CHAPTER VII

COMMERCIAL ACTIVITIES

7.1 Overview of Government Companies and Statutory Corporations

Introduction

As on 31 March 2007, there were 20 Government Companies (16 working and four non-working[1]) and two Statutory Corporations (both working) under the control of the State Government as against 20 Government Companies (16 working and four non-working) and three Statutory Corporations as on 31 March 2006. The accounts of the Government Companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors, who are 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 the Corporation	Authority for audit by the CAG	Audit arrangement
1.	Uttarakhand Parivahan Nigam	Section 33(2) of the Road Transport Act, 1950	sole audit by the CAG
2.	Uttarakhand 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 the CAG, certification of accounts not done as accounts have not been submitted for audit since its formation

In addition to above the State Government had formed (5 September 2002) the Uttarakhand Electricity Regulatory Commission and its audit is entrusted to the CAG under section 104(2) of the Electricity Act, 2003[2].

Working Public Sector Undertakings (PSUs)

Investment in working PSUs

7.1.1 As on 31 March 2007, the total investment in 18 working PSUs (16 Government Companies and two Statutory Corporations) was Rs. 2,724.78 crore[3] (equity: Rs. 679.19 crore, share application money: Rs. 94.68 crore and long term loans[4]: Rs. 1,950.91 crore) against the total investment of 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) in 19 working PSUs (16 Government Companies and three Statutory Corporations) as on 31 March 2006. The analysis of investment in working PSUs is given in the succeeding paragraphs.

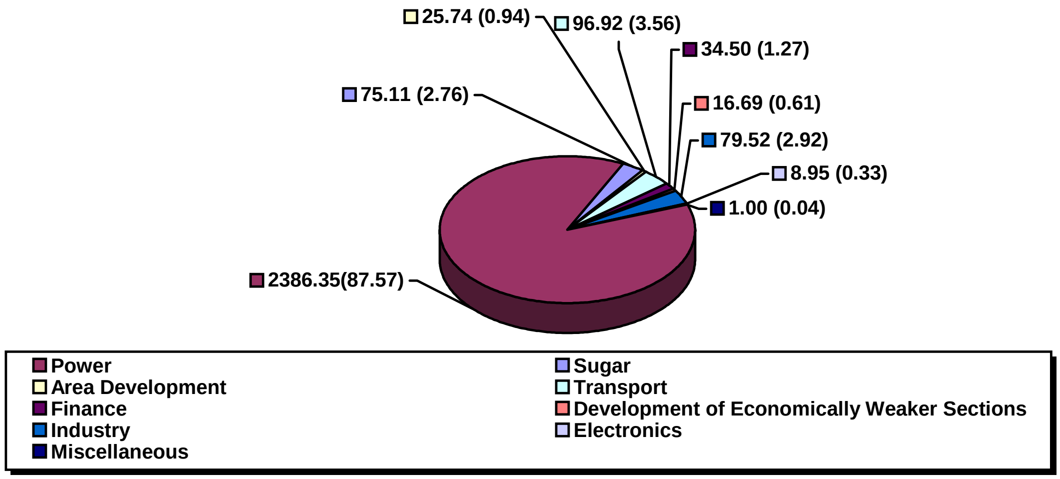
[1] Non-working Government Companies are those that are in the process of liquidation/closure/merger, etc.
[2] Erstwhile Section 34(4) of the Electricity Regulatory Commission Act, 1998 repealed by the Electricity Act, 2003.
[3] State Government investment was Rs. 1172.84 crore (Others: Rs. 1551.94 crore). Figures as per Finance Accounts 2006-07 is Rs. 885.05 crore. The difference is under reconciliation.
[4] 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

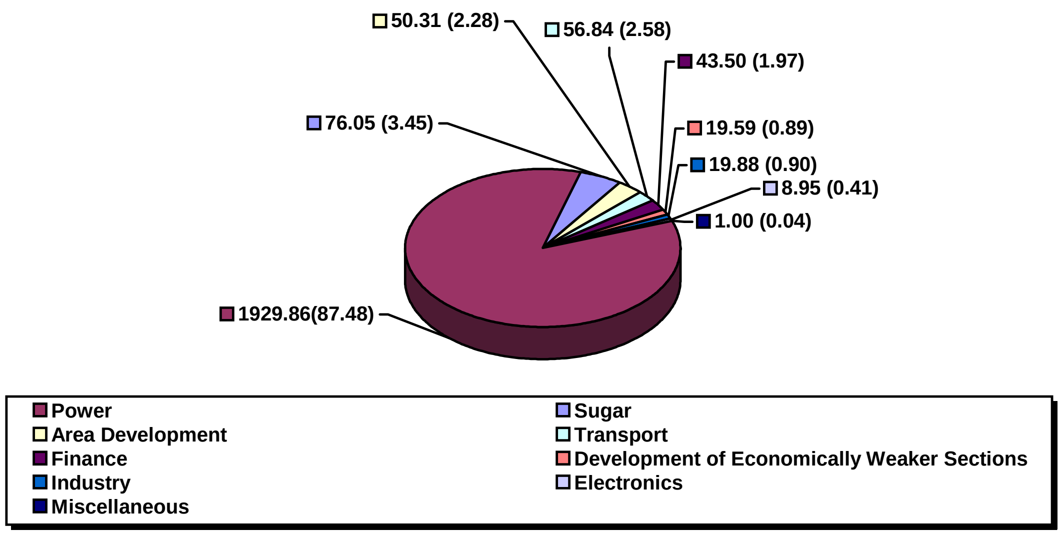
7.1.2 The investment (equity and long term loans) in PSUs under various sectors and percentage thereof at the end of 31 March 2007 and 31 March 2006 are indicated below in the pie charts:

Sector-wise investment in working Government Companies and Statutory Corporations

As on 31 March 2007
Amount: Rupees in crore
(Figures in brackets indicate the percentage of investment)
Total investment - Rs. 2724.78 crore



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



Working Government Companies

7.1.3 The total investment in working Government Companies at the end of March 2006 and March 2007 was as follows:

(Rupees in crore)

Year	Number of Companies	Equity	Share application money	Loans	Total
2005-06	16	381.92	132.01	1635.20	2149.13
2006-07	16	601.95	94.68	1931.23	2627.86

Source : Compiled from the information provided by the Companies.

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

As on 31 March 2007, the total investment in working Government Companies comprised 26.51 per *cent* of equity capital and 73.49 *per cent* of loans as compared to 23.91 *per cent* and 76.09 *per cent* respectively as on 31 March 2006.

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 Two Statutory Corporations (all working) were formed between the period May 2001 and October 2003 after the creation of the State of Uttaranchal (now Uttarakhand). Uttarakhand Peya Jal Sansadhan Vikas Evam Nirman Nigam had not finalised their accounts as of September 2007. As per the available information, the total investment in these Corporations at the end of March 2006 and March 2007 was as follows:

(Rupees in crore)

Sl. No.	Name of Corporation	2005-06		2006-07	
		Capital	Loan	Capital	Loan
1.	Uttarakhand Parivahan Nigam	48	8.85	77.24	19.68
2.	Uttarakhand Peya Jal Sansadhan Vikas Evam Nirman Nigam	Not Available			

Source : Compiled from the information provided by the Corporation.

As on 31 March 2007, the total investment in working Statutory Corporations comprised 79.69 *per cent* of equity capital and 20.31 *per cent* of loans as compared to 84.43 *per cent* and 15.57 *per cent* respectively as on 31 March 2006.

