# CHAPTER – VII

# Government Commercial and Trading Activities

## 7.1 Overview of Government Companies and Statutory Corporation

### *Introduction*

**7.1.1** As on 31 March 2007, there were 15 Government companies (all working companies) and one Statutory corporation (working) as against 16 working Government companies and one working Statutory Corporation as on 31 March 2006 under the control of the State Government. One subsidiary company, Goa Financial and Leasing Services Limited amalgamated with its holding company (EDC Limited) with effect from 1 April 2006. The accounts of Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) under 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 of the Companies Act, 1956. The audit arrangement of the Statutory Corporation is as shown below:

| Name of the Corporation | Authority for audit by the CAG | Audit arrangement |
|---|---|---|
| Goa Industrial Development Corporation | Section 25(2) of the Goa Industrial Development Corporation Act, 1965 and Section 19(3) of CAG's (Duties, Powers and Conditions of Service) Act, 1971 | Sole audit up to the period 31 March 2012 has been entrusted to the CAG |

## Working Public Sector Undertakings (PSUs)

***Investment in working PSUs***

**7.1.2** The total investment≠ in working PSUs at the end of March 2006 and March 2007 respectively, was as follows:

***(Amount: Rupees in crore)***

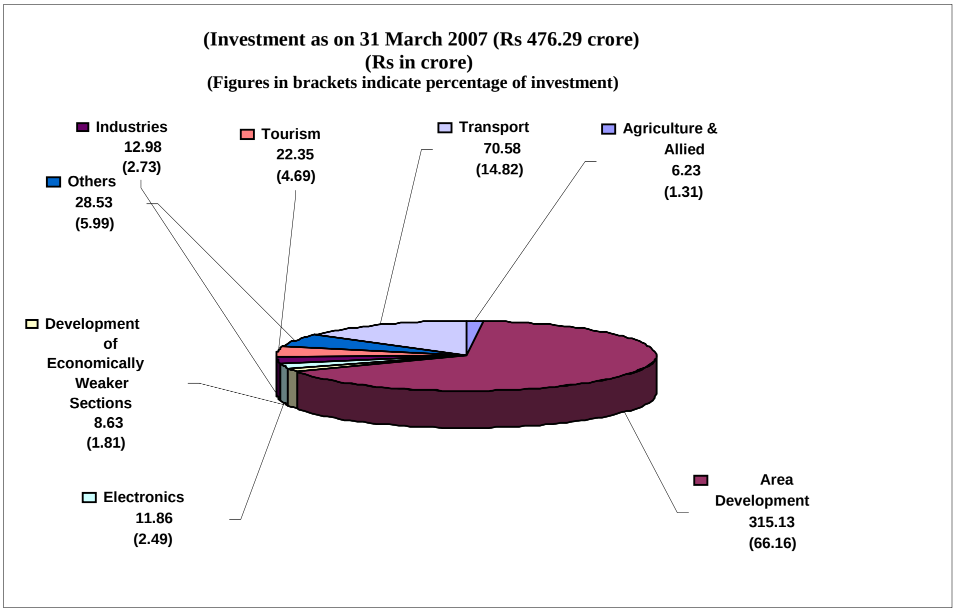
| Year | Number of working PSUs | Investment in working PSUs | | | |
|---|---|---|---|---|---|
| | | Equity | Share application money | Loans* | Total |
| 2005-06 | 17 | 186.46 | 8.00 | 374.30 | 568.76 |
| 2006-07 | 16 | 192.60 | 27.68 | 256.01 | 476.29 |

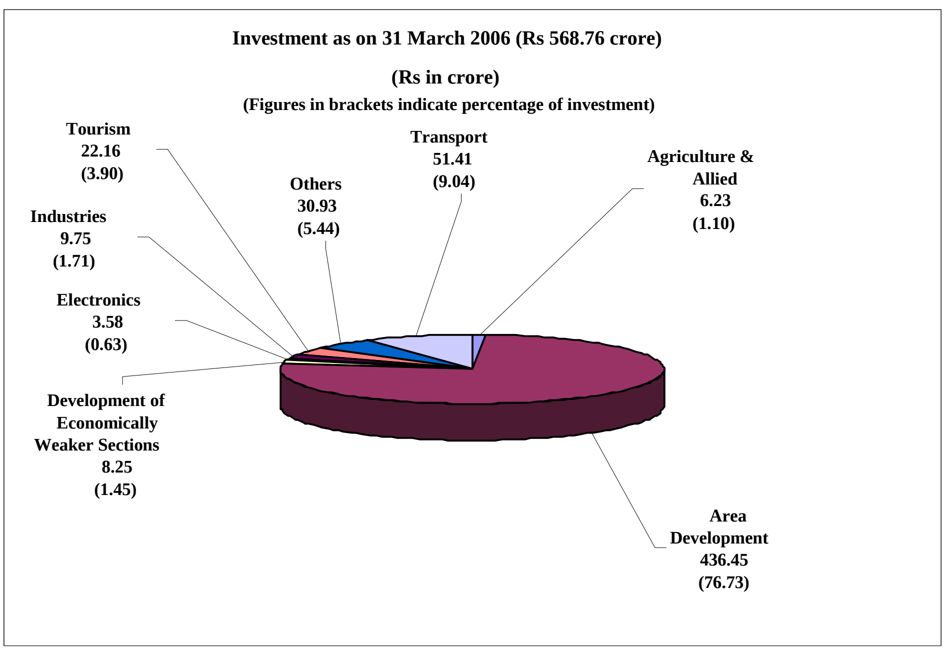
≠ Investment by way of equity and share application money in working PSUs by State Government is Rs 163.74 crore as per data furnished by the PSUs (Appendix 7.1); whereas the amount as per Finance Accounts 2006-07, is Rs 142.01 crore. The difference is under reconciliation.

* Long-term loans mentioned in Para 7.1.2 and 7.1.3 are excluding interest accrued and due on such loans.

***Sector wise investment in working Government Companies and Statutory Corporation***

The investment (equity and long term loans) in PSUs in various sectors and percentages thereof at the end of March 2007 and March 2006 are indicated in the following pie charts:



### *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:

***(Amount: Rupees in crore)***

| Year | Number of Companies | Investment in working Government Companies | | | |
|---|---|---|---|---|---|
| | | Equity | Share application money | Loans | Total |
| 2005-06 | 16 | 158.44 | 8.00 | 374.30 | 540.74 |
| 2006-07 | 15 | 164.58 | 27.68 | 256.01 | 448.27 |

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

As on 31 March 2007, the total investment in working Government companies comprised 42.89 *per cent* of equity capital and 57.11 *per cent* of loans as compared to 30.78 and 69.22 *per cent* respectively as on 31 March 2006. The increase in investment in equity capital of Rs 25.82 crore was due to additional investment by the State Government in six[#] companies during the year. The decline in loan in 2006-07 was due to one company (EDC Limited) going in for one time settlement with Small Industries Development Bank of India.

### *Working Statutory Corporation*

**7.1.4** The total investment in one working Statutory Corporation at the end of March 2006 and March 2007 was as follows:

***(Amount: Rupees in crore)***

| Name of the corporation | 2005-06 (Provisional) | | 2006-07 (Provisional) | |
|---|---|---|---|---|
| | Capital[•] | Loan | Capital[•] | Loan |
| Goa Industrial Development Corporation | 28.02 | - | 28.02 | - |

A summarised statement of Government investment in the working Statutory Corporation in the form of equity and loans is given in ***Appendix-7.1.***

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

**7.1.5** The details of 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 working Statutory Corporation are given in ***Appendix-7.1*** and ***Appendix-7.3***.

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[#] Sl. No. A-4, 7, 11, 12, 13 and 15 of Appendix-7.1

[•] Amount payable to the State Government is treated as capital from State Government.

The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the State Government to working Government companies and working Statutory Corporation during the three years up to 2006-07 are given below:

***(Amount: 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 |
| Equity capital | 7 | 14.76 | 1 | 0.38 | 6 | 9.08 | - | - | 6 | 28.23 | - | - |
| Loans given from budget | 2 | 0.87 | - | - | 1 | 1.00 | - | - | 1 | 1.00 | - | - |
| Grants/subsidies | 6 | 14.70 | - | - | 5 | 114.68 | - | - | 5 | 74.16 | - | - |
| **Total Outgo** | **8[@]** | **30.33** | **1** | **0.38** | **9[@]** | **124.76** | **-** | **-** | **9[@]** | **103.39** | **-** | **-** |

At the end of the year, guarantees of Rs 286.91 crore obtained by three Government companies were outstanding as against the outstanding guarantees of Rs 453.23 crore as on 31 March 2006. One company (Kadamba Transport Corporation Limited) defaulted in repayment of guaranteed loan of Rs 29.43 crore and interest of Rs 4.56 crore.

### *Finalisation of accounts by working PSUs*

**7.1.6** The accounts of the Government companies for every financial year are required to be finalised within six months from the end of the relevant financial year under sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956, read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. These are also to be laid before the Legislature within nine months from the end of the financial year. Similarly, in case of the Statutory Corporation, its accounts are finalised, audited and presented to the Legislature as per the provisions of the Goa Industrial Development Corporation Act, 1965.

The position of finalisation of accounts by the working PSUs is given in **Appendix 7.2**. It will be noticed that out of 15 working Government companies and one Statutory Corporation, only two[*] Government companies had finalised their accounts for 2006-07 within the stipulated period. During the period from October 2006 to September 2007, 12 companies finalised 13 accounts for previous years.

The accounts of 13 working Government companies and one Statutory Corporation were in arrears for periods ranging from one to six years as on 30 September 2007, as detailed below:

[@] Actual number of Companies/Corporation which have received budgetary support from the State Government in the form of equity, loans, grants and subsidy.

[*] Goa Auto Accessories Limited and Goa Electronics Limited.

| Sl. No. | Number of working companies/corporation | | Year for which accounts are in arrears | Number of years for which accounts are in arrears | Reference to Sl. No. of Appendix-7.2 | |
|---|---|---|---|---|---|---|
| | Government companies | Statutory Corporation | | | Government companies | Statutory Corporation |
| 1. | 1 | - | 2001-02 to 2006-07 | 6 | A-11 | - |
| 2. | 1 | - | 2003-04 to 2006-07 | 4 | A-10 | - |
| 3. | 1 | 1 | 2005-06 to 2006-07 | 2 | A-2 | B-1 |
| 4. | 10 | - | 2006-07 | 1 | 1, 4, 6, 7, 8,9, 12, 13, 14 and 15 | - |
| **Total** | **13** | **1** | | | | |

It is the responsibility of the administrative departments to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments and the officials of the PSUs were appraised quarterly by the Accountant General regarding arrears in finalisation of accounts, no effective measures had been taken by the Government and as a result, the net worth of these PSUs could not be assessed in audit.

