out of eight working Government Companies, which finalised their accounts for previous years by September 2006, only six Companies (Sl. No. A-5, 6, 9, 10, 15 and 16 of ***Appendix 7.2)*** earned a profit of Rs. 8.49 crore (***Appendix 7.2***). The Government has not formulated any dividend policy.

[*] Under this paragraph information in respect of Government Companies only has been given, as none of the Corporations has finalised its first accounts.

[**] In case of one company (A-14 of ***Appendix 7.2)*** first accounts has not been received.

Loss incurring working Government Companies

7.1.9 Out of the eight loss incurring working Government Companies, Seven companies (Sl. No. A-1, 2, 6, 7, 10, 11 and 12 of ***Appendix 7.2)*** had accumulated losses aggregating to Rs. 152.43 crore, which exceeded their paid-up capital of Rs. 36.59 crore (***Appendix 7.2***).

Despite poor performance and complete erosion of their paid-up capital, the State Government continued to provide financial support to two Companies (Sl. No. A-2 and A-12 of ***Appendix 7.2***) amounting to Rs. 45.53 crore by way of loans during 2005-06 ***(Appendix 7.1)***.

Return on Capital Employed

7.1.10 As per the latest finalised annual accounts of PSUs, the capital employed[*] worked out to Rs. 1905.12 crore and total return[**] thereon amounted Rs. 122.40 crore compared to total return of Rs. 20.23 crore in the previous year. The details of capital employed and total return on capital employed in case of working Government Companies are given in ***Appendix 7.2***.

Reforms in the power sector

State Electricity Regulatory Commission

7.1.11 The Uttaranchal Electricity Regulatory Commission (Commission) was formed on 5 September, 2002 under Section 17 of the Electricity Regulatory Commission Act, 1998[***]. It is a single member Commission headed by a Chairman, who is appointed by the State Government. The audit of accounts of the Commission has been entrusted to the CAG under Section 104 (2) of the Electricity Act, 2003. The Commission had issued three tariff orders up to September 2006.

Non-working Public Sector Undertaking (PSUs)

Investment in non-working PSUs

7.1.12 As on 31 March 2006, the total investment in four[@] non-working PSUs (all Government Companies) was Rs. 0.39 crore[*] (equity only) as against the total investment of Rs. 4.84 crore (equity only) in six non-working PSUs as on 31 March 2005.

The classification of non-working Government Companies at the end of March 2006 was as follows:

[*] Capital employed represents net fixed assets (including capital work-in-progress) plus working capital.

[**] For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account.

[***] Since replaced with Section 82(1) of the Electricity Act, 2003.

[@] Two non-working Government Companies viz. Teletronix Ltd. and Kumaon Television Ltd. were wound up.

[*] Figures as per Finance Accounts 2005-06 is Rs. 0.15 crore.

(Rupees in crore)

Sl. No.	Status of non-working Government Companies	Number of Companies	Investment	
			Equity	Long term loans
(i)	Under liquidation**	1	0.17	-
(ii)	Others***	3	0.22	-
	Total	**4**	**0.39**	**-**

Out of four non-working Government Companies, one Government company was under liquidation/closure under section 560 of the Companies Act, 1956 since 31 March 1991. Effective steps need to be taken for its expeditious liquidation /closure.

Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

7.1.13 The details regarding budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the State Government in respect of non-working Government Companies are given in ***Appendix 7.1 and 7.3.***

During the year 2005-06, there was no budgetary outgo in the form of equity/loans/subsidy/grants.

Finalisation of accounts by non-working Government PSUs

7.1.14 One out of four non-working Government Companies was under liquidation. The accounts of three non-working Companies were in arrears for periods ranging from 16 to 19 years as on 30 September 2006 as could be seen from ***Appendix 7.2.***

Financial position and working results of non-working Government Companies

7.1.15 The summarised financial results of non-working Government Companies as per their latest finalised accounts are given in ***Appendix 7.2.***
The summarised details of paid-up capital, net worth, cash loss/profits and accumulated loss/ profit of non-working Government Companies as per their latest finalised accounts are given below.

(Rupees in crore)

Particular	Paid-up capital	Net worth[1]	Cash loss[2]	Accumulated loss
Non-working Companies	0.35	(-) 0.04	0.03	0.07

** Sl. No. C-1 of *Appendix 7.1.*

*** Sl . No. C-2, C-3 and C-4 of *Appendix 7.1***.**

[1] Net worth represents paid-up capital *plus* free reserves *less* accumulated loss.

[2] Cash loss represents loss *plus* depreciation for the year**.**

Results of audit on the accounts of PSUs by the Comptroller and Auditor General of India

7.1.16 During the period from October 2005 to September 2006, eight working Government Companies were selected for audit. The net impact on the profitability of the PSUs of the important audit observations was as follows:

Details	No. of accounts	Rs. in lakh
(i) Increase in Profit	4	446.04
(ii) Decrease in Loss	2	447.06
(iii) Non disclosure of material facts	4	712.31

Some of the major errors and omissions noticed during audit of annual accounts of some of the Government Companies are mentioned below.

7.1.17 Errors and omissions noticed in case of Government Companies

UTTARANCHAL POWER CORPORATION LIMITED (2002-03 & 2003-04)

- Short provision of Rs. 3.50 crore for bad and doubtful debts resulted in overstatement of sundry debtors by Rs. 3.50 crore and profit of the company for 2002-03 to the same extent.

- Loans and Advances amounting to Rs. 3.27 crore lying outstanding for the period from 1978 to 2001 have not been provided for in the accounts for 2003-04. This has resulted in overstatement of loans and advances and understatement of loss by Rs. 3.27 crore.

- The Profit and Loss Appropriation Account included an amount of Rs. 18.04 crore as transfer to deferred tax liability. This should have been charged to the Profit & Loss Account, which was not done. This has resulted in understatement of loss for the year 2003-04 by Rs. 18.04 crore.

KICCHA SUGAR COMPANY LIMITED (2004-05)

- Due to non-provision of excise duty, stock of finished sugar and molasses was understated by Rs. 3.36 crore and Rs. 1.12 crore respectively. This has resulted in understatement of current liabilities to the same extent.

- Due to non inclusion of the value of bagasse in stock, the closing stock as well as profit for the year was understated by Rs. 30.90 lakh.

UTTARANCHAL BAHUUDESHIYA VITTA EVAM VIKAS NIGAM LIMITED (2001-02)

Interest on Bank Deposits included Rs. 25.41 lakh being the amount of interest on unutilized grants/subsidies. This should have been shown as payable to the Government. This has resulted in overstatement of profit to that extent and understatement of current liabilities by the corresponding amount.

Recoveries at the instance of Audit

7.1.18 Test check of records by Audit of Electricity Distribution Division, Kashipur of Uttaranchal Power Corporation Limited. disclosed non-levy of minimum consumption guarantee resulting in short realisation of revenue aggregating Rs. 31.50 lakh. The Company accepted the observation and recovered the amount from the concerned consumer.