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 issued, 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***.

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 2007 are given below:

(Rupees in crore)

Particulars	2004-05				2005-06				2006-07			
	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	139.76	-	-	3	271.41	1	20.00	5	165.71	1	29.24
(ii) Loans given from budget	4	56.32	1	4.25	3	115.96	-	-	4	95.77	1	1.93
Total A (i) + (ii)	**5[5]**	**196.08**	**1**	**4.25**	**5[5]**	**387.37**	**1**	**20.00**	**8[5]**	**261.48**	**1**	**31.17**
(i) Grant towards Projects/ Programmes/ Schemes	2	178.84	-	-	3	50.22	-	-	2	12.86	-	-
(ii) Subsidy	1	9.60	-	-	2	12.42	-	-	1	3.82	-	-
Total B (i) + (ii)	**3**	**188.44**	**-**	**-**	**5**	**62.64**	**-**	**-**	**3**	**16.68**	**-**	**-**
Total outgo A+B	**6[5]**	**384.52**	**1**	**4.25**	**8[5]**	**450.01**	**1**	**20.00**	**8[5]**	**278.16**	**1**	**31.17**

Source : Compiled from the information provided by the PSUs.

During 2006-07, the Government had guaranteed loans aggregating to Rs. 1200.00 crore obtained by Uttaranchal Jal Vidyut Nigam Limited. At the end of the year, guarantees amounting to Rs. 1654.16 crore against four working Companies were outstanding. During 2006-07 guarantee commission of Rs. 29.47 crore was paid/ 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 Statutory Corporations finalised their accounts for the year 2006-07 within the stipulated period. During the period from October 2006 to September 2007, eight working Government Companies finalised nine accounts for the previous years.

The accounts of all the working Government Companies and two Statutory Corporations were in arrears for periods ranging from one to 20 years as on 30 September 2007 as detailed below:

[5] 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.

Year from which accounts are in arrears	Number of working		Reference to serial number of *Appendix 7.2*	
	Government Companies	Statutory Corporations	Government Companies	Statutory Corporations
1 to 2 years	3	-	A-10,15,16	
3 to 4 years	5	1	A-9,11,12,13,14	B-1
5 to 8 years	3	1	A-1,3,5	B-2
9 to 15 years	3	-	A-2,4,6	
15 to 20 years	2	-	A-7,8	

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 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[6] and one Statutory Corporation[7], 11 companies[8] and one Statutory Corporation (Uttarakhand Parivahan Nigam) had incurred an aggregate loss of Rs. 93.73 crore and four companies[9] had made a profit of Rs. 17.87 crore.

Working Government Companies

Profit earning working Government Companies and dividend

7.1.8 Out of eight working Government Companies, which finalised their nine accounts for previous years by September 2007, only two Companies[10] earned a profit of Rs. 16.89 crore (***Appendix 7.2***). The Government has not formulated any dividend policy.

Loss incurring working Government Companies

7.1.9 Out of the 11 loss incurring working Government Companies, nine companies[11] had accumulated losses aggregating Rs. 186.06 crore, which exceeded their paid-up capital of Rs. 41.59 crore (***Appendix 7.2***).

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[6] In case of one company (Power Transmission Corporation of Uttranchal Limited) first accounts has not been received.

[7] In case of one corporation (Uttarakhand Peya Jal Sansadhan Vikas Evam Nirman Nigam) first accounts has not been received.

[8] Trans Cables Limited, Uttar Pradesh Digitals Limited, Uttrakhand Chay Vikas Nigam Limited, Uttar Pradesh Hill Electronics Corporation Limited, Kumaon Mandal Vikas Nigam Limited, Garhwal Anusuchit Janjati Vikas Nigam Limited, Kumaon Anusuchit Janjati Vikas Nigam Limited, Kichha Sugar Company Limited, Doiwala Sugar Company Limited, Uttarakhand Power Corporation Limited and Uttaranchal Jal Vidyut Nigam Limited.

[9] Garhwal Mandal Vikas Nigam Limited, Uttaranchal Bahuudeshia Vitta Evam Vikas Nigam Limited, State Industrial Development Corporation of Uttaranchal Limited and Uttarakhand Purv Sainik Kalyan Udham Limited.

[10] Uttaranchal Bahuudeshia Vitta Evam Vikas Nigam Limited and State Industrial Development Corporation of Uttaranchal Limited.

[11] Trans Cables Limited, Uttar Pradesh Digitals Limited, Uttrakhand Chay Vikas Nigam Limited, Garhwal Mandal Vikas Nigam Limited, Garhwal Anusuchit Janjati Vikas Nigam Limited, Kichha Sugar Company Limited, Doiwala Sugar Company Limited, Uttrakhand Power Corporation Limited and Uttranchal Jal Vidyut Nigam Limited.

Despite poor performance and complete erosion of their paid-up capital, the State Government continued to provide financial support to two Companies[12] amounting to Rs. 4.40 crore by way of loans during 2006-07 ***(Appendix 7.1)***.

Working Statutory Corporations

Loss incurring working Statutory Corporation

7.1.10 Uttarakhand Parivahan Nigam has accumulated loss aggregating to Rs. 11.20 crore, which exceeded its paid-up capital of Rupees three crore (***Appendix 7.2***).

Despite poor performance and complete erosion of their paid-up capital, the State Government continued to provide financial support to above Corporation amounting to Rs. 1.93 crore by way of loans during 2006-07 (***Appendix 7.1)***.

Return on Capital Employed

7.1.11 As per the latest finalised annual accounts of PSUs, the capital employed[13] worked out to Rs. 2002.94 crore and total return[14] thereon amounted Rs. 228.30 crore (11.40 *per cent*) compared to total return of Rs. 122.40 crore (6.42 *per cent*) in the previous year. The details of capital employed and total return on capital employed in case of working Government Companies and Statutory Corporations are given in ***Appendix 7.2***.

Reforms in the power sector

State Electricity Regulatory Commission

7.1.12 The Uttarakhand Electricity Regulatory Commission (Commission) was formed (5 September 2002) under Section 17 of the Electricity Regulatory Commission Act, 1998[15]. 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 2007.

Non-working Public Sector Undertaking (PSUs)

Investment in non-working PSUs

7.1.13 As on 31 March 2007, the total investment in four non-working PSUs (all Government Companies) was Rs. 0.39 crore[16] (equity only) same as on 31 March 2006.

[12] Uttar Pradesh Digitals Limited and Kichha Sugar Company Limited.
[13] Capital employed represents net fixed assets (including capital work-in-progress) plus working capital.
[14] 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.
[15] Since replaced with Section 82(1) of the Electricity Act, 2003.
[16] Figures as per Finance Accounts 2006-07 is Rs. 0.15 crore. The difference is under reconciliation.

The classification of non-working Government Companies at the end of March 2007 was as under:

(Rupees in crore)

Sl. No.	Status of non-working Government Companies	Number of Companies	Investment	
			Equity	Long term loans
(i)	Under liquidation[17]	1	0.17	-
(ii)	Others[18]	3	0.22	-
	Total	**4**	**0.39**	**-**

Out of four non-working Government Companies, Uttar Pradesh Agro Industries Limited (UPAI) 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

7.1.14 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 2006-07, there was no budgetary outgo in the form of equity/loans/subsidy/grants.