### *Financial position and working results of working PSUs*

**7.1.7** The summarised financial results of the working PSUs (Government Companies and Statutory Corporation) as per their latest finalised accounts are given in ***Appendix-7.2***. Besides, the financial position and working results of the working Statutory Corporation for the latest three years for which accounts are finalised are given separately in ***Appendix-7.4***.

According to the latest finalised accounts of 15 working Government Companies and one working Statutory Corporation, nine companies had incurred an aggregate loss of Rs 11.37 crore, five companies earned an aggregate profit of Rs 14.16 crore and one company, (viz., Sewage and Infrastructural Development Corporation Limited) had not started commercial activities. The Statutory Corporation incurred a loss of Rs 1.43 crore.

### *Working Government Companies*

### *Profit earning working companies and dividend*

**7.1.8** Out of two working Government companies, which finalised their accounts for 2006-07 by September 2007, one company (viz. Goa Auto Accessories Limited) earned profit of Rs 0.13 crore but did not declare any dividend. The State Government has not formulated any policy for payment of minimum dividend by the Government companies.

Similarly, out of 13 working Government companies which finalised their accounts for previous years by 30 September 2007, four[Δ] companies earned an aggregate profit of Rs 14.03 crore and only two companies earned profit for two or more successive years.

### *Loss incurring Government Companies*

**7.1.9** Out of the nine loss incurring working Government Companies, three[#] companies had accumulated losses aggregating Rs 110.27 crore which exceeded their aggregate paid-up capital of Rs 49.73 crore.

Despite poor performance and complete erosion of paid-up capital, the State Government continued to provide financial support to these companies in the form of grant, subsidy *etc.* According to available information, total financial support so provided by the State Government to one of these three companies (viz. Kadamba Transport Corporation Limited) was Rs 11.50 crore by way of grant and subsidy during 2006-07.

### *Working Statutory Corporation*

### *Loss incurring Statutory Corporation*

**7.1.10** The Statutory Corporation, which finalised its accounts for 2004-05, incurred a loss of Rs 1.43 crore during the year. It had an accumulated surplus of Rs 4.98 crore.

### *Return on capital employed*

**7.1.11** As per the latest finalised accounts (up to September 2007) the capital employed[⊘] in 15 working Government companies worked out to Rs 469.37 crore and total return[*] thereon amounted to Rs 43.75 crore which was 9.32 *per cent,* as compared to total return of Rs 26.35 crore (4.13 *per cent*) in the previous year (accounts finalised up to September 2006). Similarly, the capital employed and total return thereon in case of the working Statutory Corporation as per the latest finalised accounts (up to September 2007) worked out to Rs 29.13 crore and (-) Rs 1.43 crore respectively. The details of capital employed and total return on capital employed in case of working Government companies and the Statutory Corporation are given in ***Appendix-7.2***.

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Δ Serial No. A- 1, 7, 8 and 13 of Appendix-7.2.

\# Goa Electronics Limited; Goa Antibiotics and Pharmaceuticals Limited and Kadamba Transport Corporation Limited.

⊘ Capital employed represents net fixed assets (including capital works-in-progress) *plus* working capital except in finance companies and corporations where it represents the mean of aggregate of opening and closing balances of paid-up capital, free-reserves, bonds, deposits and borrowing (including refinance).

* 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.

## Status of placement of Separate Audit Report of Statutory Corporation in the Legislature

**7.1.12** The following table indicates the status of placement of Separate Audit Reports (SARs) on the accounts of the Statutory Corporation as issued by the CAG in the Legislature by the Government.

| Sl. No. | Name of Statutory Corporation | Years up to which SARs placed in Legislature | Years for which SARs not placed in the Legislature | | |
|---|---|---|---|---|---|
| | | | Year of SAR | Date of issue to the Government | Reasons for delay in placement in the Legislature |
| 1. | Goa Industrial Development Corporation | 2003-04 | 2004-05 | 13 February 2007 | Delay in printing by the Government |

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

**7.1.13** During October 2006 to September 2007, the accounts of 13 working Government Companies were selected for audit. The net impact of the important audit observations as a result of audit of accounts of these PSUs was as follows:

| Sl. No. | Details | Number of accounts of | | Amount *(Rupees in lakh)* | |
|---|---|---|---|---|---|
| | | Government Companies | Statutory Corporation | Government Companies | Statutory Corporation |
| i) | Decrease in profit | 3 | -- | 858.32 | -- |
| ii) | Increase in loss | -- | 1 | -- | 38.21 |
| iii) | Decrease in loss | 2 | -- | 2.82 | -- |
| iv) | Errors of classification | 2 | -- | 738.00 | -- |

Some of the major errors and omissions noticed in the course of audit of annual accounts of the PSUs are as under:

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

### *EDC Limited (2005-06)*

**7.1.14** Non-provision towards bills pending for payment in respect of civil/maintenance works completed as on 31 March 2006 resulted in understatement of current liabilities as well as revenue expenses and overstatement of profit by Rs 8.16 lakh.

**7.1.15** Short-provision of depreciation for each scrip as per NBFC Prudential norms resulted in overstatement of profit for the year by Rs 3.50 crore.

***Goa Antibiotics and Pharmaceuticals Limited (2005-06)***

**7.1.16** Accounting of Rs 18.69 lakh being the value of expired stock held by C & F agent at Indore as loss even though it was decided to raise a debit note, resulted in understatement of receivables and overstatement of loss by Rs 18.69 lakh.

***Goa Meat Complex Limited (2005-06)***

**7.1.17** Accounting of non- refundable grants of revenue nature, received from the State Government during the year 2005-06 for meeting the expenditure towards 'salaries and contingencies', under 'reserves' instead of 'income' (to the extent grants utilised) resulted in overstatement of 'Reserves and Surplus' and understatement of profit for the year by Rs 77 lakh.

**7.1.18** Inadequate provision for gratuity resulted in understatement of expenditure and overstatement of profit for the year by Rs 31.16 lakh.

***Kadamba Transport Corporation Limited (2005-06)***

**7.1.19** Non-provision for doubtful advances of Rs 10.38 lakh resulted in overstatement of loans and advances and understatement of loss.

***Goa State Infrastructure Development Corporation Limited (2005-06)***

**7.1.20** Non-provision of Rs 5.46 crore being the value of unsettled bills relating to works completed and put to use before 31 March 2006 resulted in understatement of Current Liabilities - Sundry Creditors.

***Errors and omissions noticed in case of Statutory Corporation***

***Goa Industrial Development Corporation (2004-05)***

**7.1.21** Non-accounting of unutilised grants, received from the Central/State Government, and interest earned thereon, resulted in understatement of Sundry Creditors as well as Cash at Bank by Rs 5.06 crore.

**7.1.22** Delayed payment charges received from the allottees towards rent and water was credited to Sundry Creditors Account instead of crediting to income which resulted in overstatement of deficit by Rs 8.67 lakh.

**7.1.23** Non-capitalisation of the construction cost of Head Office Building completed and put to use resulted in overstatement of work-in-progress and understatement of office buildings under Fixed Assets by Rs 2.62 crore.

Further, as depreciation was not charged, deficit for the year was understated by Rs 26.16 lakh.

## Internal Audit/Internal Control

**7.1.24** The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report on various aspects including the Internal Control/Internal Audit Systems in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India under Section 619(3) (a) of the Companies Act, 1956 and to identify the areas which need improvement.

An illustrative resume of major recommendations/comments made by the Statutory Auditors on possible improvements in the Internal Audit/Control System in respect of State Government companies is indicated below:

| Nature of recommendations / comments made by the Statutory Auditors | Number of companies where recommendations/ comments were made | Reference to serial number of Appendix 7.2 |
|---|---|---|
| Auditors Report and Comments/Draft Paras/Mini Reviews not discussed in Audit Committee | 1 | A-7 |
| No system of making a Business Plan – short term/long term | 8 | A- 3, 5, 7, 9, 10, 13, 14, and 15 |
| No clear credit policy | 5 | A-1, 2, 5, 8 and 13 |
| No delineated fraud policy | 13 | A-1, 2, 4, 5, 6, 8, 9, 10, 11, 12, 13, 14 and 15 |
| No separate Vigilance Department | 15 | A-1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, and 15 |
| Maximum and minimum levels of stocks were not prescribed | 6 | A-1, 3, 4, 5, 14 and 15 |
| No ABC analysis adopted to control the inventory | 5 | A-1, 2, 3, 4 and 14 |
| Inadequate Scope of Internal Audit | 3 | A- 5, 11 and 12 |
| No Internal Audit | 1 | A- 9 |

## Recommendation for closure of PSUs

**7.1.25** Even after completion of five years of their existence, the turnover of four working Government companies[*] (Sl. No.A-1, 2, 6 and 11 of ***Appendix-7.2***) has been less than Rupees five crore in each of the preceding five years of their latest finalised accounts. Similarly, one working Government company[Δ] (Sl. No.A-14 of ***Appendix-7.2***) had been incurring losses for five consecutive years as per the latest finalised accounts leading to negative net worth. In view of poor turnover and continuous losses, the Government may either improve performance of the above five Government Companies or consider their closure.

[*] Goa Meat Complex Limited, Goa State Horticultural Corporation Limited, Goa Forest Development Corporation Limited, Goa State Scheduled Caste and Other Backward Classes Finance and Development Corporation Limited.

[Δ] Goa Antibiotics and Pharmaceuticals Limited.

## Response to inspection reports, draft paras and reviews

**7.1.26** Observations made during audit and not settled on the spot are communicated to the heads of PSUs and the concerned administrative departments of the State Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through the respective heads of departments within a period of six weeks. Inspection Reports issued upto March 2007 pertaining to 12 PSUs and 15 divisions of Electricity Department of Goa disclosed that 210 paragraphs relating to 49 Inspection Reports remained outstanding at the end of September 2007. Department-wise break-up of Inspection Reports and Audit Observations outstanding as on 30 September 2007 is given in ***Appendix-7.5***.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to 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. It was, however, observed that out of nine draft paragraphs and one review forwarded to various departments (viz., Finance, Information Technology, Tourism, Electricity and Industries Departments) during March-July 2007, replies from the Government were received only from Electricity Department and Finance Department so far (October 2007). It is recommended that the Government should ensure that:

- procedure exists for action against the officials who failed to send replies to Inspection Reports/draft paragraphs/reviews and ATNs on the recommendations of COPU, as per the prescribed time schedule;
- action is taken to recover loss/outstanding advances/overpayment in a time bound manner; and
- the system of responding to audit observations is revamped.

## Departmentally managed Government commercial/quasi commercial undertakings

**7.1.27** There were two departmentally managed Government commercial/ quasi commercial undertakings *viz.*, the Electricity Department and the River Navigation Department in the State as on 31 March 2007.

