

Chapter-II

Performance review relating to Government company

2. Bihar State Tourism Development Corporation Limited

Executive Summary

The Bihar State Tourism Development Corporation Ltd. (Company) was incorporated as a wholly owned Government Company in November 1980 to promote tourism in the State by providing accommodation, catering, transport services to tourists, development of places of tourist interests etc. As on 31 March 2009, Company had 19 properties in the State.

The performance audit was conducted to assess the economy, efficiency and effectiveness of infrastructure projects undertaken, leased out assets, profitability of hotel operation and transport services of the Company.

Financial performance

As on 31 March 2009 the paid-up share capital of the Company was Rs. five crore with Reserves and Surplus at Rs. 4.74 crore.

The Company suffered a loss of Rs.0.43 crore during 2005-06 but posted a profit of Rs. 0.66 crore in the year 2006-07. The profits increased to Rs. 1.45 crore in 2008-09 and was mainly due to an increase in earnings from transport and ropeway unit.

Important projects, schemes, and activities

The company being a nodal agency receives fund from the Ministry of Tourism (MoT), GoI and the State Government for development of infrastructural facilities. The utilisation percentage of available funds ranged between a dismal 1.34 per cent and 23.52 per cent. Thus, despite availability of funds, the Company failed to commence projects.

Performance of hotels and other services

The targeted occupancy level of 60 per cent could not be achieved in almost all the hotels of the company during the period 2004-05 to 2008-09. The target of occupancy was never reviewed by the Board. Further, non-achievement of the minimum targeted occupancy levels resulted in a potential loss of revenue of Rs. 5.15 crore during the period 2004-09.

Growth of tourism and share of the Company

Though tourism is recognised as an industry, the Government had not laid down any tourism policy for the State. Despite a 52.76 per cent increase in tourist inflow during 2004-05 to 2008-09, the percentage of tourists availing company's accommodation facilities remained abysmally low and stood in the range of 0.43 and 0.51 per cent for domestic tourists and 0.60 and 3.73 per cent for foreign tourists.

Poor management of lease

The Company had leased out five hotels, three restaurants and other properties like shops, youth hostels etc. The company had neither carried out any Cost-Benefit Analysis (CBA) prior to leasing out its prime properties. As many as 19 properties were leased out without entering into lease agreements.

Performance of the Transport Services

Earnings from the transport wing comprised 27.55 per cent of the total income of the company during the period 2004-09. Apart from providing its own vehicles, the company also hired vehicles from third parties on commission basis.

The transport division had been incurring losses up to 2006-07 but posted a profit of

Rs. 0.40 crore during 2008-09 which was mainly attributable to the increase in business of pre-paid taxi services and chartered sale (i.e. outside vehicle).

Conclusion

Despite 30 years of its existence, the company has failed to meet the challenges and standards of the private sector. The tourist potential of the State remained largely untapped due to lack of planning and professional approach in the management of the Company. Audit recommends that the Company should endeavour to (a) Finalise the

State Tourism Policy and prepare a long-term perspective plan/road maps defining targets to be achieved, (b) Infuse professionalism in management with a view to provide qualitative services, (c) Adopt aggressive marketing and publicity practices to attract tourist and promote tourism in the State and undertake serious efforts to improve the process involved in planning and execution of the infrastructural projects with an aim to avoid procedural delays and to complete the projects in due time.

Introduction

2.1 The Bihar State Tourism Development Corporation Ltd. (Company) was incorporated as a wholly owned Government Company in November 1980 with the main objective of promoting tourism in the State by providing accommodation to tourists, developing places of tourist interest and providing transport and catering services either owned, or acquired from the Department of Tourism (DoT) and other Departments of Government of Bihar on profitable lines. The ancillary objectives of the Company included, *inter alia*, planning and execution of schemes for development of tourist complexes and tourist resorts, printing and publishing of pamphlets, books, and other materials needed by tourists and travellers, carrying on the business of producing, distributing and exhibiting cine films, documentaries and running boats, swimming pools, etc.

As on 31 March 2009, Company had 19 hotels (12 self-managed, five leased-out and two closed) spread over different locations of the State comprising of 165 Rooms (64 Air-conditioned (AC), 79 Non-AC and Dormitories) with 481 bed capacity. Company also had 11 restaurants attached to its hotels (eight self-managed and three leased out).