Finalisation of accounts by non-working Government PSUs

7.1.15 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 17 to 20 years as on 30 September 2007 as seen from ***Appendix 7.2.***

Financial position and working results of non-working Government Companies

7.1.16 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[19]	Cash loss[20]	Accumulated loss
Non-working Companies	0.35	(-) 0.04	0.03	0.07

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

7.1.17 During the period from October 2006 to September 2007, eight working Government Companies were selected for audit. The net impact on

[17] UPAI Limited.
[18] Kumtron Limited, Uttar Pradesh Hill Phones Limited and Uttar Pradesh Hill Quartz Limited.
[19] Net worth represents paid-up capital *plus* free reserves *less* accumulated loss.
[20] Cash loss represents loss *plus* depreciation for the year.

the profitability of the PSUs of the important audit observations was as follows:

Details	No. of accounts	Rs. in lakh
(i) Increase in Profit	3	702.37
(ii) Decrease in Loss	1	5.87

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

7.1.18 ***Errors and omissions noticed in case of Government Companies***

Kumaon Mandal Vikas Nigam Limited (2001-02)

Non-provision of current liabilities of Rs. 16.37 lakh has resulted in understatement of loss by the same amount.

Kichha Sugar Company Limited (2006-07)

An amount of Rs. 5.46 crore being advance recoverable from Uttar Pradesh State Sugar Corporation, Lucknow has been written off from the profit & loss appropriation account instead of being charged to the profit & loss account. This resulted in overstatement of profit for the year by Rs. 5.46 crore.

State Industrial Development Corporation Of Uttaranchal Limited (2005-06)

Non inclusion of final bill of Rs. 1.14 crore submitted by the firm on account of construction work in current liabilities has resulted in understatement of sundry creditors as well as projects work in progress by Rs. 1.14 crore.

Recoveries at the instance of Audit

7.1.19 Test check of records by Audit of Electricity Secondary Work Division, Haldwani of Uttarakhand Power Corporation Limited disclosed under recovery of liquidated damage (LD) from the firm resulting in short recovery of LD aggregating to Rs. 35.50 lakh. The Company accepted the observation and recovered the amount of Rs. 17.71 lakh from the concerned firm.

Internal audit/Internal control

7.1.20 The Statutory Auditors 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 had observed in the case of five Companies[21] that the internal control system was weak and not commensurate with the size and nature of their business.

Recommendation for closure of PSUs

7.1.21 Even after completion of 29 to 33 years of their existence, the turnover (sales and other income) of five working Government Companies[22] has been

[21] Kumaon Mandal Vikas Nigam Limited, Uttaranchal Bahuudeshia Vitta Evam Vikas Nigam Limited, Uttarakhand Chay Vikas Nigam Limited, Doiwala Sugar Company Limited and Kichha Sugar Company Limited.

[22] Trans Cables Limited, Uttar Pradesh. Hill Electronics Corporation Limited, Garhwal Anusuchit Janjati Vikas Nigam Limited, Kumaon Anusuchit Janjati Vikas Nigam Limited and Uttar Pradesh Digitals Limited

less than Rs. 5 crore in each of the preceding five years as per their latest finalised accounts. Similarly, three working Government Companies[23] 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

7.1.22 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 2007 pertaining to 16 PSUs disclosed that 2036 paragraphs relating to 557 inspection reports were outstanding at the end of September 2007. Department - wise break-up of inspection reports and audit observations outstanding as on 30 September 2007 are given in ***Appendix-7.4.***

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 & figures and their comments thereon within a period of six weeks. Two draft paragraphs forwarded to the Energy Department, three draft paragraphs forwarded to the Finance Department and one review forwarded to Tourism Department during May and July 2007 had not been replied so far as detailed in ***Appendix-7.5.***

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

7.1.23 Consequent upon formation of the State of Uttarakhand 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 Uttarakhand 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.

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[23] Trans Cables Limited, Garhwal Anusuchit Janjati Vikas Nigam Limited and Uttar Pradesh Digitals Limited

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, Dehradun
4.	Health	Rishikul Ayurvedic Pharmacy, Haridwar State Vaccine Institute, Patwadangar, Nainital

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

7.1.24 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 2005-06, 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, 2005-06 and 2006-07. Thus the accounts except in the cases of IWD, Roorkee, were in the arrears for a period of seven 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, for ensuring accountability and improving efficiency could not be taken in time. Besides, the delay also opens the system to risk of fraud and leakage of public money.

619-B Companies

7.1.25 There was one[24] working company within the purview of Section 619-B of the Companies Act, 1956. ***Appendix 7.6*** 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.

[24] Uttaranchal Seeds & Tarai Development Corporation Limited.

PERFORMANCE REVIEW

KUMAON MANDAL VIKAS NIGAM LIMITED

7.2 Performance Review on Tourism related activities of the Kumaon Mandal Vikas Nigam Limited

Highlights

- Majority of the Tourist Rest Houses suffered losses due to low occupancy despite a surge in tourist inflow in Kumaon region.

(Paragraph 7.2.10)

- A TRH costing Rs. 26.55 lakh was constructed at a place (Lohaghat) where an already existing TRH was running with low occupancy.

(Paragraph 7.2.11)

- Land purchased by Nigam despite protests could not be put to use, resulted in blockage of funds of Rs. 59.57 lakh since 2001.

(Paragraph 7.2.14)

- The Nigam transferred land and building without realising its value of Rs. 58.57 lakh to Patwaries Training Center in Almora.

(Paragraph 7.2.16)

7.2.1 Introduction

The Kumaon Mandal Vikas Nigam Limited (Nigam) was incorporated (August 1976) as a wholly owned State Government Company with the aim of overall development of the Kumaon region. After formation of Uttaranchal State (9 November 2000), the Nigam is under the administrative control of Department of Tourism, Government of Uttaranchal (now Uttarakhand). The Nigam undertake diverse activities like tourism, retail marketing of petroleum, oil and lubricants (POL) and liquefied petroleum gas (LPG), wholesale marketing of foreign liquor etc.

The present review covers tourism related activities. As of 31 March 2007 the Nigam had 44 Tourist Rest Houses (TRH) and Canteens spread over six districts of Kumaon region of the State[25]. The Nigam also organises 'Mansarovar Yatra' and 'Chhota Kailash Yatra' for pilgrims. It promotes other tourism related activities like Mountaineering, Water Sports and Winter Sports in Kumaon region.

The Management of the Nigam is vested in a Board of Directors (BoD) consisting of a Chairperson, a Vice- Chairperson and 15 members[26] including the Managing Director (MD). The MD is assisted by one General Manager, one Divisional Manager (Construction), one Senior Accounts officer, one Assistant Secretary and one Administrative officer in the day to day affairs of the Nigam.

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[25] Nainital: 14, Almora: 11, Pithoragarh: 8, Bageshwar: 3, Udham Singh Nagar: 2 and Champawat: 6
[26] reduced to six from March 2007.

During the five years ending 31 March 2007, six different persons held the post of MD which resulted in lack of continuity in the functioning and direction of the Nigam.

The working of the Nigam was last reviewed in the Report of the Comptroller and Auditor General of India (Commercial), Government of Uttar Pradesh for the year ended 31 March 1997 which has not been discussed by the Committee on Public Undertakings.

7.2.2 Scope of Audit

The present review conducted during April-June 2007 covers tourism related activities of the Nigam for the period 2002-07. Audit test checked the records of 25 out of 44 TRH selected on the basis of strength of TRH in different Districts in Kumaon region. The records of Mansarovar Yatra were also test checked in audit.