The *pro forma* accounts of the River Navigation Department were in arrears for the years from 2004-05 to 2006-07 and that of the Electricity Department for the year 2006-07 (September 2007).

The summarised financial results of the Electricity Department and River Navigation Department for the latest three years for which their *pro forma* accounts are finalised are given in ***Appendix-7.6***.

# SECTION A – PERFORMANCE REVIEWS

## GOA TOURISM DEVELOPMENT CORPORATION LIMITED

### 7.2 Operational Performance

***Highlights***

The Company has not evolved a policy or scientific costing system for fixation/revision of its tariff structure.

***(Paragraphs 7.2.8 and 7.2.9)***

The average annual occupancy in Company's hotels was below the state average of hotel occupancy. The poor occupancy performance was due to deficient planning and monitoring, deficiency in services and lack of marketing strategy. The Company's four 'eco' hotels incurred loss consistently and the loss for five years ended 2006-07 was Rs 4.10 crore.

***(Paragraphs 7.2.10 to 7.2.14)***

Poor contract management and non-observance of financial propriety resulted in payment of Rs 4.66 crore in respect of renovation/upgradation of six hotels without ensuring quantity/quality of works executed and without establishing necessity for high quantity of extra items of works.

***(Paragraphs 7.2.15 to 7.2.17)***

The Company's tour and cruise operations resulted in loss of Rs 4.24 crore during 2002-07 due to operational inefficiencies.

***(Paragraphs 7.2.20 and 7.2.21)***

Management of leases of hotels and restaurants suffered from irregularities due to unfair tender practices and defective tender evaluation which resulted in potential revenue loss of Rs 39.99 lakh.

***(Paragraphs 7.2.22 to 7.2.27)***

The employees' cost formed 46 *per cent* of total expenditure for five years ended 2006-07 and was in excess by Rs 8.92 crore of the limits recommended by Administrative Reforms Department of the State Government.

***(Paragraph 7.2.33)***

### Introduction

**7.2.1** Goa Tourism Development Corporation Limited (Company) was incorporated (March 1982) as a wholly owned Company of the erstwhile Union Territory of Goa, Daman and Diu. On formation of the State of Goa, the Company became (1987) a State Government Company. The main objectives of the Company are to acquire and take over from the State Government all assets related to tourism together with liabilities, if any, and to run and manage the assets with a view to promote and develop tourism in the State of Goa.

The activities of the Company being undertaken are to provide accommodation to tourists and arrange sight-seeing tours and river cruises. Restaurants and catering services and shops attached to its hotels have been leased to private entrepreneurs under leave and licence♣ agreement.

The Company's share in providing accommodation facilities in the State was only three *per cent* and the remaining 97 *per cent* was being catered by the private sector. As on 31 March 2007, the Company had 16 hotels, all transferred by the State Government during different periods, of which 12 hotels with 530 room capacity were managed directly and three* with 37 rooms were run by private entrepreneurs under leave and licence agreement. Tourist Home, Patto transferred (March 1997) to the Company is under the possession of the Director of Tourism, Government of Goa from where the office of the Directorate is functioning. The Company also had three launches meant for river cruises, with a total capacity of 408 passengers and a fleet of 11 vehicles for sight seeing/other special tours.

The Company is under the administrative control of the Tourism Department of the State Government. The management of the Company is vested with the Board of Directors (BoD) comprising of not less than three and not more than 12 Directors, all nominated by the State Government. The day to day affairs are being looked after by the Managing Director (MD), with the assistance of General Manager (Hotels), General Manager (Administration), General Manager (Finance) and Executive Engineer.

The posts of all the three General Managers and Executive Engineer have been lying vacant since June 2005 and September 2003 respectively. During the five year period 2002-07, five persons held the post of MD with a change of incumbency four times in the two years 2005-07. Frequent changes in the incumbency were not desirable for efficient functioning of the Company.

A review of the performance of the Company was included in the Report of Comptroller and Auditor General of India for the year ended 31 March 1999 - Government of Goa. The Report is yet to be discussed by COPU (September 2007).

## Scope of Audit

**7.2.2** The present Performance review, conducted during March to June 2007, covers the overall performance of the Company for the period from April 2002 to March 2007. The Audit examined the records relating to six* out of 12 hotels run directly by the Company, selected based on the importance of locality and capacity. In addition, the leasing arrangement of

♣ The ownership and possession of the premises remain with the Company and the licencee is entitled to use the said premises and has no other rights.

* Way side facilities Pernem, Forest Resort Mollem and Terekhol Fort rest house.

* Panaji, Mapusa and Vasco (City Hotels), Calangute and Calangute Annexe (Beach hotels) and Old Goa Heritage View (low occupancy hotel).

three hotels, 25 *per cent* of shops, overall performance of tour and cruise operations and management of circuit house were also examined.

## Audit Objectives

**7.2.3** The performance audit was conducted with a view to assess whether:

- the Company had prepared a strategy for implementation of State Tourism Policy;
- the Company has managed its hotels, catering and transport units economically, efficiently and effectively;
- the hotels and transport units (surface and water) were able to achieve the optimum capacity;
- adequate infrastructural facilities, amenities and manpower were available in the hotel and transport units;
- company's interests were adequately protected while giving hotels, shops and restaurants on 'leave and license basis';
- the Company had formulated an effective credit policy and implemented it efficiently; and
- there was a well defined market strategy to tap prospective tourists.

## Audit criteria

**7.2.4** The audit criteria adopted for assessing the achievement of audit objectives were as follows:

- Guidelines/instructions issued by the State Government/Company;
- Provisions of the tariff policy;
- Average state occupancy rate; and
- Terms and conditions of tenders and the Lease agreements entered into in respect of hotels, shops and restaurants.

## Audit Methodology

**7.2.5** The following Audit methodology was adopted for achieving the audit objectives with reference to the audit criteria:

- Examination of agenda papers and minutes of meetings of the BoD and other documents maintained by the head office/units;
- Examinations of budgets, targets and monthly reports submitted by the units;
- Verification of records of the selected units;
- Analysis of the statistical data compiled by Department of Tourism in respect of tourists arrival;
- Interaction with the management and issue of audit queries.

## Audit findings

***7.2.6*** Audit findings emerging from the Performance review were reported (July 2007) to the Management/Government and discussed (10 September 2007) in the meeting of the Audit Review Committee on Public Sector Enterprises (ARCPSE), which was attended by the Secretary (Tourism) and MD of the Company. The views expressed by the Management/Government have been taken into consideration while finalising the review.

Audit findings on the basis of scrutiny of different activities of the Company are discussed in succeeding paragraphs.

## State Tourism Policy

**7.2.7** Goa occupies a unique place in the domestic and international tourism on account of its natural beauty and beautiful sea-beaches. The State Government adopted Tourism Policy in 2001 with main thrust on raising the quality of infrastructure which would act as a foundation for the sustainable growth of tourism. The emphasis was laid on the balanced tourism development, domestic and overseas marketing of Goa as a tourist destination, encouragement to private initiatives and preparation of tourism master plan. A Tourism Master Plan – Goa (TMP – 2011) was prepared (February 2001) keeping in view a perspective of next 25 years. TMP – 2011 worked out the projected arrival of tourists based on linear regression and suggested measures which would help raise the arrival of tourists by 15 *per cent* above this projection.

It was, however, observed that pursuant to the declaration of Tourism policy 2001, no specific role was assigned by the State Government to the Company as part of the tourism policy apart from providing budget accommodation, sight seeing tours and river cruises envisaged at the time of its formation (1982). The Company had also not formulated any specific strategy in the light of the State Tourism Policy, to promote and develop tourism in the State.

## Operational Performance

Operational performance of Company's hotels, tours and cruise is discussed in subsequent paragraphs.

***Absence of tariff policy***

*There was no scientific costing system for fixation of tariff for hotels, tours as well as cruise*

**7.2.8** The Company had not evolved a policy or scientific costing system for fixation/revision of hotel tariff. The Company applies different tariff rates for different periods of the year, categorized as 'season', 'peak season' and 'off season'. The amount charged by the Company had, however, no scientific costing basis. The tariff was revised based on proposals received from its hotel managers, which in turn were based on revision in tariff in other hotels.

Five to seven out of 12 hotels[♣] run by the Company incurred losses during 2002-07, after allocating Head Office (HO) expenses[*] and depreciation.

The Management stated (August 2007) that the tariff was enhanced to compensate the cost of maintenance and payment to employees, keeping in view the objective of catering to the needs of the middle/lower class tourists. The reply is not convincing as the Company could have adopted a better costing system and tariff fixed/revised taking into account the rate of inflation, increased purchasing power of tourists and advantages of prime location of its hotels and backed up by efficient, effective and quality service.

**7.2.9** The Company has no tariff policy for its tour operations. It did not revise its rates for tour operations during 2002-05 despite increase in cost of operations. The Company incurred loss of Rs 2.33 crore (including depreciation and proportionate HO expenditure) on its tour operations during the period 2002-07. Similarly, the tariff for river cruises was not increased during last five years ended 2006-07, although the private cruise operators revised their tariff upwardly by at least 50 *per cent*. The Company incurred loss of Rs 1.91 crore during 2002-07 on its cruise operations.

The Management stated (August 2007) that the tariff on tours was not revised due to stiff competition from private operators who reduced their rates as and when required and paid commission to agents which Company cannot resort to. The reply is not tenable as it is essential to redefine overall strategy based on prevailing market conditions and commercial practices in order to continue in the business. Fact is that in a competitive market the Company could have made up rising cost by efficient, effective and quality services.

## Performance of Hotels

### *Low occupancy*

**7.2.10** The Company was operating (March 2007) 12 hotels directly by itself with total room capacity of 530 comprising 184 air conditioned and 346 non-air conditioned rooms. The Company's total room capacity was only three *per cent* of the total rooms available in the State and the remaining was catered by the private sector. Average income from sale of rooms (accommodation) constituted 65 *per cent* of average total annual income of the Company during 2002-03 to 2006-07. The overall performance of Hotels during the five years resulted in profit mainly due to the income from leases. On stand alone basis, five out of 12 hotels incurred loss of Rs 1.02 crore during the period 2006-07. Four 'eco' hotels[*] incurred loss consistently from 2002-03 and the loss for five years ended 2006-07 was Rs 4.10 crore. The table below shows the average

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♣ Excluding three hotels leased out and one hotel under the possession of Director of Tourism.

* HO expenditure allocated activity wise (tour, cruise, hotels and circuit house) in the ratio of expenditure of each activity to total expenditure. Total expenditure of hotel activity with proportionate allocation of HO expenditure reallocated to each hotel unit based on expenditure of each unit.

* Farmagudi, Mayem, Old Goa and Britona.

hotel occupancy in the State of Goa vis-a-vis the Company's hotels for the last five years ending 2006-07.