Organisational set-up

2.2 The management of the Company is vested with the Board of Directors (Board). As on 31 March 2009, the Board consisted of six directors including one professional and two from public nominated by the Government of Bihar. The Chairman cum Managing Director (CMD), the Chief Executive Officer of the Company is assisted by the General Manager, Dy. General Manager (Finance & Accounts), Manager (Admn.) and a Chief Engineer (appointed on contract basis) in the day to day working of the Company.

Scope of Audit

2.3 A sectoral Review on Catering and Occupancy Performance of the Company featured in the report of the Comptroller and Auditor General of India (Commercial), Government of Bihar, for the year 1998-99 and a

comprehensive Review on the activities of Company appeared in the Report for the year 2003-04. Both of these Reviews have not yet been examined by the Committee on Public Undertakings (CoPU).

Present Performance Audit of the Company was carried out during the period March 2009 to August 2009 and covers the overall performance of the Company during the last five years with an emphasis on infrastructure development activities, room occupancy, catering services etc. Audit examined the records maintained at the corporate office and seven¹ of 12 self-managed hotels and one out of the two Transport units. The basis of sample selection adopted was revenue generation, renovation, and modernisation programme and tourist potentiality.

Since the annual accounts of Company from the year 1995-96 onwards were in arrears, Audit had to base its performance review on the provisional accounts furnished by the management for the years 2004-05 to 2008-09.

Audit Objectives

2.4 The objectives of performance audit of the Company were to assess as to whether:-

- the infrastructural projects undertaken by the Company were executed economically, efficiently and effectively and that there was no undue delay or cost over-run in the execution.
- the leased assets of the Company were managed economically and efficiently.
- the hotels of the Company were able to achieve their targets of occupancy.
- the transport units of the Company were managed on profitable lines.
- the Company had a well defined marketing / developmental strategy to promote the State as a favoured tourist destination.

Audit criteria

2.5 The criteria considered for assessing the achievement of audit objectives were as follows:

- Tourism policy of the State Government and its directions;
- Guidelines for release of funds for projects/ schemes under Central Financial Assistance and schemes assisted by the Department of Tourism, Government of Bihar;

¹ Hotel Kautilya Vihar-Patna, Hotel Tathagat Vihar-Rajgir, Hotel Siddharth Vihar-Bodhgaya, Hotel Lichhavi Vihar-Muzaffarpur, Hotel Kaimur Vihar-Mohania, Hotel Kosi Vihar-Saharsa, Hotel Vishwamitra Vihar-Buxar.

- Targets of occupancy and revenue set by the Company for its units / hotels;
- Basis of fixation of tariffs, norms for expenditure on POL (petrol, oil, lubricant) repairs and maintenance of vehicles with respect to transport division of the Company;
- Marketing policy of the Company, expenditure incurred towards promotion of tourists in the State *viz.* advertisements, souvenirs, pamphlets, bulletins *etc.*

Methodology of Audit

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

- Review of Tourism Policy of the State Government, and/ or Guidelines/ Directions issued by the Ministry of Tourism/ State Government.
- Examination of the agenda and minutes of the meetings of the Board of Directors, monthly review meetings, Budgets, Targets and Report submitted by the units.
- Scrutiny of the agreements with the contractors entered by the Company, project execution files, detailed project reports (DPRs), technical sanctions; measurement books (MBs) *etc.*
- Scrutiny of the files relating to the grants received from the Central/ State agencies, utilisation certificates *etc.*

Audit Findings

2.7 The objectives of performance audit undertaken were discussed in an entry conference (June 2009). Audit findings emerging from the performance review were reported (August 2009) to the management and discussed (November 2009) in the exit conference, attended by the Principal Secretary, Department of Tourism, Government of Bihar, who is also the CMD of the Company. The views expressed by the management / Government have been taken into consideration while finalising the review. Audit findings emerging from scrutiny of different activities of the Company are discussed in succeeding paragraphs.

Financial position and working results

Capital Structure

2.8.1 As on 31 March 2009 the authorised and paid-up share capital of the Company was Rs. five crore divided into five lakh equity shares of Rs. 100 each. Besides, there were Reserves and Surplus of Rs. 4.74 crore (Subsidy Rs. 0.58 crore and General Reserves: Rs. 4.16 crore) with it.