7.2.3 Audit objectives

The audit objectives of the performance review were to ascertain whether:

- the Nigam prepared a comprehensive corporate plan to conceive strategies for tourism development and was able to achieve its mandated objective of development in Kumaon region;
- the TRH were operated economically and efficiently to provide quality service to the tourists;
- the Nigam deployed its assets efficiently in order to enhance its profitability; and
- funds were utilised efficiently and dues were monitored and recovered.

7.2.4 Audit criteria

Audit adopted the following audit criteria for achieving the audit objectives:

- guidelines, orders and directives of the State Government;
- decisions taken by the BoD and Audit Committee;
- policies and procedures formulated by the Nigam;
- targets as per Annual Action Plan and Annual Budget; and
- lease agreements with the Government.

7.2.5 Audit methodology

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

- examination of agenda and minutes of the meeting of BoD and instructions issued by the management;
- study of Tourism policies of the Government;
- scrutiny of guidelines/orders issued by the Government for operating of TRH, canteens and PROs;
- examination of information received from Paryatan Vikas Parishad of the State Government; and
- interaction with the Nigam management and issue of audit queries.

7.2.6 Audit findings

Audit findings arising from the performance review were reported (July 2007) to the Management/State Government and discussed in exit conference (31 August 2007) with the Management which was attended by the Managing Director and one officer 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 Development of Tourism in the region

The main objective of the tourism policy (2001) was to form a Paryatan Vikas Parishad to lay down guidelines for development of tourism. The thrust in implementation was to be on the following points:

- strengthening of the institutional framework;
- developing the infrastructure;
- increase in private participation;
- increase in investment from private sectors in tourism;
- human resource development;
- marketing and publicity;
- development of Religious Tourism;
- Cultural Tourism;
- Eco Tourism;
- Entertainment Tourism;
- Leisure Tourism; and
- Corporate and Adventure Tourism.

The management of KMVN was not only to participate in the decision making of the Parishad but also it was the nodal agency to execute it in Kumaon. However neither did the Parishad issue any guidelines till June 2007 nor was the management of KMVN made part of the Parishad. The role of KMVN remained confined to construction and operation of Tourist Rest Houses and organizing Mansarovar and Chota Kailash Yatra. The performance of the Nigam in these activities is discussed below.

7.2.8 Profitability of tourism activities

The Nigam's financial performance on tourism related activities which include operation of TRH and Canteens, Mansarovar Yatra and Chhota Kaliash Yatra during 2002-07 is as under:

(Rupees in crore)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	Total
Income	5.90	5.70	7.10	7.80	9.39	**35.89**
Expenditure	5.55	5.99	7.24	7.52	8.22	**34.52**
Profit/Loss	0.35	(-) 0.29	(-) 0.14	0.28	1.17	**1.37**

Source : Compiled on the basis of information furnished by the Company.

7.2.9 Performance of tourist rest houses

The Nigam operated 44 TRH during 2002-07 including three new TRH which were handed over to the Nigam by the State Government during 2006-07. The State Government gave TRH to the Nigam on lease. In the profit-sharing mechanism, 25 *per cent* of the profit earned by individual TRH is given to the State Government as lease rent. The lease deeds in respect of the 16 TRH have not been executed so far (June 2007). The Nigam divided TRH into three categories:

- Category 'A': those which earn profit;
- Category 'B': those which are running at break –even point and
- Category 'C': those which are running in loss.

The Nigam earned profit of Rs 2.72[27] crore during 2002-07 from the operation of 44 TRHs. It was observed that although the Nigam fixed separate operational norms[28] for running of canteens, the segregated performance indicators for both operations were not maintained as accounts of the TRH and the canteens were merged. The normative operational expenditure of canteens could also not be segregated in absence of separate establishment expenditure. Thus the actual profit/loss made by the Nigam after payment of lease rent to the State Government could not be verified in Audit.

7.2.10 Occupancy of tourist rest houses

On an average, every year 11.18 lakh tourists visited Kumaon region during 2002-07 of which only a marginal 0. 87 lakh tourists (7.8 *per cent)* utilised the services of the TRH of the Nigam. The Nigam could not benefit from the increased inflow of tourists in the Kumaon region as shown below:

Year	**Flow of tourists in Kumaon**		**Number of Tourists availing facilities of Nigam's TRHs**	
	Number (in lakhs)	**Percentage increase over last year**	**Number (in lakhs)**	**Percentage share**
2002-03	9.71	**--**	0.76	7.83
2003-04	10.26	**5.7**	0.89	8.67
2004-05	11.23	**9.4**	0.94	8.37
2005-06	11.90	**6.0**	0.89	7.48
2006-07	12.80	**7.6**	0.88	6.88

Source : Compiled on the basis of information furnished by the Company.

The number of tourists visiting Kumaon region increased from 9.71 lakh to 12.80 lakh (31.8 *per cent)* during 2002-07. However, the TRHs (A,B,C category) attracted a total of 4.36 lakh tourists during 2002-07.

Category-wise analysis of performance of TRHs during 2002-07 is as below:

[27] Including profit of canteens.

[28] As per the norms, cost of provision and fuel in catering services cannot exceed 40 per cent of total catering income.

(Rupees in lakh)

Sl. No.	Particulars	Category of TRH		
		A	B	C
1.	No. of TRH	7	12	25
2.	Actual Turn over	872.70	459.80	192.00
3.	Other Income	18.50	16.40	43.00
4.	Total Expenditure	738.20	528.70	475.40
5.	Establishment expenditure [29]	406.80	314.00	250.50
6.	Profit /(-) loss (2+3-4)	153.00	(-) 52.50	(-) 240.40
7.	Percentage of establishment expenses to turnover	46.61	68.29	130.21
8.	Optimum Turnover at 100 per cent occupancy	3105.00	1574.00	994.00
9.	Turnover at acceptable average occupancy norms (60 per cent)	1910.00	945.00	596.00

Source : Compiled on the basis of information furnished by the Company.

It can be seen from the table above that even those TRHs categorized by the Nigam under Category ‘B’ are in loss. Category ‘C’ TRHs incurred a total loss of Rs.2.40 crore in 2002-07, thus wiping out the profits made by Category ‘A’ units. Establishment expenses were high in both Category ‘B’ and ‘C’ TRHs, accounting for 68.29 and 130.21 *per cent* of the turnover respectively, thus eroding into the profitability of the TRHs. However the exact effect of establishment expenses on profitability could not be ascertained due to non segregation of expenses for TRHs and canteen.

The Nigam did not prepare a turnaround strategy for these loss making TRHs (‘B’ & ‘C’ categories) which form such a sizeable chunk (84 *per cent)* of the TRHs operated by the Nigam.

The occupancy of Category ‘A’ TRHs ranged between 23.82 to 35.63 *per cent*, Category ‘B’ from 26.53 to 33.34 *per cent* and Category ‘C’ from 18.83 to 20.17 *per cent*. The occupancy level was far below the acceptable norm of average occupancy in the hotel industry which is 60 *per cent*. It is evident from the details in the above table that:

- the actual turnover during 2002-07 of Category ‘A’ was Rs.8.73 crore. It was 28.11 *per cent* of the optimum (100 *per cent)* turnover;
- the actual turnover during 2002-07 of Category ‘B’ was Rs.4.60 crore. It was 29.21 *per cent* of optimum (100 *per cent)* turnover; and
- the actual turnover during 2002-07 of Category ‘C’ was Rs.1.92 crore. It was 19.32 *per cent* of optimum (100 *per cent)* turnover.