*The average occupancy in Company's hotels was below annual State average despite lower tariff and prime locations of the hotels, due to deficient planning and monitoring*

***(In per cent)***

| Particulars | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---|---|---|---|---|
| State of Goa (with respect to total rooms available in the State) | 60.5 | 59.3 | 62.5 | 69.2 | Not available |
| GTDC (with respect to total rooms)# | 48.3 | 51.9 | 56.6 | 57.1 | 62.8 |
| GTDC (with respect to rooms ready for allotment)# | 52.2 | 56.0 | 60.1 | 59.4 | 63.9 |
| Occupancy during season/peak season in GTDC hotels (with respect to total rooms) | 54.2 | 57.0 | 61.6 | 65.0 | 69.3 |

# Note: Occupancy for 12 directly run hotels of the Company.

*Source: Hotel and food service review – a Business magazine in Hospitality Industry (February 2007) and the Company's records.*

The average occupancy in Company's hotels remained much below the State average of hotel occupancy. The Company could not achieve the level of annual State average even during the tourist season♥. Despite the fact that some of the hotels were located in prime locations and tariff were also lower than the private sector the average occupancy remained below the market average. Audit scrutiny revealed that low occupancy in Company hotels was due to deficient planning and monitoring and operational inefficiencies as discussed below.

### *Deficient Planning and Monitoring*

**7.2.11** The following deficiencies in the planning and monitoring were noticed:

- The Company had not calculated break-even point vis-à-vis physical targets for occupancy in hotels.
- In spite of lower occupancy, the reasons for the same were not analysed periodically by the top management for taking timely remedial action.
- The Company had not developed a regular system of feedback from the occupants through direct interaction by its senior officials for improving its services.
- Failure to complete planned upgradation/renovation within the stipulated time resulted in loss of 48,126 room days including 27,680 room days in tourists' season during 2002-07.

♥ Season – 1 October to 20 December and 4 January to 15 June, Peak season – 21 December to 3 January

The Management stated (August 2007) that some of the private hotels closed their operations during off season, hence the high percentage of occupancy in such hotels. Further, day-to-day occupancy was monitored and month's statistics compiled. The fact, however, remains that even during season/peak season, the occupancy in Company's hotels was below the State average occupancy. Further, the compiled statistics were not used for any remedial/improvement purposes.

*The Hotel 'Britona riverside' incurred cash loss of Rs 34.67 lakh during 2002-07 due to neglect and lack of planning*

**7.2.12** The Company has a hotel 'Britona Riverside', situated on the bank of River Mandovi opposite Panaji city. This hotel provides only dormitory facility with 74 beds which makes it unattractive for tourists. As the hotel was not renovated/upgraded to make it comfortable and to provide efficient, effective and quality services, the occupancy remained low and declined from 31.6 *per cent* in 2003-04 to 23.9 *per cent* in 2006-07. The hotel incurred cash loss aggregating Rs 34.67 lakh during 2002-07. Thus, despite the prime location of the hotel, due to neglect and lack of planning it was unable to attract tourists.

***Deficiency in services***

**7.2.13** The details in the following table indicate the tourist inflow in the State and the number of tourists who availed Company's accommodation during five years ended 2006-07:

| No. | Particulars | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---|---|---|---|---|---|
| 1. | Number of tourists visited Goa | | | | | |
| | Domestic | 1524183 | 1727446 | 2077516 | 1974780 | 2104335 |
| | Foreign | 281282 | 321399 | 406369 | 342075 | 384321 |
| | **Total** | **1805465** | **2048845** | **2483885** | **2316855** | **2488656** |
| 2. | Number of tourists who availed Company's accommodation | | | | | |
| | Domestic | 97594 | 106028 | 103051 | 101047 | 118674 |
| | Foreign | 1040 | 1218 | 1463 | 1720 | 2042 |
| | **Total** | **98634** | **107246** | **104514** | **102767** | **120716** |
| 3. | Percentage of tourists who availed Company's accommodation facilities | 5.46 | 5.23 | 4.21 | 4.44 | 4.85 |
| 4. | Percentage of foreign tourists who availed Company's accommodation facilities | 0.37 | 0.38 | 0.36 | 0.50 | 0.53 |

*Source: Information collected from Tourist Statistics published by Department of tourism and Company's records.*

It would be observed from the above that though there was increase in tourist inflow in each year from 2002-03 to 2004-05 the percentage of tourists who availed Company's facilities decreased during those years due to poor maintenance and lack of renovation. The number of foreign tourists who availed Company's accommodation was negligible during all the years under review. The Company's hotels did not have sleek and aesthetic look compared to private hotels in its category. Audit noticed certain shortcomings in the services as a result of which it could have lost customers to private hotels as mentioned below:

- The percentage of air conditioned (AC) rooms in 12 hotels run by the Company directly, increased marginally from 33 *per cent* in 2002-03 to 35 *per cent* in 2006-07 which was indicative of failure of the Company to upgrade its service to cater to changed preferences of tourists.
- There was no power back up generators in seven[♣] of the 12 hotels run by the Company (October 2007).
- The process of room reservation was centralised at the Head Office being handled by Sales Department. The Company had no dedicated telephone service for reservation (October 2007).
- The hotels lacked in renovation/upgradation.

The Management stated (August 2007) that it was not advisable to add more AC rooms as demand for the same was only in the month of May and further stated that it has been planned to put generators in all the hotels and telephone facilities had been improved. The reply is not tenable as these basic facilities and amenities are essential to attract tourists and also to face competitition from private sector. It was noticed that wherever number of AC rooms was more than non-AC rooms, occupancy was more which indicated the necessity of further upgradation of the facility of ACs in the rooms. Further, the Company is yet to install a dedicated telephone line for reservation/enquiry.

***Marketing Strategy***

**7.2.14** Advertisement and publicity is necessary for business promotion and competition. The press and electronic media provide an easy mode of publicity for attracting tourists from abroad and different parts of the country. Audit noticed that the Company has not taken adequate and aggressive steps to promote its hotels and other facilities to attract tourists though it was required to gear up in the face of stiff competition from the private operators. The Company did not have a well defined marketing strategy of its own, to tap prospective tourists, apart from distributing brochures to improve its occupancy. Audit further noticed the following:

- The Company had still not provided online reservation facilities for convenient, efficient and integrated services to the customers. Though initiative for online booking was taken as early as in December 2003 and expenditure of Rs 6.64 lakh had been incurred the same was yet to be started (October 2007).

[♣] Panaji, Calangute, Calangute Annexe, Old Goa, Mayem, Farmagudi, Britona.

- The Company has a website providing information regarding various facilities provided by it. However, no initiative was taken to regularly update the information. The room tariff available on the web site in May 2007 in respect of Panaji, Mapusa, Calangute and Britona pertained to October 2005 to September 2006 though the rates had been revised with effect from October 2006.
- Though the Company set up (1999) facilitation counters at Margao, Thivim and Karmali railway stations and Kadamba bus terminal at Panaji with a view to assist/guide and attract tourists, the counters at Thivim, Karmali and Panaji had not started functioning even after lapse of nearly eight years (October 2007).
- The renovation/upgradation was either very slow or non-existent.

Thus the brand image of the State in the tourism sector as being provided by the Company was hardly inspiring.

## Maintenance and upgradation of facilities

***Poor contract management and financial impropriety***

**7.2.15** For attracting a larger chunk of tourist traffic as well as improving the occupancy rate with good and new look to its properties, the Company renovated/upgraded its hotels. Audit scrutiny of works in respect of Old Goa, Vasco, Mapusa, Colva, Farmagudi and Mayem Hotels revealed the following:

**7.2.16** The renovation/upgradation works were planned to be executed during the off-season (June to September) so that the benefit of renovation/ upgradation could be reaped from the next immediate season itself. The works at the above Hotels planned to be completed before the season, however, were completed with delay ranging from 30 to 216 days which affected their occupancy. The delay was mainly due to execution of extra items not envisaged in the original scope of work.

The Management stated (August 2007) that the delay in completion was due to additional works cropped up during execution and also due to rain and non availability of material. The reply is not tenable. The fact is that the Company has to compete with private hotels for attracting tourists, and if it delays its projects, it is obviously going to loose its customers. Further, undertaking extra items of works during execution indicated defective planning for which the Company is to blame.

**7.2.17** As per the agreement entered into with the contractors of each work, the works were to be carried out as per the specifications in the respective schedules. The bills were to be submitted stage wise and payments made on completion of the items after actual joint measurements at site by the engineer of the Company or his representative and the contractor and on certification by the Technical Committee ♣(TC). The following points were noticed:

*The Company made payments to the contractors without physically measuring the works*

- The Company for all the works paid advances to the contractors to the extent of 75 *per cent* of the value of work reported as completed against interim/running accounts bills and finally settled the advances without physically measuring the works executed, by the Engineers of the Company. Thus, no financial discipline was maintained.
- The TC members whose certification was to be based on such joint measurements, however, did not insist for the compliance of the provisions of the agreement in this regard before they certified the bills for payment. The bills were certified for payments only by one or two members of the TC (as against the requirement of certification by the committee), who in turn relied on certification by consultants/site supervisors who were neither appointed by the Company in any capacity nor authorised to do so in place of Company's engineers.
- The bills amounting to Rs 0.86 crore in support of payment in respect of Old Goa Residency were certified (January 2004 to August 2005) by a consultant who had never been appointed by the Company in any capacity.
- The measurements in respect of Farmagudi, Mayem and Colva were recorded by the site supervisors appointed (August 2004 and August 2003) on contract basis for the respective works who had not been authorised to take and record measurements in place of engineers of the Company.

*Extra items valued Rs 1.29 crore were executed without justification*

- The final payments amounting to Rs 4.66 crore made to the six contractors in respect of six hotels at Mapusa, Old Goa, Vasco, Colva, Farmagudi and Mayem included Rs 1.29 crore (28 *per cent*) towards execution of extra items not included in the original schedule of work. The extra items paid for, however, were executed without any formal orders from the Company and without justifying the necessity to execute the non-tendered items and establishing the genuineness of the claim by physical measurements by the engineers of the Company.

After the observations were pointed out in Audit (August 2005), a Committee♣ was formed (October 2005) to look into the matters and record the exact measurements of the works carried out at the hotels. The Committee reported that extra works were executed without formal orders and procedures were violated and that many items could not be verified being unseen and underground items and that it was difficult to ascertain the item after long period (Farmagudi and Colva). It was also reported that the quality of works

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♣ Consisting of Chief Architect PWD, Executive engineer PWD Works Division 1, an Architect consultant and the Managing Director.

♣ Consisting of Deputy General Manger (Hotels), Assistant Engineer (Civil), Junior Engineer (Civil), Junior Engineer (Electrical) and Accountant.

was poor due to poor supervision (Mapusa). The Committee, however, did not go into the detailed measurements. The Company settled the claims of the contractors amounting to Rs 4.92 crore at Rs 4.66 crore based on the reports of the Committee without physically measuring and recording them in the measurement book. The Assistant Engineer of the Company had been suspended (January 2006) pending enquiry on the above matters. The inquiry was in progress (March 2007).