Internal audit/Internal control

7.1.19 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal audit/internal control systems in the Companies audited by them in accordance with the directions issued by the CAG to them under Section 619 (3) (a) of the Companies Act, 1956 and to identify areas which need improvement. Accordingly, the Statutory Auditors in the case of three Companies (Kumaon Mandal Vikas Nigam limited, Uttaranchal Bahuudeshia Vitta Evam Vikas Nigam Limited and Uttaranchal Chay Vikas Nigam Limited) had observed that the internal control system was weak and not commensurate with the size and nature of their business.

Recommendation for closure of PSUs

7.1.20 Even after completion of 28 to 32 years of their existence, the turnover (sales and other income) of five working Government Companies **(*Appendix-7.4*)** has been less than Rs. 5 crore in each of the preceding five years as per their latest finalised accounts. Similarly, three working Government Companies **(*Appendix-7.5*)** had been incurring losses for five consecutive years (as per latest accounts) leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve the performance of these Companies or consider their closure.

Response to inspection reports, draft paragraphs and reviews

7.1.21 Observations made during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of the State Government through inspection reports. The heads of the Offices/PSUs are required to furnish replies to the inspection reports through their respective heads of departments within a period of six weeks. Inspection reports issued up to March 2006 pertaining to 14 PSUs disclosed that 1957 paragraphs relating to 550 inspection reports were outstanding at the end of September 2006. Department-wise break-up of inspection reports and audit observations outstanding as on 30 September 2006 are given in ***Appendix-7.6.***

Similarly, draft paragraphs and reviews on the working of the PSUs are forwarded to the Principal Secretary, Finance and the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. One draft paragraph forwarded to the

Energy Department and one review forwarded to Tourism Department during June 2006 and September 2006 respectively, had not been replied so far as detailed in ***Appendix-7.7.***

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who fail to send replies to inspection reports/draft paragraphs/reviews and Action Taken Notes for recommendations of COPU as per the prescribed time schedule, (b) action is taken to recover loss/outstanding advances/overpayment in a time bound schedule, and (c) system of responding to audit observations is revamped.

Departmentally managed Government commercial /quasi-commercial undertakings

General

7.1.22 Consequent upon formation of the State of Uttaranchal with effect from 9 November 2000 under the Uttar Pradesh Reorganisation Act 2000, the assets and liabilities of the departmentally managed Government commercial undertakings already situated in Uttaranchal were to be passed on to the newly formed State.

Accordingly, the assets and liabilities of the following departmentally managed Government commercial undertakings located within the State were deemed transferred to the newly created State from the aforesaid date.

Sl. No.	Department	Name of the undertakings
1.	Food and Civil Supplies	Grain Supply Scheme: Regional Food Controller, Dehradun Regional Food Controller, Haldwani
2.	Irrigation	Irrigation Workshop Division, Roorkee
3.	Animal Husbandry	State Livestock and Agricultural Farms, Kalsi, Dehradun State Livestock and Agricultural Farms, Manjhara,
4.	Health	Rishikul Ayurvedic Pharmacy, Hardwar State Vaccine Institute, Patwadangar, Nainital

Lack of accountability for the use of public fund in departmentally managed commercial and quasi-commercial undertakings

7.1.23 Activities of quasi-commercial nature are performed by the departmental undertakings of the Government. These undertakings have to prepare pro-forma accounts annually in the prescribed format showing the results of financial operations so that the Government can assess the results of their working. The heads of departments in Government are to ensure that the undertakings, which are funded by the budgetary releases, prepare the accounts and submit the same to the Accountant General for audit by 30 June every year. It was observed by Audit that only the Irrigation Workshop Division (IWD), Roorkee had finalised its accounts for the year 2004-05, while the other undertakings have not finalised their accounts for the period 9 November 2000- March 2001, 2001-02, 2002-03, 2003-04, 2004-05 and

2005-06. Thus the accounts except in the cases of IWD, Roorkee, were in the arrears for a period of six years, and in the case of IWD, Roorkee for a period of one year. There is no improvement despite this being pointed out by Audit earlier. The finalised accounts of departmentally managed commercial and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, the investment of the Government remains outside the scrutiny of the Audit/State Legislature. Consequently corrective measures, if any required, cannot be taken in time. Besides, the delay also opens the system to risk of fraud and leakage of public money.

619-B Companies

7.1.24 There was one working company within the purview of Section 619-B of the Companies Act, 1956. ***Appendix 7.8*** gives the details of paid up capital, investment by way of equity, loans and grants and summarised working results of the Company based on its latest available accounts.

PERFORMANCE REVIEW

GARHWAL MANDAL VIKAS NIGAM LIMITED

7.2 Performance Review on Tourism and Industry related activities of the Garhwal Mandal Vikas Nigam Limited

Highlights

- **Average annual occupancy of all the tourist rest houses operated during the five years ended March 2006 was 21.05 *per cent.***

[Paragraph 7.2.8]

- **Rs.3.38 crore were blocked in land purchased at Noida, Mussoorie and Dehradun.**

[Paragraphs 7.2.17 to 7.2.19]

- **The Nigam paid Rs. 1.36 crore upto February 2006 on salary and wages of its employees, deployed in various departments of the State Government, without any reimbursement from the Government.**

[Paragraph 7.2.20]

- **Flush Door Factory at Kotdwar had suffered a loss of Rs. 5.53 crore since its inception (1983-84) due to the absence of a proper marketing strategy.**

[Paragraph 7.2.24]

- **The production of resin and turpentine at Tilwara plant had declined since 2003-04 due to higher floor price of the raw material being supplied by the Forest Department.**

[Paragraph 7.2.25]

- **Fruit Processing and Mineral Water units were located at remote places (Tilwara and Gawana) resulting in high transportation costs and loss of Rs. 25.33 lakh during the five years ended March 2006.**

[Paragraph 7.2.26]

- **Debts of Rs. 74.59 lakh, outstanding for more than five years, were not realised by the Nigam.**

[Paragraph 7.2.28]

- **Internal control was lacking, Accounts, Administrative and Internal Audit manuals were not prepared. Audit committee though constituted in 2001 did not meet even once.**

[Paragraph 7.2.3]

7.2.1 Introduction

The Garhwal Mandal Vikas Nigam Limited (Nigam) was incorporated as a wholly owned State Government Company at Dehradun on 31 March 1976 under the Companies Act, 1956 with the aim of overall development of the Garhwal region. After formation of Uttaranchal State (9 November 2000), the Nigam functioned under the Department of Tourism, Government of Uttaranchal.