Further, for achieving 60 *per cent* acceptable norm of occupancy in hotel industry to earn profit in category ‘B’ and ‘C’ the Nigam was required to raise the occupancy of:

- Category ‘A’ by 31.92 *per cent* (average) to earn an additional annual average turnover of Rs.2.08 crore over actual turnover.

[29] Includes staff cost of canteens.

- Category 'B' by 30.84 *per cent* (average) to earn an additional annual average turnover of Rs.0.97 crore over actual turnover.
- Category 'C' by 40.68 *per cent* (average) to earn an additional annual average turnover of Rs.0.81 crore over actual turnover.

However no such targets were set by the Nigam and it continued to make losses whereas the private hotels weaned away all the increased and major portion of tourist traffic. The loss of potential revenue due to non-achievement of acceptable levels of occupancy worked out to Rs. 19.28 crore (calculated with reference to the revenue actually earned during the year) during the period 2002-07.

The main reasons for low occupancy were:

- Locational disadvantages of TRH and lack of infrastructure in remote areas. There were no generators for uninterrupted power supply and facilities to attract tourists like health club, STD, internet etc. were missing.
- Poor quality of services and poor maintenance of rooms
- Unimaginative methods of publicity

The Management stated (November 2007) that increase or decrease in the occupancy depends upon the tourist season. The reply is not acceptable, as during 2002-07, the tourist inflow increased from 9.71 lakh to 12.80 lakh and since these tourists were not availing facilities of the Nigam's TRHs it is obvious that they were utilizing facilities in private hotels in the region. The fact is that in hilly region though location is an advantage, it is the services provided which matters and carry more weight.

The reasons for low occupancy are analysed in the following paragraphs.

7.2.11 Establishment of TRH and site selection

Site for TRH was not selected on the basis of its commercial viability and future tourist potential in the area. Requests for construction of TRH received from peoples' representatives were examined by a Committee constituted by Paryatan Vikas Parishad of the Tourism Department, with members drawn from various departments[30]. The Nigam also had a representation in the Committee till 1996-97; however, it is no longer a part of the Committee. There are no records to show that the Nigam staked its claim for a larger say in site selection on account of its practical experience, although the eventual operation of the TRH is its sole responsibility.

It was observed that the Nigam had constructed a TRH at Lohaghat (District Champawat) though a TRH was already existing in the same premise and whose occupancy was very low. The Nigam had not taken over the TRH due to dispute with contractor since the last eight years[31]. Thus, funds to the tune of Rs. 26.55 lakh were blocked besides there being deterioration of building. Thus there was no justification of constructing a TRH when the existing TRH had low occupancy. As a result the entire expenditure proved infructuous.

[30] The departments include Public Works Department, Forest, Health, District Administration and Power Corporation.
[31] The TRH was constructed in December 1999.

The Management admitted (August 2007) that the Nigam is not involved by the State Government in the site selection at present. Further, the TRH would be taken over after arrangements for providing water are made. The reply is not tenable as there was nothing on record to show that the Nigam approached the State Government for involving it in site selection. Otherwise also the responsibility of running the TRH is that of the Nigam and it is in its interest to select sites. However, it is also a fact that good customer services overcome disadvantages of locations in tourists regions.

7.2.12 Quality of infrastructure and service

There was no system of feed back mechanism to find out the quality of service and customer satisfaction except suggestion registers. A perusal of these registers in 25 TRHs revealed poor maintenance of rooms (nine cases), inferior quality of service (eight cases), difficult approach to TRH (three cases) and poor facilities including geyser, television and telephone (seven cases). Though the number of cases pointed out in suggestion registers was not very high, yet these referred to unsatisfactory infrastructure. The fact is that despite low occupancy of 28.1, 28.9 and 19.3 *per* cent in A,B,C TRH's the Nigam was unable to provide satisfactory coustomer service. Against 27 number of complaints, 62.96 *per cent* pertained to poor maintenance of rooms and inferior quality services, 11.11 *per cent* pertained to location and 25.93 *per cent* pertained to poor facilities as mentioned above. Action taken against reoccurrence of these complaints was not on record. The management of the TRH's were unable to ensure trouble free service even to the marginal inflow of toursists. The Management stated (August 2007) that verbal instructions are given to the Managers of the TRH and that hitherto corrective action would be noted in the suggestion registers.

The specific instances of deficient quality of infrastructure are illustrated below:

- The TRH at *Gongolihat* (Pithoragarh District) was operational since August 2006. It was observed that the retaining wall of the approach road was sliding down due to shoddy and poor construction rendering the approach dangerous and prone to risk of accidents.

The Nigam did not fix responsibility on the supervisory officer for poor construction as of June 2007. On being pointed, the Management stated (November 2007) that the wall has since been repaired by the contractor at his expense.

Picture: 7.2.1 Damaged retaining wall & dangerous road

- TRH at *Deenapani* (Almora District) was operational since July 2006, but had no water connection. The construction of the TRH was shoddy and poor as a result of which the roof was damaged in storms many times. Due to leaky water fittings, rooms on ground and first floor were unfit for occupation. The Nigam replied (August 2007) that due to non-receipt of funds from State Government, water connection to the TRH was pending. The reply is not acceptable as provision for drinking water is a basic pre-requisite before operating a TRH. The reply was silent on the lack of maintenance of roofs and rooms.
- TRH at *Poornagiri* is situated near a religious place in Champawat District. Melas organised in March and October every year draws pilgrims to the place. It was observed that the TRH was situated about 200 mt down the main road leading to the temple, yet its occupancy was *nil* in the festival months (March and October) during the period under review, except in March 2004.

The Management admitted (August 2007) that the occupancy was nil and that the tourists visiting *Poornagiri* prefer to return to Tanakpur on the same day rather than stay at the TRH. The reply is indicative of the lack of satisfactory services at TRH *Poornagiri*.

7.2.13 Publicity

In the tourism policy, grandiose ideas had been envisaged to make Uttaranchal tourism a brand name. These included signs in highways, Airports, bus-stands, as well as wide publicity in Electronic media, print media as well as web sites. There were to be seminars as well as fairs highlighting the tourist potential of the state. However this all remained in paper and the Nigam had no policy for publicity which remained confined to distribution of pamphlets at booking centres and TRHS.

Picture : 7.2.2 Glow Sign Board

The only perfunctory gesture that the Nigam took for publicity was entering into an arrangement (June 2004) with Dainik Jagran, Bareilly to make available 30 glow sign boards, for installation. Out of these 16 were installed, and these too were in close vicinity of TRH or on the wall of TRH itself which served no purpose as far as publicity is concerned but merely gave the impression that they were signboards of Dainik Jagran.

Picture: 7.2.3 Glow Sign Board

Nigam stated (August 2007) that the Glow Sign Board were prepared by the newspaper agency and were installed at their cost. It has further been stated that the name of the TRH has been written on the Board and the monogram of the Nigam is also shown on the Board. The reply is not tenable as sign boards placed at the TRH itself would serve no purpose and the design of the board is hardly effective publicity.