Audit observed that the engineers appointed in the Committee were originally responsible for execution of the works. Entrusting the same officials to examine the issues raised made the entire exercise a farce. Thus, the payment aggregating to Rs 4.66 crore in respect of renovation/upgradation of the six hotels was made without physically measuring and ensuring the quantity/quality of the works done and establishing the necessity for extra items of works (Rs 1.29 crore), which indicated poor contract management besides, non observance of financial propriety.

The Management stated (August 2007) that extra works were carried out as per instructions given by TC to give face-lift to the rooms. It was further stated that the bills were submitted by the contractors along with measurement sheets. The reply is not tenable as neither justification for extra items of work nor formal orders were on record. Further, there were no records for having physically measured the works and ensured the quantity and quality by the Company which necessitated the formation of a Committee to report on the quality/quantity.

**7.2.18** The Company awarded (June 2004 and March 2007) the work of renovation and upgradation of Mayem Residency, upgradation of 12 rooms at Miramar Residency (Phase II) and upgradation of 10 rooms of Calangute Residency (Phase II) (March 2007) at an estimated cost of Rs 0.58 crore, Rs 0.63 crore and Rs 0.67 crore respectively without ensuring competitiveness. The former was single tender and in the latter two cases, there was only one valid tender each as the other tender was liable to be rejected before opening financial bids on account of furnishing Earnest Money Deposit (EMD) in the form of cheque in lieu of cash or call deposit as required as per conditions of the tender. The Company for the purpose of comparison considered the financial bid of the other invalid tender and awarded the contract to the single valid tender without opting for re-tender. Thus, tender evaluation was deficient.

The Management stated (August 2007) that by accepting single tender the Company saved time in renovation/upgradation. The reply is factually incorrect as the work orders were issued only on 06 March 2007 whereas the tenders were opened on 23 January 2007 which indicated that the saving of time was not the factor considered for accepting single tender.

**7.2.19** During 2001-05 the Company received Rs 8.50 crore from the State Government in the form of share capital contribution as financial support for the proposed renovation/upgradation of properties. Due to the cost overrun consequent to the execution of extra items of work without justification, other upgradation works such as swimming pool at Miramar, Calangute and Colva, though included in the project proposals, could not be undertaken in spite of financial support having already been received from the State Government.

The Management stated (August 2007) that tenders for construction of swimming pool has since been invited and were under consideration. The fact remains that the swimming pools proposed during 2003-04 are yet to be constructed (October 2007).

## Performance of tour operations

*The tour operations resulted in a loss of Rs 2.33 crore during 2002-07 due to high employees cost, idling of vehicles and uneconomic operation of tours*

**7.2.20** Average income from tour operations constituted eight *per cent* of the average total income of the Company during the last five years ending 2006-07. The tour operations of the Company include arranging daily sight seeing tours and other special tours. Six sight seeing tours were arranged daily, three covering North Goa and another three covering South Goa operated simultaneously from Panaji, Margao and Mapusa. Special tours include Dudhsagar on Wednesdays and Sundays, 'Goa by night', South end tour, Pilgrim tour etc., all within the state only. For the purpose of conducting tours, the Company had an exclusive fleet strength of 11 vehicles as on 31 March 2007. To meet the occasional increased demand for tours, the Company hired private vehicles also. During the last five years, seven vehicles were scrapped (sold) and five new vehicles were inducted in the fleet. The tour operations resulted in loss after adding proportionate Head Office expenditure, during all the years from 2002-03 to 2006-07. The loss for five years ended 2006-07 was Rs 2.33 crore.

Audit scrutiny revealed the following:

- The cost per kilo metre for operating vehicles for these tours during 2002-07 was Rs 27.71 as against the earning per kilo metre of Rs 20.66. The high cost was mainly due to high employees' cost (50 *per cent* of tour income).

- The Company was holding 11 vehicles for six daily and two weekly trips, leaving five/three vehicles as standby. Thus, too many vehicles remained standby adversely impacting the fleet utilisation. Out of 19,933 total vehicle days available during 2002-07, 7815 days (39 *per cent*) were lost, of which 5,709 (29 *per cent*) were due to idling of vehicles for want of booking for tours.

- As against the growth of 38 *per cent* in tourist inflow from 2002-03 to 2006-07, the number of tourists availing the Company's tour facilities decreased from 0.58 lakh in 2002-03 to 0.53 lakh in 2006-07 indicating that the Company could not tap the growing potential of tourist inflow in the State and was loosing its customers to the private operators.

It would thus be observed that the Company failed to provide efficient, effective and quality tour services. As its tariff structure is similar to private operators, it can also appropriately enhance its tariff structure but backed by effective, efficient and quality services. The continuance of tour operation activity therefore needs detailed examination and revamping.

The Management, while accepting the audit findings, stated (August 2007) that the Company faced stiff competition from private tour operators who revised their rates arbitrarily. It was further stated that since accommodation and sight seeing tour are inter-connected, the unit-wise profitability could not be strictly adhered to. The reply is not tenable as the Company failed to take any aggressive and pro active steps to provide efficient, effective and quality services.

## Performance of cruise operations

*The cruise operations resulted in a loss of Rs 1.91 crore due to under-utilization of passenger capacity and non-profitable operation*

**7.2.21** The Company was having three launches for conducting river cruises. Two cruises (one hour duration) were operated daily - one sunset cruise and the other sundown cruise. Special cruises and full moon cruises were also operated. In addition, the Company also hired out its launches on demand at hourly rate. While a launch (*Santa Monica)* was normally used for the daily cruises, another launch (*Shanta Durga)* was used for special cruises. Third launch (*Poseidon)* was let out to Advani Hotels & Resorts (India) Limited (AHRL) for carrying passengers from their jetty at Panaji to their boat floating in the River Mandovi from 5.00 pm to 3.00 am everyday without holiday. The cruise operations resulted in loss of Rs 1.91 crore during 2002-07 which was mainly due to underutilisation of passenger capacity of *Santa Monica* and vessel *Shanta Durga* and non-profitable operation of *Poseidon.*

Audit scrutiny revealed the following:

- Passenger capacity utilisation of *Santa Monica* cruise, ranged between 63 and 51 *per cent* only during the five years ended 2006-07. Loss of passenger traffic and revenue thereof to private operators can be attributed to its poor up keep and unsatisfactory board service and entertainment.

- *Shanta Durga* generally used for special cruises was operated for 415 days only during the four years ended 2006-07 and remained idle for 922[♦] days for want of tourists. The operation of *Shanta Durga* during 2002-03 to 2006-07 resulted in aggregate loss of Rs 50.42 lakh (before allocating HO expenditure).

- *Poseidon,* a mono fibre glass medium speed passenger launch, purchased (February 2002) for Rs 22.66 lakh for providing river cruises to places of importance accessible by rivers was used for the intended purpose only for 124 days during the four years ended 31 March 2007. From October 2002, the launch was used mainly for

[♦] (After providing 30 days in each year for dry docking).

carrying passengers for AHRL and for their exclusive use from June 2004. However, contrary to the understanding between AHRL and the Company to engage the launch everyday without holiday and pay monthly hire charge of Rs 75,000, AHRL from May 2004 paid hire charges only for the days it was used by them. Absence of a formal agreement with AHRL and their deviation from the understanding to pay hire charges on a monthly basis without holidays, resulted in loss of revenue of Rs 11.42 lakh during May 2004 to March 2007.

Thus, it is clear from above that the Company did not provide effective, efficient and quality cruise services. Any increase in tariff rate has to be linked to efficient and effective quality services.

The Management stated (August 2007) that decrease in number of tourists for Company's cruise facility was due to competition by private cruise operators who reduced their ticket rates as and when required and offered tremendous commission to the agents. Further, *Shanta Durga* was mainly intended as a stand by for *Santa Monica* during its repairs/break down and profitability of cruise has to be considered as total unit rather than individual vessels. It was also stated that Company's cruise operation helped to control the excessive charging of rates by the private operators. The reply is not tenable as even after keeping their rates at 33 *per cent* below the rates of private cruises in 2006-07, the cruise operations resulted in cash loss during 2006-07, indicating that the cruise operation is economically unviable. Further, in a competitive tourist sector the Company could appropriately increase its tariff structure but only through effective, efficient and quality services.

## Poor management of leases

**7.2.22** The Company has been leasing out its restaurants, 72 shops attached to 12 directly run hotels and also all infrastructure including accommodation and restaurant of three hotels[♣] to private operators. The Company/Government, however, has not prescribed any specific guidelines/procedures for leasing. The licencees are identified through open tender process. Audit observed that the Company failed to safeguard its financial interest while concluding leases due to various irregularities in the management of leases by the Company as brought out in succeeding paragraphs.

### *Hotel leases*

**7.2.23** Out of three hotels leased out by the Company, two hotels (Mollem and Terekhol) were given (December 2001 and November 2002 respectively) on the basis of single valid tender. The licence to run the hotel at Mollem was awarded for a period of seven years to the third lowest at Rs 37,500 per month as the other two higher offers (Rs 70,833 and Rs 50,000 per month respectively) did not furnish earnest money deposit. The Company however,

[♣] Way side facilities Pernem, Forest Resort Mollem and Terekhol Fort rest house.

did not negotiate with the third lowest to increase his offer to match the highest offer.

*The lease agreements did not safeguard the financial interests of the Company as the increase in the lease rent stipulated in the agreement did not even cover the cost of inflation*

**7.2.24** All three leases contain renewal clauses. The initial period of lease was seven years in case of Mollem (expiring in December 2008) and Terekhol (expiring in August 2009) hotels and extendable upto 21 years. In respect of hotel at Pernem, the initial lease period was three years (expiring in February 2008), extendable upto seven years. While the extension would be given at the discretion of the Company, the increase in lease rent had been provided for in the agreement itself. It was just 18 *per cent* higher after seven years (i.e 2.58 *per cent* per annum) in case of Mollem and Terekhol and 15 *per cent* higher after three years for hotel at Pernem. These clauses in the agreement did not safeguard the financial interests of the Company as they did not even cover the cost of inflation. On the contrary, with passage of time, the hotels were likely to establish themselves and earn more. Moreover, the agreements stipulate prior approval of the Company for tariff revision by the licencees. This requirement was, however, not complied with. Thus, the defective clauses of extension in agreement jeopardised the financial interest of the Company. Therefore, in the financial interest of the Company, it would be appropriate to go in for re-tendering for getting competitive rates rather than extending the leases after the expiry of initial lease period. Fact is that tourist inflow in Goa is increasing every year and obviously hotels will be in great demand.