Tourism related activities of the Nigam included the operation (as on 31 March 2006) of 82 Tourist Rest Houses (TRHs) spread over all the seven districts of Garhwal region of the State (Uttarkashi: 23, Tehri: 11, Chamoli : 27, Pauri: 9, Dehradun: 6, Rudraprayag: 4, and Haridwar: 2) and 72 Canteens. There was also a Yatra unit at Rishikesh for conducting Char Dham Yatra (a pilgrimage to Yamnotri, Gangotri, Kedarnath and Badrinath) against bookings made by 10 Public Relation Offices (PRO) located at Ahmedabad, Jaipur, Lucknow, Mumbai, Bangalore, Chennai, Chandigarh, Haridwar, Kolkata and Delhi. The Nigam also promoted tourism related activities like Mountaineering, Water Sports, Winter Sports etc.

The Nigam operates six industrial units (Parvat Wood Wool at Muni-ki-reti; Rosin & Turpentine at Tilwara; Flush Doors at Kotdwar; Cement Concrete Blocks at Srinagar; Fruit Processing at Tilwara and Bhagirathi Ganga Mineral Water, Rishikesh) producing wood wool, flush doors, rosin and turpentine, cement concrete blocks, processed fruit and juices and mineral water respectively.

Besides Tourism and Industry, the Nigam is also engaged in the retail marketing of petroleum, oil and lubricants and liquefied petroleum gas, wholesale marketing of foreign liquor under FL-2 licenses and mining of sand, boulders and bajri etc. on payment of royalty.

The Board of Directors (Board) of the Nigam consisted of a Chairperson, two Vice-Chairpersons and 12 members including the Managing Director, who is assisted by five General Managers dealing with Finance, Tourism, Industry and Marketing, Construction and Projects, one Assistant General Manager (Mining) and a Chief Manager at HQs. The post of the Company Secretary was vacant since October 2003. One AGM(T) at Rishikesh is responsible for operation of Char Dham Yatra. The industrial units are managed by the unit managers. During the period 2001-02 to 2005-06, seven Managing Directors served the Nigam for periods ranging from 1.5 months to 15.5 months before being transferred / replaced by the Government. ***Appendix 7.9*** indicates the organizational set up of the Nigam.

7.2.2 Scope of Audit

The overall performance of the Nigam was last reviewed and included in the Audit Report (Commercial), Government of Uttar Pradesh for the year ended 31 March 1987. The review was discussed by the Committee on Public Undertakings (COPU) between September 1992 and November 1998. The recommendations of the COPU (Uttar Pradesh) were awaited (November 2006).

The present performance review was conducted between July and September 2006 to evaluate the Tourism and Industry related activities of the Nigam for the five years ended 31 March 2006. Out of 82 TRHs and ten PROs , the records of 21 TRHs (14 at prominent places, four at non prominent places and three seasonal ones) and three PROs (Lucknow, Haridwar and Delhi) have been test checked. Out of six industrial units, records of four units were test checked.

7.2.3 Audit objectives

The audit objectives were to ascertain whether:

- there was a well defined market strategy to create awareness among the prospective tourists highlighting the various attractions the State offers under well planned and coordinated packages ;
- the Nigam had managed its TRHs, industrial units economically and efficiently;
- funds were utilised efficiently and Nigam's dues recovered promptly;
- necessary facilities required for tourism development in the State were well conceived and provided.

7.2.4 Audit criteria

The audit criteria used for assessing the achievement of the audit objectives were:

- State Tourism Policy 2001, guidelines/ instructions issued by the State Government ;
- Directives of *Uttaranchal Paryatan Vikas Parishad* ;
- Terms and conditions of operation of TRHs leased out to the Nigam by the State Government ;
- Year wise revenue targets of TRHs , industrial units etc. ;
- Targets for occupancy in TRHs.

7.2.5 Audit methodology

The following mix of audit methodologies was adopted for attaining the audit objectives:

- Examination of agenda and minutes of the meetings of the BODs;
- Study of Tourism and Industrial policies of the Government;
- Examination of the directives and circulars issued by the Management, progress reports and financial statements;
- Scrutiny of guidelines/orders issued by the Government for operating the TRHs and Industrial units; and
- Examination of stock and inventory registers, store and production ledgers, log books of machines, registers of fixed assets, tenders/ agreements and sales, cash books, bank reconciliation statements, cash receipt-books, visitors' registers and suggestion/complaint registers maintained at TRHs, physical verification reports and records relating to man power management and internal audit.

7.2.6 Audit findings

Audit findings arising from the performance review were reported (October 2006) to the Management/Government and also discussed in the exit conference held on 8 November 2006 with the Management, which was attended by the officiating Managing Director and other officers of the Nigam. The views expressed by the Management in the meeting and replies furnished by them have been kept in view while finalising the report.

7.2.7 Performance of the Nigam in Tourism Sector

The Tourism Policy of the State Government, declared in 2001 aimed at development of infrastructure for tourism, including cultural tourism, eco-tourism, amusement tourism, leisure tourism, corporate tourism, adventure tourism, craft business, marketing and pilgrimage. The thrust was to make the corporations in the State commercially viable and on level with private sector commercial organizations. The Tourism Department formed a regulatory body called *Paryatan Vikas Parishad* in 2002 to formulate guidelines for development of tourism in the State.

TRHs taken on lease from the State Government

The Nigam was assigned a major role in the promotion and development of tourism in Garhwal region of the State through operation of PROs and TRHs. TRHs constructed and owned by the State Government were given on lease from time to time to the Nigam for operation. Of the profit earned by the individual TRH, 25 *per cent* was to be given to the State Government. The Government directed the Nigam (September 1979) to execute lease deeds in respect of TRHs, which have not been executed so far (October 2006). This indicated slackness in the management of assets by the Nigam. An amount of Rs.1.60 crore on account of lease rent was payable to the State Government as on 31 March 2006. The performance of TRHs is discussed in the succeeding paragraphs:

7.2.8 Performance of TRHs

The Nigam operated 68 TRHs during 2001-02. During the period from 2002-03 to 2005-06, 17 new TRHs (2002-03: 4; 2003-04: 1; 2004-05: 3 and 2005-06: 9) were handed over by the State Government to the Nigam for operation while three were closed by the Government (2004-05: 2 and 2005-06:1). The financial performance and percentage of occupancy in the TRHs during 2001-02 to 2005-06 are summarised below:

Year	No. of TRH	Turnover	Profit/ Loss	Average annual occupancy	Required occupancy to avoid loss†
		(Rs. in crore)		(per cent)	(per cent)
2001-02	68	3.50	(-) 0.65	18.58	22.03
2002-03	72	4.07	(-) 1.37	20.43	27.30
2003-04	73	4.93	(-) 1.05	22.97	27.86
2004-05	74	5.40	(-) 0.05	23.03	23.24
2005-06	82	5.71	(-) 0.58	20.23	22.28
Total		**23.61**	**(-) 3.70**	**21.05**	**24.54**

It was noticed by Audit that the Nigam had not fixed any norms/ targets of occupancy for TRHs and no yardstick for assessing the level of achievement has also been fixed. The average annual occupancy in TRHs during last 5

† While calculating the frequent occupancy it has been presumed that direct cost was negligible.

years ending 31 March 2006 ranged from 18.58 *per cent* to 23.03 *per cent*. Had the Nigam raised its average occupancy over five years from 21.05 *per cent* to 24.54 *per cent* it could have avoided losses. The fact however is that the Nigam's TRHs were not found attractive by the tourists.