Brand Name

Brand name lives in everybody, every moment. The name gives you images of the product in an instant. The Brand image promotion for Kumaon Tourism was hardly inspiring despite the fact that it is a unique multi attraction tourism destination. It has opportunities to promote nature based tourism with increased local participation. The private sector is already into wildlife, camping and trekking. Because of the forests and wealth of medicinal plants there is a big scope for promotion of Eco-tourism. Similarly the Nigam can showcase culture, heritage and village tourism, adventure (trekking, rock climbing, canoeing, water rafting, bungee jumping, etc) and pilgrim tourism. Though the State (Nigam) enjoys the hype and holds a rare mystery this potential remains to be tapped. Globally, tourism has emerged as a prominent sector which has contributed immensely to the Branding phenomenon. However, this Branding in tourism is totally dependent on quality which the Nigam has not been able to provide. Maintaining utmost quality is the keystone to Tourism Branding and in the State the private Sector is far ahead of the public sector. Thus brand positioning is essentially about perception and to get the markets acuity about the State in total, the selected approach needs to be addressed by the Nigam. Kerala is branding itself as 'Gods Own County' and the branding 'Incredible India' carried it forward. Hence the Nigam cannot loose time in promoting the State as a multi attraction tourism destination.

Asset Management

7.2.14 Purchase of disputed land

Inspite of objections by the Nagar Palika, Rudrapur on land use, Nigam purchased 900 sqm. of nazul[32] land at Rudrapur (June 2000) for construction of one TRH, an air-conditioned market and a fast food center at a total cost of Rs. 49.43 lakh. The Nigam further incurred (2004) an expenditure of Rs. 10.14 lakh on the registration of the land, construction of boundary wall and a shed.

The construction on the land, however, could not begin because the residents resented and objected to the Nigam's plans right from inception. A stay order was obtained by private individuals (September 2001) from Hon'ble High Court, Uttarakhand which was vacated (May 2003). Another case filed by Secretary, Rudrapur Club, is pending in the Court of Hon'ble Civil Judge, Rudrapur, as of July 2007.

The Management stated (August 2007) that the case is still pending in the court, therefore, the construction could not be started. Management's decision to purchase the land despite early warnings of litigation resulted in blocking of fund of Rs. 59.57 lakh of the Nigam.

7.2.15 Improper management of partnerships with private enterprise

The Nigam entered into agreements with private firms for developing recreational spots in Nainital district. However, poor management of contracts resulted in non-recovery of dues and non-fulfillment of objectives, as discussed below:

- An agreement was signed (March 1996) with Kunal Enterprises, New Delhi to develop and operate an Amusement Park and a Restaurant in Lower Terminal Point at passenger Ropeway, Nainital. The land was to be provided (March 1996) by the Nigam to the firm on lease for 15 years at a total annual rent of Rupees four lakh. Nigam did not secure a bank guarantee to ensure that the firm would not breach the contract. Nigam failed to secure its interests even after the firm stopped payment of lease rent from 2001 and finally they abandoned (April 2005), the work on account of dwindling business. Rs 26.57 lakh of rent was not recovered from the firm as of July 2007. Despite the bad experience, the Nigam again engaged another firm since the last two years for running the Amusement Park without entering into a formal agreement.

The Management stated (August 2007) that the firm had assets worth Rs. 18.02 lakh on site and a balance of Rs. 8.55 lakh only was recoverable. The fact remains that neither the assets of the firm have been taken over by the Nigam nor steps have been taken to recover the amount.

- In addition, 32 shops constructed (2000-01) at a cost of Rs 15 lakh were allotted at Snow View Point, Nainital on down payment of Rs 35,000 and annual rent of Rs 3600. The Nigam failed to recover rent as

[32] Land belonging to the State Government and not being used for agricultural purpose.

agreed and Rs 9.90 lakh were outstanding (July 2007) against 28 shopkeepers for periods ranging from five months to seven years. The Nigam stated (August 2007) that letters have been issued to the shopkeepers to pay the rent and in case of non-payment, action for vacation of the shops will be taken. It was, however, noticed that the allotment letters did not provide for any punitive action on non-payment of rent.

7.2.16 Transfer of property without realising its value

Teletronics Ltd, a subsidiary of the Nigam took over the assets and liabilities of a Indo- German Agriculture Development Authority (IGADA) on the orders of UP Government in April 1989. Teletronics Ltd. was wound up (December 1995).

One of the assets of IGADA (and transferred to Teletronics Ltd) was property at Patal Devi in Almora District which was valued at Rs. 58.57 lakh by the liquidator in 1995. A portion of the building was rented out (March 1996) to Patwari Training Center. Subsequently, Commissioner of the Kumaon Mandal directed (March 2005) the Nigam to transfer the entire property to Patwari Training Center. It was observed that the Nigam transferred the property (March 2005) without recovering the outstanding rent of Rs. 2.26 lakh and the value of the property i.e. Rs. 58.57 lakh.

The transfer was objectionable on the following grounds:

- The Nigam transferred the property without a specific approval of the Board and only on the directions of the Commissioner, Kumaon Mandal.

- On winding up of Telectronics Ltd. the Nigam took over liabilities of Rs. 357.94 lakh and there was no rationale on transfer of assets on gratis.

The Management stated (August 2007) that the property was transferred on the directions of the State Government and that action for recovery of the cost of the property will be started at the earliest. This despite being a commercial undertaking the Nigam showed a causal approach to its assets.

Other issues

7.2.17 Infructuous expenditure

A proposal for establishing a laundry at Koshi River in District Almora for washing linen used in all 41 TRH, was approved (March 2003) by the BoD. The operational aspects of the laundry, including transportation of linen to and fro all the TRH of the Nigam, were not considered before the investment. On a single quote obtained from a Banglore based firm, the Nigam purchased (December 2004) equipment worth Rs.6.36 lakh. Civil work amounting to Rs.1.88 lakh was also carried out (March 2005) by the Nigam for establishing the laundry. However, the laundry could not be operationalised because Uttaranchal Jal Sansthan, Almora refused (December 2005) to grant no objection certificate on the ground that it would pollute the upstream of the drinking water pumping station from which water is supplied to Almora. The expenditure of Rs.8.24 lakh was, thus, proved infructuous.

The Management stated (August 2007) that it is trying to shift the equipment. The reply is not tenable as equipment has not been shifted to any alternative site which is yet to be decided. Further, with the passage of time the equipment is liable to deterioration due to idling. Thus the purpose for which the equipment was purchased was defeated. Moreover, the funds blocked in the equipment could not be utilised fruitfully.

7.2.18 Kailash Mansarover Yatra

This is a religious yatra sponsored by the Union Ministry of External Affairs (MEA) and conducted by the Nigam. The Nigam earned a profit of Rs. 1.20 crore on a turnover of Rs 5.05 crore during the period 2002-07 on this venture.

The Nigam spent Rs 26.79 lakh on security and providing essential medical services to the yatris during 1994-2006. Since the yatra was sponsored by the MEA, the Nigam should have taken up the matter with them to reimburse the amount. No action, however, been taken by the Nigam all these years leading to non recovery of the amount.

The Nigam stated (August 2007) that action for reimbursement will be taken after taking necessary clarifications from the Central Government.

7.2.19 Non-realisation of Sundry debtors

The Nigam had Sundry debtors of Rs. 16.33 lakh outstanding for more than five years as at the end of March 2007. Out of these, debtors amounting to Rs. 13.71 lakh are recoverable from various Government Departments/ Nigam, Rs. 1.49 lakh from private parties and a sum of Rs. 1.13 lakh from an ex-employee of the Nigam. There was no evidence on record to show that effective steps were being taken by Nigam to realise the debts.

The Management stated (August 2007) that the steps are being taken to recover the outstanding debts. Fact remains that the due are still outstanding.