The Management stated (August 2007) that the agreement provided for termination of the contract by giving due notice, without assigning any reason and thus safeguarded the financial interests of the Company. The reply is not acceptable as the Company would not be able to take advantage of better market conditions in cases of longer lease period and the increase in licence fee provided in the agreement for renewal would not be sufficient to compensate the inflationary impacts.

### *Restaurant leases*

**7.2.25** The Company has catering facilities attached to all 15 functioning hotels and other four[♣] standalone restaurants. All the restaurants attached to the hotels and the standalone restaurant at Vagator and Anjuna have been leased out to private parties. The Company has not leased or commenced operation by itself of the other two standalone restaurants transferred by the State Government in November 2003/March 2004. Audit scrutiny of four out of six hotels selected for test check revealed that the restaurant leases suffered from irregular, unfair practices, causing loss to the Company as discussed below:

*Awarding lease to the second highest bidder resulted in loss of Rs 10.94 lakh*

**7.2.26** The lease for running restaurant and catering services at Calangute Residency for the period November 2000 to October 2007 was not given (May 2000) to the highest bidder on the ground that he did not produce a solvency certificate for Rs 10 lakh though the bidder contended (May 2000)

[♣] Kesarwal springs, Vagator, Anjuna and Benaulim.

that the matter was with the District Collector of North Goa for issue of a solvency certificate and produced communication of Mamalatdar of Tiswadi informing the value of assets of the bidder as Rs 33 lakh. The second highest bidder had produced a solvency certificate from a Co-operative bank. In fact, the Company had not specified from whom the certificate was to be obtained. The Company, however, without holding any negotiation with the second highest to increase his offer to match the highest, awarded (May 2000) the lease to the second highest at his offered rates. While entering (September 2000) into agreement the Company also favoured the licencee with an increased lease term of seven years initially, and extendable upto 21 years against initial three years lease term extendable upto nine years as tendered for (April 2000). Thus, failure to specify the authority from whom the solvency certificate was required and subsequent defective evaluation led to award of lease to the second highest bidder, resulting in a loss of Rs 10.94 lakh calculated for seven years, besides an undue favour of extending the lease term.

The Management stated (August 2007) that generally financial solvency is issued by financial institutions/banks who are aware of the status/goodwill of the depositor and it was easy to cash the outstanding dues from banks rather than keeping assets as security and therefore the lease was awarded to the second highest bidder. The reply is not tenable as non specifying of the authority from whom solvency certificate was to be obtained provided scope for manipulation of tender evaluation. Further, the solvency certificate was not furnished as a security to cash outstanding dues but to ensure the financial capability of the tenderer.

*Inefficient tender management resulted in loss of Rs 29.05 lakh*

**7.2.27** The leases at Panaji (August 2000) and Calangute Annexe (January 2002) suffered due to unfair practices wherein several partners of firms participated in the tendering process individually. The highest bidders withdrew leaving the leases to be awarded to sixth highest bidder in case of Panaji Residency and second highest bidder for Calangute Annexe. Both the tendering processes indicated cartel and collusive bidding and the Company should have cancelled the tendering process rather than fostering unfair practices. There was a loss of Rs 29.05 lakh calculated for seven years (Panaji Residency) and six years (Calangute Annexe) as a difference between highest bid and accepted bid.

The Management stated (August 2007) that being open tender anybody who was in the business of catering can apply and further stated that as good caterers at Residencies supports the accommodation wing, it was necessary to award the contract to the right person. The reply is not tenable as the practice of each partner of the same partnership firm participating in individual capacity and withdrawing the higher offer to get the lease at a low license fee amounted to cartel and collusive bidding, besides loss of revenue.

**7.2.28** Due to long lease tenure of the restaurants, the Company may have to face difficulties in implementing the decisions, if taken in near future, for leasing out those hotels to which these restaurants are attached. It is, therefore, prudent to restrict the initial lease period to three years with a clause of further extension of three years at the discretion of the Company. At the end of six years, the Company should re-discover the competitive lease price through fresh tendering.

The Management stated (August 2007) that the agreements provided for termination of contracts in between. The fact however, remains that if the lease period is shorter the Company would be able to get competitive rates through fresh tendering.

## Uneconomic management of Circuit House/State Guest House

**7.2.29** The Company, as per directives of the State Government, took over (September 2002) the activities of house keeping, catering and maintenance of the state owned Circuit house and Guest house for a period of one year at Rs 1.51 lakh per month. The arrangement was continuing for subsequent years without any increase in the rates. As per conditions of the agreement, the Government would provide kitchen equipments, water and electricity free of cost and maintain electrical fixtures, civil works, plumbing, sanitary and painting. It was observed that the activities undertaken by the Company at the Circuit house/Guest house were not cost effective. The Company was unable to even recover its cost in any of the years. This resulted in excess expenditure of Rs 33.60 lakh (without allocating HO expenditure) and Rs 75.05 lakh (including proportionate share of HO expenditure) over the remuneration during the five years ended 2006-07. Audit scrutiny revealed that the excess expenditure over income was due to execution of jobs beyond the scope of work envisaged in the agreement (such as repairs and maintenance), without specific directions from the State Government, besides high employees' cost. The Government reimbursed Rs 28.14 lakh only against the expenditure of Rs 34.42 lakh towards such claims. Thus the management of Circuit House/Guest House resulted in net loss of Rs 46.91[♣] lakh for five years ended 2006-07.

The Management stated (August 2007) that the Company accepted the proposal to run the Circuit House to accommodate surplus staff consequent to leasing of hotel at Mollem. The Company has requested (November 2005) the State Government to take over the premises or increase the remuneration.

## Financial Position and Working Results

**7.2.30** The financial position and working results of the Company for the five years up to 2006-07[*] are given in ***Appendix 7.7 and 7.8*** respectively**.** The paid up capital of the Company was Rs 21.35 crore as of 31 March 2007 wholly contributed by the State Government. The Company incurred losses during

♣ Total loss for five years including proportionate HO expenditure (Rs 75.05 lakh) – amount reimbursed by Government Rs 28.14 lakh.

* Figures for 2006-07 are provisional as the Company is yet (June 2007) to finalise its accounts.

2002-03 to 2004-05 mainly due to low occupancy in its hotels coupled with uneconomic operation of tours and management of Government Circuit house/Guest house. However, during 2005-06 and 2006-07, the Company earned profit, reducing the accumulated loss from Rs 1.19 crore in 2002-03 to Rs 0.28 crore in 2006-07.

### *Low Return on Capital Employed*

*The return on Capital employed was negative/ negligible due to poor financial management and operational inefficiency*

**7.2.31** The Company showed a negative return on capital employed for the three years from 2002-03 to 2004-05. Though the return turned positive in 2005-06 and 2006-07, it was a mere 1.22 *per cent* and 6.06 *per cent* of the capital employed during the respective years. The cost of funds♣ for the Government during the period 2002-03 to 2006-07 ranged between 7.89 *per cent* and 9.25 *per cent*. The Company could not generate return equal to the cost of funds invested by the State Government as Share capital in the Company, mainly due to poor financial management and low occupancy emanating from operational inefficiency coupled with high manpower cost. The Company did not declare any dividend during 2002-07.

The Management stated (August 2007) that the high cost on employees was due to higher pay scales in the Company. The reply is not tenable as in such a situation the Company should have improved its performance to make good the extra burden on account of higher scales of pay.

### *Dues pending realisation*

**7.2.32** As on 31 March 2007, Rs 1.13 crore was pending realisation towards accommodation, tour and cruise charges and licence fee from shop licencees, caterers and ex-caterers. This included Rs 30.90 lakh (27 *per cent*) realisable from Government departments/institutions and Rs 0.82 crore from private individuals/organisations.

Audit scrutiny revealed that:

- The Company did not have any credit policy to provide facility to any individual/organisation on credit basis. Thus providing facilities on credit basis was unauthorised.
- Rs 37.37 lakh comprising Rs 30.56 lakh from private parties and Rs 6.81 lakh from Government departments/institutions was outstanding for more than one year which indicated lack of proper follow up of dues for recovery.
- As per the prescribed system the booking agents were required to remit the advances collected by them from customers in the Company's accounts with UTI bank. Thus, there should remain no balance with the agents. It was, however, observed that Rs 15.97 lakh was due from 78 booking agents appointed by the Company. Of this, dues from 29

♣ Weighted interest rate [interest payment/(amount of previous years fiscal liabilities + current years fiscal liabilities) / 2 x 100] booking agents were beyond the security deposit of Rs 10,000 per agent furnished by them and the unsecured dues amounted to Rs 11.17 lakh. The pendency of advance collected by the agents indicated poor monitoring.

The Management stated (August 2007) that action would be taken to reduce the outstanding dues.

## Manpower

### *High incidence of employees' cost*

**7.2.33** The major component of the expenditure of the Company was employees' cost as it formed 46 *per cent* of the total expenditure as well as that of total earnings during the five years ended 2006-07. Audit scrutiny revealed the following:

- The employees' cost as percentage of total expenditure was high when compared to the percentage of employees' cost to total expenditure in Tourism Development Corporation of other States such as Karnataka (26.37 *per cent* and 23.63 *per cent* respectively in 2004-05 and 2005-06) and Kerala (30 *per cent* in 2002-03).

- Based on the recommendations (June 1999) of the Administrative Reforms Department of the State Government, the employees' cost should normally be within 30 *per cent* of the total earnings. The employees' cost of the Company was as high as 46 *per cent* during all the five years ended 2006-07 and the same exceeded the recommended limit by Rs 8.92 crore.

- In pursuance of the Government's policy to downsize the number of Government employees to control revenue deficit through Voluntary Retirement Schemes (VRS) the Company also proposed VRS for its employees in September 2003. Only 10 employees (Group C & D category) opted for the scheme. Apparently not satisfied with the response for the VRS, the Company submitted (April 2005) a new VRS to the BoD which, however, was deferred without recording any reasons. No further initiative was taken by the Company to reduce its manpower/employees' cost. The Company has so far not conducted any manpower analysis to ascertain the actual manpower requirement.

The Management stated (August 2007) that high cost on employees were due to higher pay scales paid to them, compared to the scales of other Government employees. It was also stated that the cost on employees have come down due to VRS, superannuation and engaging daily rated employees. The fact however, remains that employees' cost was high compared to the norms recommended by the Government and also when compared with the employees' cost of Tourism Development Corporation of other States.