TRHs broadly fall into three categories:

- Seasonal ones, 14 in number, which remain closed between November and March due to heavy snowfall. These are mainly on the Chardham Yatra route;
- those located at prominent places (37 in number); and
- those located at non- prominent places (31 in number).

The Nigam suffered a total loss of Rs. 3.70 crore in the operation of TRHs, during the five years ended 31 March 2006. The category wise details of profit/loss suffered by these TRHs are given below:

(Rs. in lakh)

No.	Category of TRH	2001-02	2002-03	2003-04	2004-05	2005-06	Total
1.	Seasonal	19.32	3.83	27.06	15.38	19.81	85.40
2.	Prominent	(-)50.59	(-)93.87	(-)92.24	13.45	(-)20.85	(-)244.10
3.	Non-prominent	(-)33.42	(-)46.76	(-)40.22	(-)33.68	(-)57.14	(-)211.22
	Total	**(-)64.69**	**(-)136.80**	**(-)105.40**	**(-)4.85**	**(-)58.18**	**(-)369.92**

It was observed by Audit that low turnover, heavy cost of repairs and maintenance (Rs.5.80 crore) and excessive expenditure on man power (Rs. 2.29 crore) were the main reasons for heavy losses. The profit made by the seasonal TRHs could not affect the losses made by the prominent and non-prominent TRHs. In fact if profit of seasonal TRHs is excluded the accumulated loss during the five years period would be Rs.455.32 lakh.

The Nigam stated (November 2006) that an occupancy policy was prescribed but the same was not produced to Audit. No comments were offered for non-fixation of norms for occupancy of individual TRHs. Nontheless, the Nigam expressed satisfaction over the existing occupancy status despite recurring annual losses.

7.2.9 Seasonal TRHs

Chardham Yatra is the prime tourist venture of the Nigam. All the Seasonal TRHs are mostly on the Yatra route. The Nigam earned a profit of Rs. 85.40 lakh in the operation of seasonal TRHs during the five years ended March 2006. The average percentage of profit earned by the Nigam on all the seasonal TRHs operated during the above period, was 16.47 *per cent* of the total turn-over.

It was, however, observed that three out of 15 seasonal TRH viz. Lanka, Rambara and Yamunotri suffered substantial losses (Rs. 26.93 lakh) during the last five years on account of low annual average occupancy (19.4 *per cent*), low turnover (Rs. 11.84 lakh) coupled with high cost of salary and wages

(Rs. 22.64 lakh) and the cost of repair and maintenance (Rs. 8.84 lakh) which worked out to 191.22 *per cent* and 74.66 *per cent* of the turnover respectively ***(Appendix-7.10).***

The Management stated (November 2006) that these TRHs are located very far off from the main roads where tourists could not reach conveniently and even if the occupancy in TRH is zero, the expenditure on salary and allowance of staff and on upkeep of TRH had to be incurred. The reply is not tenable as the Government did not assess the commercial viability of these sites before construction of TRHs at these places, nor did the Nigam do so before taking over the possession thereof.

7.2.10 TRHs located at prominent places

The Nigam suffered loss of Rs. 2.44 crore on turnover of Rs.17.12 crore during five years ended March 2006 on TRHs located at prominent places. During this period these TRHs attracted 4.46 lakh tourists. Had these TRHs attracted 5.09 lakh tourists i.e 0.63 lakh more, loss of Rs.2.44 crore could have been avoided. It was observed that low occupancy, high cost of manpower (Rs. 9.05 crore) and repair and maintenance (Rs. 4.23 crore) as at the end of March 2006 were the main factors responsible for the losses. The percentage of salary and wages and repair and maintenance to turnover in these TRHs was 52.86 *per cent* and 24.71 *per cent* respectively.

An expert committee constituted by the State Government in 2005 test checked some TRHs at prominent places and observed that there was no professionalism, service standards were low and the tariffs were high. The Principal Secretary, Tourism on the recommendations of the Committee stated (December 2005) that a training program to eliminate all such drawbacks would be organized. However, this had not been done so far (October 2006).

It was observed that despite good inflow of tourists in the State, the Nigam failed to attract sufficient number of tourists to avoid losses. The share of the Nigam of the total tourists who visited 14 selected TRHs during the five years ended March 2006 the State ranged from 0.11 to 9.89 *per cent*. A comparative statement of occupancy of these 14 TRHs at nine prominent places vis-à-vis influx of tourists at these places as published by the State Government is shown in ***Appendix-7.11.***

A test check of the records of TRHs located at Haridwar, Dehradun, Rudraprayag, Chamba, Joshimath and Mussoorie revealed the following:

- Against 304 lakh tourists who visited Haridwar during the period 2001-02 to 2005-06, the two TRHs operated by the Nigam could attract only 0.34 lakh tourists (0.11 *per cent*) against the total available capacity of 1.17 lakh tourists at these TRHs. The occupancy in Rahi Motel at Haridwar during Ardha Kumbh 2004 (January 2004 to April 2004) ranged between 13.8 *per cent* to 21 *per cent* only. The main reasons for low occupancy at this Motel as attributed by the Unit Management were its disadvantageous location on the Roorkee Road which was closed to vehicles during mela and other peak seasons as a crowd control measure and non-availability of alternate approach road to the TRH. It was observed by Audit that the facilities provided at TRHs were unsatisfactory (bathrooms were in poor condition, no TV facilities were available in the rooms) and also accommodation for low budget tourists including pilgrims was not available at the TRH.

The Nigam intimated (November 2006) that the TRH is now better furnished. No efforts were, however, made for providing accommodation to the low budget tourists.

- The other TRH near Haridwar is about 5 kms from the main city center and mainly dependent upon the annual Urs celebrations of a religious saint. It was noticed by Audit that the occupancy at this TRH too, remained low during the month of *Urs* celebrations (March 2004:27 *per cent*, March 2005: 21 *per cent* and March 2006:27 *per cent*). It was further observed that the class of devotees who visited the place during Urs demanded dormitory accommodation where they could be lodged in groups. There was, however, only one dormitory and three deluxe rooms and one family suite which mostly remained vacant.

The Nigam replied (November 2006) that data published by the State Government showed a large number of day visitors at Haridwar. Apart from the day visitors, a sizeable number of visitors also come to Haridwar who needed low budget accommodation which the Nigam could not provide. The Nigam, however, did not explain the low percentage of occupancy at places other than Haridwar.