7.2.20 Non-recovery of advances

It was noticed that outstanding miscellaneous advances of Rs. 38.41 lakh were lying unsettled against 117 employees for more than five years as of November 2007, of which:

- Rs. 16.36 lakh was outstanding against 6 employees alone and ;
- Rs. 6.13 lakh outstanding against to 19 employees who have either left the Nigam or have retired.

No action has been taken by the Nigam to recover the amounts from the ex-employees.

The Management stated (August 2007) that the recovery of the advances will be ensured before the retirement/leaving the Nigam by the employees. The reply is not tenable as the Nigam has not set a time limit for settling advances, beyond which, recovery would be made from the salary of the employees.

7.2.21 Manpower

As on 31 March 2007, the Nigam had 724 nos. of employees as against the sanctioned post of 699 nos. of employee in Category 'A', B, C, D and safaiwala as detailed below:

Category	Sanctioned post	Men in position			Total
		Regular	Minimum wages	Daily wages	
A	7	3	--	--	3
B	15	13	--	--	13
C	290	279	31	3	313
D	356	318	44	9	371
Safai wala	31	24	--	--	24
Total	**699**	**637**	**75**	**12**	**724**

In addition to above 300 persons were also deployed on job works on casual basis in Category 'B', C & D as on 31 March 2007.

It was noticed in audit that the Nigam has not fixed norms for manpower requirement for different branches/sections, therefore, rationale of deployment of excess man power than sanctioned could not be established in audit.

The Management in reply stated (August 2007) that while additional manpower is required with the increase in work, no sanction has been received since 1981.

7.2.22 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 deficiencies 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 2004 at a cost of Rs. 5.80 lakh has not been approved by the Board (June 2007).

The Management stated (August 2007) that the Corporate Plan will be placed before the BoD after being examined by the State Government.

- The annual accounts of the Nigam were in arrears since 2001-02 (6 years) and therefore financial position of the Nigam from 2001-02 to date could not be ascertained. The Nigam, however, prepared provisional accounts upto 2005-06 for taxation purposes.

7.2.23 Acknowledgment

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 could not achieve its objective of promoting tourism in the State. The percentage of tourists availing its facilities was negligible. A far-reaching tourism policy was initiated in the state in 2001 which involved various bodies under the aegis of Paryatan Vikas Parishad. However, the very purpose was defeated in Kumaon because the Nigam, the body in charge of operating the tourist services, was not represented in the Parishad. Their overall functions remained stagnant confined to running TRHs. Even as a commercial organisation, the TRHs were running in loss due to low occupancy. There was an overall lack of direction and strategic planning because of which rich potential in cultural, Eco and Adventure tourism could not be tapped. Imaginative ideas to build a brand to fully exploit the rich heritage of Kumaon region, was clearly missing. Inadequate publicity, poor occupancy and lack of manpower planning led to losses on tourism related activities.

Recommendations

The State has tremendous tourism potential to show case itself as a brand because of its multi-attraction tourism destinations. As such, the Nigam should:

- ensure to get a major share of wildlife and eco-tourism, culture, heritage and village tourism, adventure and pilgrim tourism;
- persuade the State Government to involve it in the tourism policy of the state as well as selection of site for construction of TRHs to assess the financial viability of TRHs so as to ensure that the Nigam does not suffer loss;
- make efforts to increase the occupancy level by improving/ upgrading the infrastructural facilities and room service of its TRHs;
- adopt aggressive marketing strategies to attract more tourists in Kumaon region.

The matter was referred to the Government (July 2007); reply had not been received (December 2007).

MISCELLANEOUS TOPICS OF INTEREST RELATING TO GOVERNMENT COMPANIES

STATE INDUSTRIAL DEVELOPMENT CORPORATION OF UTTARANCHAL LIMITED

7.3 Loss due to acceptance of tender at higher rate

The Company accepted higher rates than the rates at which identical works were executed and suffered a loss of Rs. 2.76 crore.

The Company invited (September 2005) technical bids through open tenders for execution of infrastructure works estimated at Rs. 78.60 crore in Integrated Industrial Estate (IIE), Pantnagar (Phase II). The entire work was segregated into three identical blocks of Rs. 26.20 crore each; the blocks were put to bid as three packages and separate quotes against each package were invited in the tender. Out of 20 technical bids received, 15 were found technically qualified and were issued the price bids (November 2005).

Only five bidders[33] submitted (November 2005) price bids for all the three packages. Clause (16.6) of the bid documents stated that 'if it is found that bidder has been declared lowest bidder in any two of the packages, then his bid for remaining package will not be opened.' The implicit intent was that no bidder will be awarded more than two packages.

Packages- I and II were awarded to SAB Industries Limited, Chandigarh at their lowest quoted rates (L-1) of Rs 19.81 crore each. In accordance to Clause 16.6, their price bid for package III was not opened. The IIIrd package was awarded to Gangotri Enterprises at their quoted rates of Rs 22.57 crore (as L-1 among the rest of the four bidders).

It was observed (May 2006) that Gangotri Enterprises quoted the same rate of Rs. 22.57 crore for all the three packages. The first two packages were awarded at the rate of Rs. 19.81 crore each which was Rs. 2.76 crore less than the rate of Gangotri Enterprises. It was further noticed that bids of three out of the five bidders were significantly lower (upto 24 *per cent* lower) than the estimated rates for all the packages indicating that the estimates were on the higher side and were not realistic. In such a situation it would have been prudent to negotiate with Gangotri Enterprises to bring down his rates or to cancel the tender and go for fresh tender in the interest of the company. Thus the package III was awarded to Gangotri Enterprises at Rs. 2.76 crore more than the lowest rate of SAB Industries for package I and II for identical works.

The Company intimated (August 2007) that the work was divided in three different packages for better administrative control and competitive completion towards which objective it was decided that not more than two packages will be awarded to a single contractor. Reply was not tenable because better administrative control and competitive completion should not compromise with financial discipline in the best interest of the company.

[33] NKG Infrastructure, Ramky Infrastructure, SAB Industries Limited, Gangotri Enterprises and Nagarjuna Construction.

Thus the Company suffered a loss of Rs. 2.76 crore by awarding the work at a higher rate than that at which it could have been completed.

The matter was referred to the Government (July 2007); reply had not been received (December 2007).

7.4 Undue benefit to a firm

The Company allotted land at lower rates without obtaining competitive bids and extended undue benefit of Rs. 31.65 lakh to a private firm.

As per State Industrial Policy 2003, the Government decided to develop Integrated Industrial Estates (IIE) at Haridwar and Pantnagar through State Industrial Development Corporation of Uttaranchal Limited (Company). Further, a decision was taken (November 2005) by the Chief Secretary and Chairman of the Company that in view of the high demand for land at IIE Haridwar, plots will hitherto be sold only through competitive bidding. For bidding process the plots were divided into five categories according to size of the plot, where plots exceeding 4000 sqm. were categorised as 'b' category plots. Accordingly, plots were put to auction (December 2005).

Scrutiny of records (May 2006) revealed that the Company allotted (March 2006) 10773.84 sqm. plot in IIE, Haridwar to Ranbaxy Fine Chemicals Limited (RFCL) for setting up a Public Testing Facility (PTF) and a Manufacturing Unit for Rs. 163.90 lakh without obtaining competitive bids. The allotment was charged at the rate of Rs.1000 per sqm. for PTF (2693.5 sqm) and Rs.1695 per sqm. for remaining area (8080.34 sqm.) of manufacturing unit on weighted average rates received in the auction (December 2005).