## Internal control

**7.2.34** Internal control is a management tool used to provide reasonable assurance that management's objective are being achieved in an efficient and effective manner. Audit noticed the following major deficiencies in the internal control system of the Company:

- The Company had not evolved a mechanism for analyzing the reasons for unit wise variance between actuals and budgets with the result that the purpose of preparation of budgets was not achieved. Further, Capital expenditure were not budgeted.
- There were no functional manuals, prescribing the procedures to be followed in various areas such as accounting, internal audit, marketing etc.
- Contractor's bills in respect of renovation/upgradation were paid without physical measurement of work done and certification by the Engineers of the Company
- The Company was not following the system of depositing the Earnest Money Deposit (EMD) received in the form of Demand Drafts (DD). DDs worth Rs 7.47 lakh were kept in different files without even handing over the same to the Accounts Department.
- There was absence of proper system of adjusting the advances paid against supplies/interim bills for works done. Advances paid as early as in January 2006 were remaining unadjusted as on 31 March 2007.
- A system of cross checking the data generated by different departments of the Company was not in vogue and accuracy of such data remained unascertained.
- The internal audit function was not adequate to bring out the lapses in respect of monitoring of renovation/upgradation works and payment of contractors bills.
- The internal audit reports were not presented to the BoD or the Audit Committee constituted under section 292 A of the Companies Act 1956.
- The proposals for the revision of tariff for each year were discussed by the MD with the Deputy General Managers and finalised. However, approval of the BoD being the competent authority for the finalised rate had not been obtained.

## Conclusion

Although the State is a haven for multi attraction tourism and has immense potential for tourism, the Company failed to tap the tourist potentials due to lack of planning and professional approach in the management of the business.

Despite being in the business since 1982, the Company failed to meet the challenges from private operators. During the period of review, the Company's share of domestic tourists decreased from 5.46 (2002-03) to 4.85 (2006-07) whereas in respect of foreign tourist it ranged between 0.36 *per cent* and 0.53 *per cent* indicating that the Company has not been able to attract tourists. There was no scientific costing system for fixation/revision of tariff for various facilities provided. The Company failed to safeguard its financial interests while concluding the leases. Operations of tour and cruises were economically unviable. Contract management in respect of renovations/upgradation undertaken was poor and failed to observe financial propriety. The cost on employees far exceeded the limit prescribed by Government. Internal control system was found to be deficient in many areas.

## Recommendations

The Goa State has tremendous tourism potential to showcase itself as a domestic as well as global brand because of its multi attraction tourism destinations. As such the Company must:

- prepare a Strategic Corporate Plan defining its role and activities as per the Tourism Policy of the State and indicating the long term and short term goals to be achieved.
- improve its financial management by formulating a well defined tariff policy, revising terms and conditions for leases so as to protect its long term financial interests and ensure fair and competitive tender process for leasing.
- upgrade, refurbish and renovate all the properties in a phased manner.
- re-align its priorities by outsourcing tour and cruise operations and concentrating on hotel operations.
- consider rebuilding of hotel at Britona on a Public Private Partnership basis so as to avoid extra burden on public exchequer and provide better facilities to customers.
- strengthen its internal control system and internal audit.

# SECTION B – TRANSACTION AUDIT OBSERVATIONS

## GOVERNMENT COMPANIES

### Info Tech Corporation of Goa Limited

#### *7.3 Loss due to shortage in area of land possessed*

**Failure in measuring the land before taking possession resulted in shortage of area and consequent loss of Rs 1.04 crore.**

The State Government transferred (June 2000) to the Company 2,85,296 square metre of land [survey numbers 264 (Part), 266 (Part), 267, 268, 269, 270, 271 and 273 (Part)], falling under Taleigao village in Dona Paula, belonging to the Public Works Department (PWD), for setting up a High-tech Habitat for Information Technology industries. The land value payable was fixed by the Government at Rs 7.85 crore (at the rate of Rs 275 per square metre for 2,85,296 square metre) and the same was paid in the form of Equity Shares allotted on 14 March 2006. The Company took possession (April 2001) of the land from the Deputy Collector (Revenue) without measuring and confirming the actual area available. During site visit, the Company officials noticed (March 2002) certain encroachments and unauthorised possession and the same was intimated (July 2002) to the Revenue authorities. The Company requested (March 2003) the Revenue Authorities to demarcate the land and settle the issue. Accordingly, Directorate of Settlement and Land Records carried out (May 2004) the work of demarcation of land and reported that the area available was only 2,50,015 square metre. The Report pointed out actual availability of land 'in part' in survey numbers 268 and 269 and no land under survey number 273. When the Company surveyed (March 2006) the land for the purpose of allotment of plots to IT firms, it was revealed that the actual area of land available was only 2,47,527.65 square metre. Thus, failure on the part of the Company to measure the land and ensure free encumbrance before taking over the possession resulted in loss of Rs 1.04 crore being the value of 37,768 square metres (2,85,296-2,47,528) based on the purchase price of Rs 275 per square metre. The Company also failed to take up the matter of shortage of land with appropriate authorities for investigation. As the possibility of encroachment cannot be ruled out, the matter needs to be investigated.

The Management stated (August 2007) that the matter would be taken up with the Government for getting refund of the amount paid for the land found short. The reply, however, was silent about the action proposed for recovering the lost land. Moreover, even if the Government is refunding the value of land, the responsibility and accountability for the shortage vest with the Company in view of the fact that it had not reported any shortage at the time of take over.

### *7.4 Reduction of lease rent and consequent recurring loss of Rs 43.25 lakh per annum*

**Decision to reduce the rate of lease rent of land after allotment resulted in recurring loss of Rs 43.25 lakh per annum to the Company for 30 years and also extension of an undue favour to the allottees of land.**

The Company invited (March 2006) applications for allotment of plots for establishing IT software & ITES industries in the "Rajiv Gandhi IT Habitat" at Dona Paula, Goa, at a premium of Rs 4,000 per square metre. The plot, with basic infrastructure of world class quality, was to be ready by March 2007. The Company released (July 2006) another advertisement notifying certain amendments to the eligibility criteria, terms and conditions and also increasing the premium to Rs 4,600 per square metre. As per the terms and conditions of allotment, the land would be allotted on lease basis for a period of 30 years initially and extendable up to 90 years. On allotment, the allottees were to pay premium of Rs 4,600 per square metre, which consisted of Rs 3,100 towards the land cost and Rs 1,500 towards development charges. In addition, annual lease rent of Rs 92 per square metre (at the rate of two *per cent* of the premium amount) was also payable from the date of allotment. The Company decided (January 2007) to reduce the lease rent from two *per cent* of the premium (Rs 4,600) to two *per cent* of the land cost (Rs 3,100) which worked out to Rs 62 per square metre.

The Company had received (March to December 2006) applications and allotted (April 2006 to December 2006), 12 plots measuring 1,44,167.81 square metre, to 10 firms, prior to the decision of January 2007 at the reduced rate of two *per cent* on the land cost instead of on the premium amount. The reduction in lease rent resulted in recurring loss of revenue of Rs 43.25 lakh per annum to the Company (Rs 12.98 crore for 30 years) on 1,44,167.81 square metre land already allotted. As the applications were submitted by all the applicants knowing that the lease rent would be two *per cent* of the premium amount, reduction in rate after allotting the plots, was an injudicious decision resulting in undue favour to the allottees. Further, the loss of revenue on 44,171.49 square metre of land allotted subsequently up to March 2007, works out to Rs 13.25 lakh per annum (Rs 3.98 crore for 30 years).

The Management stated (August 2007) that the development cost (Rs 1,500 per square metre) was excluded for the purpose of charging lease rent as it had already recovered the development cost along with the initial premium. The reply is not tenable as land development expenditure also forms part of cost of developed land and required to be treated at par with the basic land cost. Further, by reducing the lease rent, the Company compromised on its financial interests while extending undue favour to the allottees.

## EDC Limited

### *7.5 Loss due to non recovery of loans disbursed*

**Disbursal of loans to two software development companies set up by the same group of promoters, without ensuring viability of the projects, and acceptance of software as security resulted in loss of principal and interest amounting to Rs 10.27 crore.**

The Company sanctioned (July 1999 and December 1999) a term loan of Rupees five crore and Rs 6.50 crore to Information Technology (India) Ltd. (ITIL) and Burr Brown (India) Limited (BBIL) respectively for setting up software development units. Both the companies were promoted by Usha (India) Limited, New Delhi. The loan of Rupees five crore was disbursed to ITIL during September 1999 to March 2001. As ITIL defaulted in repaying the principal and interest, EDC took over (August 2001) the unit. The disposal of properties fetched (November 2004) Rs 0.70 crore only, as against the total dues of Rs 5.52 crore.

In the case of BBIL, an amount of Rs 5.78 crore was disbursed during April 2000 to March 2001. In view of the default in repayment in this case also, EDC attached (August 2001) the unit and available assets were disposed off (November 2004), realising Rs 1.10 crore only as against the total dues of Rs 6.55 crore.

Audit scrutiny revealed the following:

- EDC had not formulated any policy or guidelines for financing IT related project at the time of sanction of the loans. The inherent risks[*] in software business, as apprehended in appraisal notes, were ignored while sanctioning the loans.
- BBIL was not having any prior experience in the field of software business. Their working results were negative and financial position weak. Thus the decision to finance a client, who was not having any proven track record and financial credibility, was not justifiable.
- Within two months of last disbursement, both ITIL and BBIL informed (May 2001) EDC, about their difficulty to meet the commitments due to overall slump in software industry and offered to hand over the unit to EDC with its assets and liabilities. Thus, intentions of these companies to establish a permanent set up in Goa were questionable.
- In both the cases, software and books were accepted as security which formed more than 28 *per cent* of the total security. The acceptance of software, an intangible asset of restricted use/resale value and high obsolescence, as security jeopardised the financial interests of EDC.

[*] Probable recession in the United States, political and other destabilizing factors, competition from similar projects, high rate of obsolescence in technology etc.

- At the time of attachment in August 2001, software and plant and machinery worth Rs 3.99 crore and Rs 2.96 crore were reported missing from the premises of ITIL and BBIL and the value of assets available was Rs 1.98 crore and Rs 2.82 crore only against the total security of Rs 7.15 crore and Rs 8.14 crore respectively. As the intention of the loanees not to carry on the business was clear by May 2001, the company should have kept close watch on their functioning.

Thus, venturing into financing IT related projects without formulating a policy, improper assessment of viability of the projects, acceptance of software as security and poor post sanction monitoring, resulted in loss of Rs 10.27 crore. As the available assets have been realised and the process of enforcement of corporate guarantee is cumbersome and time consuming as it involves obtaining decree, identifying the assets, filing of petition for enforcement and auction of assets of the guarantor, the recovery of the balance dues becomes uncertain.

The Management stated (July 2007) that the exposure and track record of the group as a whole was taken into account during project appraisal. The reply is not tenable as loan was sanctioned not to the group but to each loanee in their individual capacity. In fact, BBIL did not have any prior experience in software business and its working results were negative and financial position weak.