- The records published by the State Government indicated that 41.45 lakh tourists visited Dehradun during five years ended 31 March 2006. Out of the two TRHs being operated by the Nigam at Dehradun, one is located at a tourist spot, Sahastradhara. This TRH had six executive rooms which were in very bad condition with seepage of water. The Manager of the TRH had repeatedly reported the problem since 2004 but no action has been taken by the Nigam. On this being pointed out by Audit, the Nigam stated (October 2006) carrying out the repairs at this TRH. The annual average occupancy at this TRH remained less than 23 *per cent*.

The Nigam replied (November 2006) that the number of visitors staying at this TRH during night was very low, but the visitors do stay at the TRH for rest during the day time.

- Nigam's Hotel Drona, located at a prime location in Dehradun city, was earning profits (Rs. 19.09 lakh during 1999-2000) before it was taken over (8 November 2000) by the Estate Department of the Uttaranchal Government on creation of the State. The management of the hotel as MLA Hostel was entrusted to the Nigam and all the operational expenses were to be reimbursed by the State Government. The State Government partially vacated the Hotel on 18 August 2006. It was observed by Audit that against the total expenses of Rs. 4.22 crore incurred by the Nigam from November 2000 to

August 2006 the State Government reimbursed Rs. 3.90 crore only from time to time leaving a balance of Rs. 0.32 crore as of October 2006.

The Nigam stated (November 2006) that the matter was discussed with the Additional Secretary, Estate Department who has agreed in principle to release the payment of the balance amount.

7.2.11 TRHs located at non-prominent places

The Nigam incurred loss of Rs. 2.11 crore on turnover of Rs. 1.67 crore of the TRHs located at non-prominent places during the five years ended March 2006. During this period these TRHs attracted 6965 tourists. Had these TRHs attracted 15765 tourists i.e 8800 more tourists, loss of Rs.2.11 crore could have been avoided. It was observed by Audit that low occupancy, heavy cost of salary and wages (Rs. 2.29 crore) and repair and maintenance (Rs. 0.58 crore) were the main reasons for losses. The percentage of salary and wages and repair and maintenance to turnover in these TRHs was 136.78 *per cent* and 34.92 *per cent* respectively. A few cases of low occupancy ranging from 0.60 to 9.60 *per cent* are given in ***Appendix-7.12.***

The Nigam did not review the reasons for consistent losses being suffered by these TRHs. The Nigam did not try to popularise these TRHs through publicity measures as discussed in paragraph 7.2.15.

It was further noticed in Audit that the TRHs (Gangi, Reeh, Yamkeshwar, Raithal, Barsu, Haryali Devi etc.) were situated off the main roads and were without the facilities of pony or other transport for the tourists. The Government did not assess the commercial viability of these sites before construction of TRHs, nor did the Nigam do so before taking over possession thereof.

7.2.12 Despite continued low occupancies at the TRHs, the Nigam never reviewed its tariff structure to improve the turnover. At most TRHs, no suggestion boxes were placed for suggestions from tourists. In TRHs where suggestion registers were maintained (Agrakhal, Rudraprayag, Chamba, Joshimath) there was no evidence of any periodical review and follow up action.

7.2.13 Improper management of assets

The Nigam did not execute the lease deeds with the State Government due to which the specific role of the Nigam and the Government remained undefined. Absence of a clear cut demarcation of responsibility between the Government and the Nigam adversely effected the management of assets. The Nigam incurred an expenditure of Rs. 3.58 crore during the five years ended March 2006 on maintenance and up gradation of TRHs which should have been borne by the Government. On being pointed out by audit, the Nigam took up (September 2006) the matter with the State Government for compensating the Nigam for the expenditure on repairs and maintenance. Response of the Government is awaited (November 2006).

7.2.14 Performance of Canteens

For providing food and other eatables to the tourists and others, the Nigam operates canteens at various TRHs and some other places. As on 31 March 2006, the Nigam was operating 46 canteens on its own and 26 canteens were outsourced to the private parties. The details of profit earned by these canteens during the last 5 years ending 31 March 2006 are indicated below:

Year	Profit earned (Rs. In lakh)
2001-02	25.75
2002-03	21.20
2003-04	14.51
2004-05	24.58
2005-06	26.54
Total	**112.58**

A test check of records of two canteens one at office and one at residence of the Chief Minister revealed that these canteens were running into losses and accumulated losses as on 31 March 2006 amounted to Rs.31.28 lakh and Rs.4.81 lakh respectively. It was noticed that sales/trade tax of Rs.0.96 lakh (March 2004) was not charged on the items sold at the canteen at the CM's residence and was paid from the Nigam's funds. The Nigam did not claim any subsidy from the Government to compensate for the loss on running of these two canteens.

The Nigam stated (November 2006) that the reimbursement of Rs. 0.96 lakh was awaited from the Government.

7.2.15 Publicity

The Nigam has not formulated any promotional policy for publicity of its TRHs (September 2006). During 2001-02 to 2005-06, it spent Rs.1.58 crore on the publicity including seminars and exhibitions organised in different cities and salaries of the employees posted in publicity department of the Nigam.

The percentage of occupancy in TRHs, however, remained very low (between 18.58 and 23.03 *per cent*). While the expenditure on publicity increased from Rs. 23.52 lakh in 2004-05 to Rs. 34.65 lakh in 2005-06, the general occupancy declined from 26.90 to 21.02 *per cent*.

The tourism business is highly dependent on publicity. It was, however, observed (September 2006) that no publicity was being done on the electronic media and no hoardings/ boards were displayed at key points/places e.g. Railway Stations, Bus Stations, City centres, highways etc. so as to popularize tourists places/ TRHs.

7.2.16 Financial Management

It was observed during Audit that there was no proper financial planning and follow-up. As a result, several investments turned unfruitful on account of blocking of funds. Some instances are given at the next page:

7.2.17 Unfruitful expenditure

In order to construct booking office for tourists, vehicle workshop and parking space for vehicles, the Nigam purchased (January 2000) land measuring 1375 sqm from New Okhla Industrial Development Authority (Noida) at a premium of Rs. 37.81 lakh paid in instalments alongwith interest of Rs. 8.93 lakh between January 2000 and July 2004. As per the lease deed, construction on the plot was to be started within one month from the date of taking possession of the land and was to be completed within two years (December 2002), failing which either lease deed was to be cancelled or extension was to be given on payment of extension charges at the rate of 4 *per cent* per annum of the total amount of premium. The construction on this plot has not been started even after six years (September 2006). Thus the investment of Rs.46.74 lakh till March 2006 remained unfruitful.

The Nigam stated (November 2006) that construction on the plot will be started by December 2006.