The above rates were lower than the rates fetched in the auction (December 2005) which ranged from Rs. 1350 to Rs. 2100 per sqm. The 'b' category plots (plots with area above 4000 sqm) were sold (January 2006) at the average rate of Rs. 1815 per sqm. Incidentally, the rates obtained in auction in May 2006, i.e. two months after allotment of RFCL were even higher ranging from Rs. 1950 to Rs. 3050 per sqm. By selling the plots at lesser rate than that obtained during the auction, the company suffered a loss of Rs. 31.65 lakh[34].

In reply, the Company stated (May 2006) that since the PTF is not commercially viable, it was allotted at the rate approved (November 2005) by the Board of Directors and remaining area of the plot has been allotted at higher than prescribed rates, hence, the Company did not suffer any loss by applying differential rates. Reply was not acceptable as the Industrial Policy 2003 contains no provision for concessions in the cost of land for testing facility. In fact the firm had not even demanded any concessional rates. It had only requested (March 2006) that land be allotted for a manufacturing unit (in addition to the testing facility) to make the investment commercially viable. Incidentally, the adopted weighted average as against auction did not have the approval of the Board. It was also in violation of the decision of Chairman of the Board (November 2005) for allotment of plots at IIE, Haridwar against auction only.

[34] (10773.84 X Rs. 1815) – (2693.5 X 1000 + 8080.34 X 1695)

Thus allotment of land at concessional rates instead of obtaining competitive rates through auction resulted in loss of Rs. 31.65 lakh and undue benefit to the RFCL.

The matter was referred to the Government (May 2007); reply had not been received (December 2007).

7.5 Inadmissible concession in allotment of plots

State Industrial Development Corporation of Uttaranchal Limited unduly granted the status of a Mega Project and extended undue benefit of Rs. 45.06 lakh to a private firm.

The Company allotted (July 2004) nine plots spread over 20.5 acres in Integrated Industrial Estate (IIE) at Haridwar to Neel Metal Products Limited (NMPL) against payment of Rs. 4.96 crore as premium of land. This amount included Rs. 45.06 lakh as location premium which was paid (September 2004) by the firm. NMPL took possession of the plots on 23 September 2004. The firm was expected to invest Rs. 35 crore on the project and to commence production by July 2006.

The Board of Directors (BOD) decided (August 2004) that location premium may be waived for “Mega Projects”, with investment of over Rs. 50 crore and allotted area in excess of 25 acres. The waiver was on the ground that development cost borne by the Company would be far lower for larger projects. Audit observed that in order to benefit from the waiver, NMPL submitted (30 September 2004) an application for grant of “Mega project” with revised projection of investment in excess of Rs. 50 crore. Further NMPL informed (October 2004) the Company of a joint venture with Mahindra & Mahindra (M&M) who had already been allotted 35 acres (July 2004), by which the total area allotted would be 55.5 acres. The matter was put up (October 2004) before the BOD who agreed (November 2004) to grant the status of “Mega Project” to NMPL and consequent waiver of location premium of Rs. 45.06 lakh.

The Company stated (May 2006/ July 2007) that the waiver is justified because the NMPL is an ancillary of M&M and the investment and size of plots allotted to both NMPL and M&M fulfils the condition for the Mega Project. Further the Company can also save development charges as the two allottees will have a common boundary wall.

The reply was not tenable as the both plots were allotted separately and a mere construction of a common boundary wall does not make it a joint venture. The BOD granted status of “Mega Projects” to NMPL, not to joint venture of NMPL and M&M. Moreover, the joint venture had no separate legal entity. The joint venture was clearly an after thought only to avail of the waiver of location premium.

Thus grant of inadmissible waiver of location premium to NMPL resulted in loss to the Company of Rs. 45.06 lakh.

The matter was referred to Government (July 2007); reply had not been received (December 2007).

UTTARANCHAL POWER CORPORATION LIMITED

7.6 Failure to levy centage charges

Uttaranchal Power Corporation Limited suffered loss of Rs. 11.55 crore due to failure to collect centage charges.

The requirement of power at Integrated Industrial Estates (IIE) developed by State Industrial Development Corporation of Uttaranchal Limited (SIDCUL) at Haridwar and Pant Nagar, was assessed (April 2004) at 200 KW each. SIDCUL entered (July 2004) into a Memorandum of Understanding (MOU) with the Company for construction of two 220/132/33 KV Sub-stations and transmission/distribution lines at the IIEs at a total cost of Rs. 77 crore. The work on two projects at Haridwar (Rs. 37 crore) and at Pant Nagar (Rs. 40 crore), executed as deposit works, was completed on June 2006 and March 2007 respectively. The office memorandum (OM) issued (January 2002) by the Company laid down that the centage charges will be included in all estimates, towards recovery of resources of the Company employed in the work.

Audit scrutiny revealed that the Corporation did not insert the enabling clause in the MOU for recovery of 15 *per cent* centage charges resulting in non recovery of Rs. 11.55 crore on this account from SIDCUL in respect of two projects.

At the instance of Audit, the State Government directed the Company (January 2006) to recover centage charges from SIDCUL. Accordingly, the Company asked (January 2006) SIDCUL to pay Rs. 8.51 crore (on Rs. 56.7 crore only for two purchase orders placed on BHEL) towards centage charges which the SIDCUL refused to pay under the plea that there was no rationale in charging centage charges on a project when the assets so created are to be eventually transferred to the Company/ PTCUL for transmission and distribution of power. Director (Finance), UPCL intimated (June 2007) that the matter was referred to the arbitrator i.e., the State Government. The reply and act of the Company was not tenable as centage charges was recoverable as per OM for employment of its resources during execution of work. Further centage charges had also to be factored into the cost of infrastructure development by SIDCUL, the cost that will be eventually recovered at the time of allotment.

Thus, the Company's failure to levy of centage charges resulted in loss of Rs. 11.55 crore.

The matter was referred to the Government (May 2007); reply had not been received (December 2007).

7.7 Under recovery of liquidated damages

The Company failed to recover the liquidated damages of Rs. 17.79 lakh from the contractor despite enabling provisions in the agreement.

The Company entered into (19 April 2004) an agreement with Damodar Tech International Private Limited, New Delhi for construction of three 33/11 kv Sub-stations (S/s) and associated lines at Golapur (36 kms) and Lalkuan

(18 kms) on turn key basis at a cost of Rs. 5.29 crore. The work was to be completed within nine months from the date of handing over of land for construction.

Clause 32 of the agreement provided that failure of the contractor to complete the contract within the time fixed by the contract or any extension thereof, would entail a reduction of the contract value by 0.5 *per cent* per week (subject to maximum of 10 *per cent*) reckoned on the contract value of only such portion of the plant that cannot be used commercially due to delay.

Audit noticed (February 2007) that the contractor failed to complete the above works within stipulated dates (30 April 2005 and 10 May 2005 respectively). The delay was upto 60 weeks which attracted liquidated damages of Rs. 38.77 lakh under the provision of the contract.

The management accepted (August 2007) the audit observation and recovered an amount of Rs. 17.71 lakh from the contractor (in addition to Rs. 3.27 lakh already recovered after audit objection) and intimated that efforts are being made to recover the balance.

Thus, the non-imposition of liquidated damages in time led to non-recovery of Rs.17.79 lakh from the contractor.

The matter was referred to the Government (July 2007); reply had not been received (December 2007).

Dehradun **(REBECCA MATHAI)**

The **Accountant General, Uttarakhand**

Countersigned

New Delhi **(VINOD RAI)**

The **Comptroller and Auditor General of India**