### *7.6 Improper sanctioning of loan resulting in non-recovery*

**Release of loan without fulfillment of conditions and subsequent irregular sanction of further loans resulted in non-recovery of Rs 8.60 crore for over eight years and loss of interest of Rs 10.12 crore.**

Vishwas Steels Limited (VSL) approached (October 1997) the Company for a term loan of Rupees five crore for setting up a mini steel plant at Dhargal. As per the terms and conditions of the term loan, VSL was required to furnish power availability certificate for the total power requirement (18 MW) and also bring additional contribution/loan of Rupees two crore from others, before disbursal of the loan. However, EDC disbursed the loan of Rupees five crore in March-April 1998 without ensuring the fulfillment of these two conditions. Further, in order to bridge the gap in the financing structure due to the failure of the promoters to raise loan/bring additional contribution, EDC disbursed (April 1998) another term loan of Rupees two crore under the existing loan agreement without additional security.

In addition to these two loans, EDC also sanctioned (June 2000) and disbursed (July 2000) a corporate loan of Rs 1.60 crore repayable in one year in spite of the fact that:

- the borrower had already defaulted in payment of interest (Rs 58.10 lakh as of July 2000) on the combined term loan of Rupees seven crore;

- the major portion of security for corporate loan offered by promoters consisted of shares of VSL itself held by third parties and that of an unlisted company and hence were not marketable; and

- no objection certificate for creating additional charge on the assets, which was required to be obtained from IFCI and IDBI before disbursal was not obtained.

VSL was referred to BIFR in November 2000 and EDC recalled (December 2000) the entire loan of Rs 8.60 crore and outstanding interest of Rs 2.81 crore. But it was only in May 2003 (two and a half years later) that EDC took possession of the assets of the unit and attached plant and machinery and land which was valued at Rs 12 crore for the purpose of sanction of loan. It was noticed that electrical equipment worth Rs 23.49 lakh were missing at the time of attachment.

There was nothing on record to indicate that EDC was regularly monitoring the performance of VSL by exercise of their right to appoint a nominee in the Board of Directors of VSL. Regular post–sanction monitoring would have brought out the fact that VSL was incurring heavy losses at the time of sanction of the corporate loan of Rs 1.60 crore. EDC filed a case in the District Court, Panaji in January 2002 and court decided in June 2005 that the Company may proceed against the properties of the guarantors. But EDC could not enforce the decree so far (October 2007) for want of authentic ownership documents. Thus, release of the first loan before fulfillment of the terms and conditions of sanction, irregular sanction of further loans and inadequate monitoring resulted in blocking and non recovery of Rs 8.60 crore for nearly eight years and loss of interest of Rs 10.12 crore.

The Management stated (June 2007) that attachment of the unit and disposal of assets were delayed as the decision on reference to BIFR was pending for about two and half years. The fact, however, remained that even after the rejection of reference by BIFR in March 2003, the company did not dispose off the assets despite receipt (October 2004) of a reasonable offer (Rs 14 crore). The steps stated to have been taken to effect recovery of the dues were not adequate/prompt enough to ensure early recovery of the dues. Moreover, the management could not offer any convincing reply to the audit findings on the improper sanction/ disbursal.

## Goa State Infrastructure Development Corporation Limited

### *7.7 Infructuous expenditure on construction of housing units*

**Commencement of the work of construction of housing units at Vasco, without obtaining express approval and collection of deposit from the Rehabilitation Board, resulted in suspension of work mid-way and consequent loss of Rs 21.52 lakh.**

The State Rehabilitation Board (Board) entrusted (January 2004) the work of construction of 150 housing units at Vasco to the Company. The Board while forwarding the plans and design requested (June 2004) the Company to submit the estimates for enabling them to place required funds with the Company. The Company prepared an estimate for Rs 3.83 crore and the same was accepted (September 2004) by the Board. Accordingly, the Company awarded (April 2005) the work to Susheela Homes and Properties Limited (lowest tenderer) at Rs 3.78 crore, to be completed by January 2006. While the work was in progress, the Board directed (July 2005) the Company to stop the work due to some changes to be carried out in the design of the buildings and therefore, the work was suspended (July 2005). The Company had incurred an expenditure of Rs 21.52 lakh for the work done (March 2007). Subsequently, the Board forwarded (September 2005) another plan but the consultant of the Company did not accept (November 2005) the same. The contractor also refused (January 2006) to resume the work claiming increase in rates which was not accepted by the Board. The contract was terminated (July 2006) by the contractor. As no proposal was received from the Board for re-tendering, the future of work remained uncertain (October 2007).

Audit scrutiny (March 2007) revealed the following:

- The Board had requested (January 2004) the Company to submit the estimates for placing the funds for the work with the Company. Without receipt of funds or express approval of the Board, the Company started (May 2005) the work. Being a deposit work, the Company should have taken the deposits before award/start of work.

- The Company violated the Government directives (December 2004) which stipulated that GSIDC should execute Memorandum of Understanding (MOU) with the concerned Government Departments before undertaking any project allotted by the Government.

Thus, commencement of work without approval of the client and failure to collect deposit money resulted in loss of Rs 21.52 lakh to the Company, besides loss of interest of Rs 5.81 lakh due to blockade of funds.

The Management stated (June 2007) that the work was started without waiting for deposit of fund by the Board, for ensuring speedy completion of the project. The Company stated further that the work has not been withdrawn so far and the balance work can be completed by re-tendering, on receipt of approval from the Rehabilitation Board. The reply is not tenable as the work already executed is not suitable for any modification and lying idle for the last two years. Moreover, even if the company proposes to complete the work by retendering, it has to incur extra expenditure due to passage of time.

## Goa Electronics Limited

### *7.8 Extra expenditure on payment of On-Site Support Charges*

**Payment of On-Site Support Charges for computers at a higher rate than the offer resulted in extra expenditure of Rs 16.83 lakh.**

The Department of Education, Government of Goa, launched the Cyberage Student Scheme which envisaged supply of computers and accessories (UPS, printer, software etc.) free of cost to the school-going students. The Company had carried out the scheme during 2003-04 and 2004-05, on behalf of the Department, at a service charge of three *per cent*.

For the Cyberage Scheme 2004-05, the Company invited (December 2004) tenders from hardware agencies for supply of 15,000 computers and accessories. The scope of work included, supply and installation of computer hardware and accessories and providing spare parts free of cost, during the warranty period of two years. In the tender, the bidders were required to quote separately the charges for providing On-Site Support service also. The rate of Rs 13,510, quoted by Goa Technosys Pvt. Ltd. (GTPL) was the lowest for computer. Accordingly the company placed (August 2005) order for 3,845 computers (Intel Celeron) with GTPL and the balance quantity (7,139 computers) was distributed among other bidders, who agreed to match the L1 rate. In respect of On-Site Support Charges the offer of GTPL was Rs 1,100 per computer. Against this offer, while placing orders with the suppliers, the company however agreed to pay Rs 1,300 per computer as On-Site Support Charges which resulted in extra expenditure of Rs 16.83 lakh to the exchequer, in respect of 8,414 computers purchased from 12 suppliers.

The Management/Government replied (July/October 2007) that the extra amount was offered for providing On-Site Support to UPS and Printer. This reply is not tenable, since no such decision was recorded and the scope of tender had contained warranty/On-Site Support for hardware including UPS and Printer.

## DEPARTMENTAL COMMERCIAL UNDERTAKINGS

## Goa Electricity Department

### *7.9 Loss due to rejection of claim for incentive*

**Failure of the GED to establish the incentive claim under APDRP scheme resulted in rejection of the claim by the Ministry of Power and consequent loss of Rs 8.91 crore.**

The Memorandum of Understanding (MOU) entered (October 2001) into by the State Government with the Government of India, Ministry of Power (MoP) provided for corporatisation of the Goa Electricity Department (GED) by March 2002. Under the Accelerated Power Development and Reforms Programme (APDRP), the Central Government extended incentive grants towards reduction in cash losses by SEBs/Utilities, up to 50 *per cent* of such amount. Accordingly GED claimed (February 2004) an incentive of Rs 8.91 crore, stating that it had achieved a cash loss reduction of Rs 17.92 crore in 2002-03.

The MoP rejected (February 2005) the claim on the grounds that it was not possible to know from the accounts submitted by GED whether the loss reduction had been achieved or not. MoP further stated that the incentive would be released after the GED was corporatised. Since the incentive claimed for the year 2002-03 was rejected, the GED had not worked out the reduction in cash losses for subsequent years and no claim for incentive was preferred. Thus, the failure of GED in preferring the claim with proper supporting documents/accounts, sufficient to establish reduction in cash loss, resulted in loss of Rs 8.91 crore.

The GED replied (August 2007) that under the existing accounting system and also even after corporatisation, evaluation of cash loss reduction for the period during which GED functioned as a Government Department, may not be possible. The reply is not tenable as GED could have studied the claims from other SEBs and provided necessary details to MoP. However, GED did not follow up the matter effectively.

### *7.10 Extra expenditure due to delay in issue of work order and consequent re-tendering*

**Delay in accepting the lowest offer for renovation work of LT lines within the validity period, resulted in extra expenditure of Rs 1.12 crore on re-tendering.**

The GED invited (December 2003) tenders for the work of renovation of existing old LT lines of Sub-division III of Division I at Panaji, under the Accelerated Power Development and Reforms Programme. The scope of work included removing the old lines and supply, erection, testing and commissioning of new lines.

The cost of the work was estimated at Rs 1.86 crore. All the three tenders received were opened (20 January 2004) and the lowest offer of Rs 1.94 crore from Narendra Erectors was recommended (9 February 2004) for acceptance. As per the tender conditions, the offer was valid for a period of 90 days from the date of opening of tender (viz., up to 19 April 2004). However, on account of procedural delays, the work order could not be issued within the validity period. As the work order was issued (12 July 2004) after expiry of the validity period, Narendra Erectors did not accept the work order and the same was cancelled (January 2005) by the GED.

After re-tendering, the work was awarded (June 2006) at a cost of Rs 3.06 crore with a price variation clause. Thus, failure to issue the work order within the validity period at the time of initial tendering necessitated re-tendering and consequent minimum extra expenditure of Rs 1.12 crore. Actual extra expenditure would further go up in view of price variation clause in the work order of June 2006. In addition to the cost overrun, the delay in execution of work also delayed the improvement in operational efficiency in this area.

The GED stated (August 2007) that procedural delays in placing order were due to existence of some discrepancies in the tender documents submitted by the lowest tenderer. The reply is not tenable as the concerned Executive Engineer had recommended for acceptance of tender of Narendra Erectors on 9 February 2004 itself. The GED, however, took more than five months to place the order even after receipt of the recommendation. Further, the GED could have settled any issue with the tenderer well before the expiry of the validity period.

**Panaji** **(YASHWANT N. THAKARE)**
**The** **Accountant General, Goa**

Countersigned

**New Delhi** **(VINOD RAI)**
**The** **Comptroller and Auditor General of India**