7.2.18 Irregular purchase of land for construction of car parking

A proposal for purchase of land measuring 26312.29 sqm (6.50 acre) at Mussoorie at a rate of Rs. 950 per sqm was approved (April 2005) by the BOD through a resolution by circulation. Accordingly, the Nigam purchased a plot in June 2005 for Rs. 2.75 crore (including 10 *per cent* stamp duty) for construction of four storey parking for nearly 800 cars at an approximate cost of Rs. 6.11 crore. The Nigam incurred an expenditure of Rs. 3.31 lakh on fencing and soil testing of land till September 2006. It was noticed during Audit that the purchase of land was made without:

- the approval of the State Government;
- getting the rates of the land confirmed from the local Authorities;
- getting the valuation of land assessed from the PWD or some approved Valuers; and
- preparing the project report(DPR) and assessing the fesibility of the deal.

It was further observed by Audit that only an area of 0.75 acre was earmarked for car parking in the master plan of that area as notified by the Collector but the Nigam purchased 6.50 acres of land in the residential area and the rate of Rs. 950 per sqm was applicable for residential land. There was no evidence on record to show as to how the residential area would be utilised for commercial purpose. The site plan shows that only a small patch of land was falling in the said area while its major part was 200 meters away from the Gandhi Chowk, Mussoorie and spread over a deep gorge (upto the nala flowing at the bottom of the land) which was notified by the Collector, Mussoorie (Dehradun) at a lower rate of Rs. 800 per sqm. Thus, the land costing Rs.2.75 crore was purchased in excess of the requirements and without following the proper procedure.

The Nigam stated (November 2006) that a committee was constituted for selection of the site. It was also stated that the eco-tourism and children park would be developed on the land not used for construction of car parking. The reply is not tenable as the approval for purchase of land by the BOD was accorded in April 2005 while the committee for the inspection of the land was constituted in May 2005. The Nigam should have selected the site and the area of land required through open advertisement as per the prescribed procedures and not by negotiations with individuals.

7.2.19 Blocking of Rs. 16 lakh

The Government of Uttar Pradesh (UP) directed (July 2000) the Nigam to purchase a land measuring 60 acres at Selakui, Dehradun for developing a Software Technology Park. The Nigam paid Rs. 16 lakh to UPSIDC (July 2000) as ten *per cent* of the cost of land. Subsequently, after the formation of Uttaranchal State, the Uttaranchal Government changed the location of the said park. Thus the land at Selakui acquired at the instance of the State Government is lying unused for the last six years resulting in blocking of funds of Rs.16 lakh.

The Nigam replied (November 2006) that they were in correspondence with the State Government (SIDCUL, Dehradun) for the refund of the amount.

7.2.20 Non-recovery of salary of employees attached to different departments of State Government

On creation of the new State of Uttaranchal, 73 employees, most of them belonging to the tourism wing of the Nigam, were attached to the different Departments of Uttaranchal Government from time to time without deciding the terms and conditions for their attachment. Of these, 36 employees were absorbed by the State Government but the pay and allowances to these employees were paid by the Nigam till July 2001 after which it was stopped (9 July 2001). Subsequently the Nigam resumed payment on the assurance of the State Government (16 September 2002) that reimbursement would be made in the near future.

The Nigam incurred expenditure of Rs. 1.36 crore on the salaries and allowances of these employees till February 2006 but reimbursement from the State Government has not been received (October 2006).

The Nigam replied (November 2006) that they were regularly requesting the Government for compensation. The reply is not tenable as the Nigam did not take up or pursue the matter with the concerned departments.

7.2.21 Non-recovery of dues

- The Government of India (GOI) and the Government of erstwhile Uttar Pradesh, (now Uttaranchal) organised the winter games at Auli in Uttaranchal through the Nigam with the understanding that the expenditure incurred would be reimbursed. An expenditure of

Rs. 42.46 lakh incurred during 2002-03 and 2004-05 (Rs. 20.44 lakh on behalf of the GOI and Rs. 22.02 lakh on behalf of the Government of Uttaranchal) has not been reimbursed till October 2006. It was observed that though the claims for reimbursement were submitted to the GOI (May 2003) and to the Government of Uttaranchal (October 2005), the Nigam did not pursue the claims leading to blocking of funds and loss of interest thereon.

- As per directions of the *Uttaranchal Paryatan Vikas Parishad*, the expenditure incurred on participation in national and international seminars/exhibitions was to be borne by the Parishad, the Nigam and Kumaon Mandal Vikas Nigam Limited (KMVNL) equally while expenditure incurred on *Jhanki* etc. on the Republic Day Parade was to be borne by the GMVNL and KMVNL equally. Expenditure of Rs.3.88 lakh incurred by the Nigam on behalf of these agencies for the above purpose was still outstanding.

The Nigam replied (November 2006) that Rs. 3.95 lakh has been received out of Rs.46.34 lakh. The recovery of the balance amount of Rs. 42.39 lakh was still outstanding against the GOI, the Government of Uttaranchal and KMVNL .

7.2.22 Performance of Industrial Units

The Nigam was operating seven industrial units, out of which one unit namely Industrial Wood Wool, Gawana, Uttarkashi was closed during 2000-2001. It was observed by Audit that manpower engaged at the time of the closure of this unit was utilised in other industrial units but the details of assets and other records of this unit were not made available to audit.

7.2.23 Capacity utilization and financial position of Industrial Units

The norms for optimum utilisation of capacity/ production in industrial units were not fixed.The capacity utilisation and financial position of the industrial units for five years ended on 31 March 2006 are given in ***Appendix—7.13* and *7.14***.

The Nigam suffered a net loss of Rs. 7.89 lakh after adjustment of profit of two industrial units (two units earned profit of Rs. 120.80 lakh and four units incurred a loss of Rs. 128.69 lakh). It was observed that these units were not getting enough sale orders for their survival during these years for which no special efforts were made by the Nigam.

Losses in industrial units

Flush Door Factory, Kotdwar

7.2.24 Flush Door Factory, Kotdwar producing flush doors, ply wood and block boards etc. had been running in loss since inception (1983-84) with a cumulative loss of Rs. 5.53 crore as on 31 March 2006. It was observed by Audit that the main reasons for losses was high cost of production in the unit especially due to over staffing and the Nigam did not review its manpower requirements. Even the existing strength was not justified as the percentage of capacity utilisation ranged from 2 to 7 *per cent*. Non receipt of sale orders from UP Avas Vikas Parished, UPSRTC, PWD and UP. Police Avas Nigam Ltd. after the formation of the Uttaranchal State contributed to its losses. The Nigam did not explore the market to increase its sales.

The Nigam stated (November 2006) that steps were being taken to obtain orders from the units of the Government Departments.

Rosin and Terpentine Factory, Tilwara

7.2.25 Rosin and Terpentine Factory, Tilwara was producing rosin and terpentine oil by procuring its full requirement of *lisa* (a forest produce) from the Forest Department and was running in profit till 2002-03. In June 2003, the Government reduced the quota for the units of Khadi & Cooperative Department and the two Mandal Vikas Nigams of Kumaon and Garhwal to 25 *per cent* and also included the Nigam in the open bid category for procurement of *lisa*. The minimum floor price fixed by the Forest Department did not suit the Nigam. Consequently, the Nigam was deprived of the supply of full requirement of lisa resulting in non-utilisation of the capacity of the plant from 2003-04 onwards.

The Nigam stated (November 2006) that they have obtained *lisa* valuing Rs.2.11 crore from the Forest Department in February 2006 and consumed the same worth Rs.84.69 lakh till September 2006. But no sale could be made till this date and balance quantity of *lisa* is still to be utilised.

Fruit Processing unit, Tilwara

7.2.26 Fruit Processing unit was commissioned in 1997-98 at Tilwara for producing squash, juice, jam, chatni and pickles etc. The unit could utilise only 2 to 24 *per cent* of its installed capacity and incurred a loss of Rs. 12.81 lakh during the period 2001-02 to 2005-06. The main reason for low capacity utilisation was lack of sales due to the high cost of production which included double cost of transportation, (procuring packing material from and selling final product in the market at a distance of 140 km from factory) As a result the products could not compete with the private producers of the plains. Thus establishment of the unit at a remote place was not justified.

Mineral Water unit, Uttarkashi

7.2.27 Bhagirathi Ganga Mineral Water unit, Gawana, Uttarkashi was established in 1997-98 for the production and sale of mineral water. It incurred a loss of Rs. 12.52 lakh during the five years ended on 31 March 2006. The unit being 150 Km (approximately) away from the nearest rail head, the cost of production per bottle was high on account of double transport cost of packing material and the packed products. Thus the establishment of the unit at a remote place was not justified.

The Nigam stated (November 2006) that the proposal for shifting of the unit was initiated but the unit could not be shifted due to the pressure of the local people.

7.2.28 Non-realisation of Sundry Debtors

The unitwise details of sundry debtors of Rs. 74.59 lakh outstanding for more than five years as on 31 March 2006 are as under:

(Rs. in lakh)

Sl. No.	Industrial Units	Government	Non-Government	GMVN units	Total
1-	Parwat Wood Wool, Muni-ki-reti	3.46	5.73	0.42	9.61
2-	Rosin and Turpentine, Tilwara	5.32	2.19	-	7.51
3-	Flush Door Factory, Kotdwar	16.48	32.60	-	49.08
4-	Cement Concrete Block, Srinagar	2.82	0.40	-	3.22
5-	Fruit Processing Unit, Tilwara	0.03	3.19	0.83	4.05
6-	Bhagirathi Mineral Water, Uttarkashi	-	1.12	-	1.12
		28.11	**45.23**	**1.25**	**74.59**

Non-realistion of debts had an adverse impact on the working of the Nigam. The Nigam stated (November 2006) that efforts were made from time to time to realise the outstanding debts.

7.2.29 Monitoring

After the separation of the Uttaranchal State from Uttar Pradesh, the regular Government buyers dissociated themselves from buying products from the Industrial Units of the Nigam on account of extra taxation. Therefore, the industrial units of the Nigam suffered mainly from lack of sale orders for their products. It was also observed that the units were left to the exclusive control of the unit managers and there was no monitoring at Corporate level. The Nigam had a marketing and a publicity wing but it did not utilise their services for popularising and marketing its products.

Thus due to lack of effective monitoring at the corporate level the problem of adequate numbers of sale orders remained unresolved and resulted in the industrial units not producing expected results. Non-recovery of dues from the Government Departments was another aspect of concern which was not addressed.

7.2.30 Internal Control

Internal control in an organisation is a tool used to provide reasonable assurance to the management that the objectives of the organisation are properly achieved. The following defficencies were noticed in the internal system being followed by the Nigam:

- Administrative, accounting and internal audit manuals have not been prepared by the Nigam. A Corporate Plan prepared in March 2005 at a cost of Rs.6 lakh had not been submitted to the BOD (October 2006).

- The annual accounts of the Nigam were in arrears since 1998-99 and therefore financial position of the Nigam from 1998-99 to date could not be ascertained. The Nigam, however, prepared provisional accounts upto 2005-06 for taxation purposes.

- The Nigam did not have a vigilance cell. A casual inspection made by the GM(T) in April 2006 in Dak Patthar TRH revealed non-accountal of income (Rs. 0.14 lakh) pertaining to the rent of the rooms.

- An Audit Committee set up in 2001 did not hold any meeting to address the problems of the Nigam.

- Eventhough there were sanctioned posts of four Auditors/Asstt. Auditors and six Accounts Officers for the Internal Audit Wing, the internal audit work was outsourced to the firms of Chartered Accountants and expenditure of Rs.10.07 lakh had been incurred till March 2006. The CA firms confined themselves mainly to accounting jobs.

- The BODs did not hold the minimum of four meetings during a calendar year as provided in the Companies Act, 1956.

Acknowledgement

7.2.31 The Audit acknowledges the co-operation and assistance extended by different levels of officers of the Company/Government at various stages of conducting the performance audit.

Conclusion

The Nigam failed to achieve a sound financial position in the tourism sector in the State. The management of assets, including land, buildings and manpower was poor. TRHs were taken over from the State Government without assessing their financial viability. The occupancy in TRHs, particularly those located at non-prominent places, was low. Synchronised efforts were not made by the Nigam to overcome the losses. Investment of funds in purchase of land was made without proper planning. The Board of Directors and Audit Committee were virtually non-functional. Efforts were lacking at the corporate level to make the industrial units viable. Internal controls were lacking.

Recommendations

- **Nigam should set annual targets for attracting tourists.**

- **Nigam needs to persuade the State Government to involve them in assessing the feasibility of TRHs sites before selection.**
- **Nigam should improve TRH facilities and launch publicity campaigns to popularise them.**
- **Nigam should constitute a committee to examine proposals for investments in property.**
- **The meetings of the Board of Directors and Audit Committee should be held regularly as required in the Companies Act 1956 to evolve an effective Corporate plan for promoting tourism and setting up a machinery to resolve problems being faced by Management.**
- **Nigam should professionalise its working and prepare manuals to streamline its functioning and strengthen its internal control system.**

MISCELLANEOUS TOPICS OF INTEREST RELATING TO GOVERNMENT COMPANIES

UTTARANCHAL POWER CORPORATION LIMITED

7.3 Loss of revenue due to negligence

Negligence of the division in not detecting the defects in a meter in time resulted in loss of revenue of Rs. 19.46 lakh.

In accordance with the provisions of Section 26(6) of Indian Electricity Act, 1910, where any difference or dispute arises in any meter between the consumer and the electricity supply company, the matter shall be decided, upon the application of either party, by an Electrical Inspector of the State Government, and where the meter has, in the opinion of such Inspector ceased to be correct, such Inspector shall estimate the amount of the energy supplied to the consumer during such period but not exceeding six months.

Scrutiny (August 2005) by Audit of the records of the Urban Distribution Division (South), Dehradun revealed that during checking of the meter installed at the premises of Himalaya Drug Company, Dehradun through Meter Reading Instrument it was detected (March 2001) that one phase of the meter ceased to function since August 1999 as a result the meter was recording only 2/3 of the electricity consumed and 1/3 of the consumption of electricity was not recorded during the period August 1999 to March 2001. Accordingly, the division issued (April 2001) a supplementary bill of Rs. 28.29 lakh (electricity charges for 568320 units and demand charges for 878 KVA) on account of short billing for the above period. The first installment of Rs. 16.97 lakh was deposited (June 2001) by the consumer. The consumer then filed (July 2001) a case before the Electrical Inspector of Uttaranchal under section 26(6) of the ibid Act, opposing recovery of electricity charges through supplementary bill for the period beyond six months. The Electrical Inspector in his judgment (November 2002) accepted the contention of the consumer and passed orders for charging Rs. 8.83 lakh only against the assessment of Rs. 28.29 lakh. Accordingly, the division had to adjust the excess payment of Rs. 8.14 lakh (Rs. 16.97 lakh less Rs. 8.83 lakh) in the subsequent bills of the consumer.

Thus, negligence and failure on the part of the division in not detecting the defects in the meter in time resulted in loss of revenue of Rs. 19.46 lakh to the Company.

In reply (September 2006), the Management stated that during 1999-2000, MRI was not compulsory and MRI was to be resorted to whenever any drastic change in the consumption pattern of any consumer was noticed. The reply of the Management is not tenable as there was a drastic change in the consumption pattern of the consumer, as the meter showed 57360 units in October 1999 compared to 49800 units in November 1999, thereafter the consumption increased to 72600 units in February 2000 as compared to 37440 units in March 2000.

The above matter was reported to the Government in July 2006; their reply is awaited (December 2006).

7.4 Short realisation of revenue

The Company failed to realise revenue of Rs. 3.41 crore due to incorrect raising of bills to BHEL.

An agreement was entered into between the erstwhile Uttar Pradesh Power Corporation Limited (UPPCL) and Bharat Heavy Electricals Ltd. (BHEL) in May 2000 for supply of electricity of 34000 KVA to their factory at Haridwar and 5000 KVA to the township of BHEL. The agreement was effective for an initial period of 5 years *i.e.* upto 30 May 2005 and thereafter for a graded period of five years each. The same agreement continued with the Company.

Clause 12(a) of the agreement, *interalia*, provided that since the BHEL had their own Thermal Power Station (TPS) which was synchronized with the grid of UPPCL, the billable demand would be taken as 75 *percent* of the maximum contracted/sanctioned demand or the maximum demand recorded by the Company's meter whichever was higher minus the average power units generated by the TPS. The total energy consumption by the factory of BHEL was to be billed as per the rate schedule applicable to large and heavy consumers from time to time.

Billing of demand charges was being made by the company based on the electricity actually supplied after deducting the demand charges of electricity generated by the TPS of BHEL.

It was observed during audit (April 2006) that the electricity generated by the BHEL's Thermal Power Station was being used by BHEL for its own consumption and it was not fed into the grid of the Company. Hence there was no relation between the demand charges on account of electricity supplied by the Company and demand charges on account of electricity generated by the TPS of BHEL. Therefore, deduction of demand charges on account of electricity generated by TPS of BHEL from the demand charges on account of actual electricity supplied to BHEL was not correct. Consequently, the Company short realised energy charges of Rs. 3.41 crore from BHEL during the period from April 2001 to March 2006.

On this being pointed out by audit, the Company started including the demand charges on the electricity actually supplied to BHEL (without deducting the demand charges on account of electricity generated by TPS of BHEL) and the same are being paid by BHEL from April 2006.

The Management stated (November 2006) that revised bills for the period from April 2001 to March 2006 incorporating arrears of demand charges amounting to Rs 3.41 crore had been issued to the consumer in September 2006 for making the payment. However, the recovery of Rs. 3.41 crore from BHEL is still awaited (November 2006).

The above matter was reported to the Government in November 2006; their reply is awaited (December 2006).

KUMAON MANDAL VIKAS NIGAM LIMITED

7.5 Blocking of funds in purchase of land at Noida

An amount of Rs. 75.57 lakh was blocked in the purchase of land at Noida as it was not put to any use.

The Kumaon Mandal Vikas Nigam Ltd. (KMVN) obtained 2148 square metres of land on lease from the New Okhla Industrial Development Authority (NOIDA) at a premium of Rs.59.07 lakh in January 2000 to construct a building for its tourism and marketing activities. Clause 6 of the lease agreement (executed in April 2000) between NOIDA and KMVN stipulated that the building was to be constructed within 48 months of taking over of the possession of the land *i.e.* by 30 April 2004, failing which the lease would be terminated unless extended on payment of a penalty of 4 *per cent* of the cost of premium per annum. The terms and conditions also provided for payment of annual lease rent at the rate of Rs. 1.48 lakh per annum in advance. The KMVN obtained a loan of Rs. 62 lakh from the State Government of Uttar Pradesh (March 2000) at an interest rate of 19.5 *per cent* per annum for acquiring the said land.

Scrutiny of the records by Audit (March 2005) of KMVN revealed that the company incurred an expenditure of Rs. 75.57 lakh (upto March 2005) on the land (premium of land Rs. 59.07 lakh, stamps duty - Rs. 5.91 lakh, interest on outstanding premium Rs. 3.21 lakh, lease rent - Rs. 5.91 lakh, and construction of boundary wall-Rs.1.47 lakh).

In January 2001, the KMVNL felt that there would be difficulties in carrying out the marketing and tourism activities from Noida after the formation of a separate State of Uttaranchal (November 2000) and decided to sell the plot. The plot could not be sold as the Company was not entitled to sell the plot as per the terms and conditions of the lease deed.

Thus, non-utilisation of the plot for the desired purpose resulted in blocking of funds of Rs. 75.57 lakh, besides annual recurring liability of Rs. 15.93 lakh (Rs. 1.48 lakh as lease rent, Rs. 2.36 lakh as penalty and Rs. 12.09 lakh as interest on loan).

The Management in its reply (August 2006) stated that due to formation of the State of Uttaranchal, it faced difficulties in carrying out the tourism activities from NOIDA (Uttar Pradesh) and therefore, decided to sell the plot. The reply of the Management is not tenable as KMVNL is not entitled to sell the plot and further the Company is successfully running many tourist offices outside the State of Uttaranchal and the tourism office if established at NOIDA could also have added to the activities of attracting tourists to the State of Uttaranchal.

The above matter was reported to the Government in July 2006; their reply is awaited (November 2006).

Dehradun **(REBECCA MATHAI)**

The **Accountant General, Uttaranchal**

Countersigned

New Delhi **(VIJAYENDRA N. KAUL)**

The **Comptroller and Auditor General of India**