Financial position

2.8.2 The financial position of the Company as per provisional accounts for the period of five years up to 2008-09 is given in **Annexure-7**. Audit observed that:

- The Company had sundry debtors of Rs. 1.77 crore as on 31 March 2008 including Rs. 0.44 crore pending for recovery for more than 10 years, which were not being pursued for want of necessary details. Of the total sundry debtors of Rs. 1.77 crore, 1.06 crore (60 per cent) pertained to Govt. Departments. Audit is of the opinion that the Company was not aggressive in realisation of its debts. The Company had also not adopted any system of obtaining confirmation of dues from its debtors.
- although the Company's units/ hotels were not permitted to allow credit in respect of tariffs for its rooms, yet the total amount recoverable in respect of unauthorised credit allowed by 12² of its hotels as on 31 March 2009 stood at Rs. 0.35 crore.

The summarised position of the working results (provisional) of the Company for the last five years up to 2008-09 is as below:

(Amount: Provisional – Rs. in crore)

	PARTICULARS	2004-05	2005-06	2006-07	2007-08	2008-09
A	Total Income	4.51	4.18	4.26	5.58	6.36
B	Total Expenses	4.44	4.61	3.44	3.90	4.30
C	Net Profit	0.07	(0.43)	0.82	1.68	2.06
D	Prior Period Adjustment (Net)	0.06	(0.0013)	(0.0078)	0.21	0.14
E	Provision For Taxes	0.05	0.0034	0.15	0.72	0.75
F	Profit after prior period adjustment and provision for taxes	0.08	(0.43)	0.66	1.17	1.45

Audit analysis showed that in 2006-07 the Company increased its profit margin which was mainly because of a substantial reduction in its establishment and maintenance expenditure. Profit of the Company increased from Rs. 0.66 crore in the year 2006-07 to Rs. 1.45 crore in the year 2008-09 which was attributable to increase in earnings especially from the Transport and Ropeway unit.

Important Projects, Schemes and Activities

Infrastructure development activities

2.9.1 The Company being a nodal agency, receives fund from the Ministry of Tourism (MoT), Government of India and the State Government for development of infrastructural facilities (*viz.* hotels, wayside facilities, tourist information centres, tourist complexes *etc.*) to promote tourism in the State. Details of funds received by the Company on account of centrally assisted and

² Hotel Kautilya Vihar-Patna, Hotel Tathagat Vihar-Rajgir, Hotel Siddharth Vihar-Bodhgaya, Hotel Lichhavi Vihar-Muzaffarpur, Hotel Valmiki Vihar, Valmikinagar, Hotel Sujata Vihar, Bodhgaya, Hotel Vishwamitra Vihar-Buxar, Hotel Koshi Vihar-Saharsa, Hotel Budha Vihar-Bodhgaya, Hotel Ajatshatru Vihar- Rajgir, Hotel Gautam Vihar-Rajgir, Hotel Kaimur Vihar-Mohania

the State Government projects and the expenditure incurred during 2004-05 to 2008-09 are given below:-

(Amount: Provisional – Rs. in crore)

Utilisation of the infrastructure fund was low and ranged between 1.34 to 23.52 per cent during 2004-05 to 2008-09.

Year	Opening Bal.	Funds Recd.	Total funds available	Expenditure	Closing Bal.	Utilisation percentage with respect to availability of funds
2004-05	3.66	15.05	18.71	2.63	16.08	14.06
2005-06	16.08	3.80	19.88	3.75	16.13	18.86
2006-07	16.13	1.05	17.18	9.29 ³	7.89	1.34
2007-08	7.89	12.05	19.94	4.69	15.25	23.52
2008-09	15.25	16.92	32.17	6.27	25.90	19.49

The utilisation percentage of available funds ranged between a dismal 1.34 per cent and 23.52 per cent which was indicative of poor planning and monitoring by the Company in execution of infrastructure development projects during all the five years.

This was further substantiated from the number of projects sanctioned, taken-up, completed and those remaining incomplete as detailed in the table given below:

(Amount: Provisional – Rs. in crore)

Projects	Central Government		State Government		Total		
	Number	Amount released	Number	Amount released	Number	Amount released	Amount utilised
Sanctioned	14	9.66	31	20.37	45	30.03	6.06
Taken up	10	3.56	27	15.57	37	19.13	6.06
Completed	5	1.19	8	1.44	13	2.63	2.51
Incomplete	5	2.37	19	14.13	24	16.50	3.55
No taken up	4	6.10	4	4.80	8	10.90	--

Out of Rs. 30.03 crore received against 45 projects, the company utilised Rs. 6.06 crore on 37 projects.

Out of the 45 projects, the Company undertook 37 projects (Central: 10 and State: 27) of which 13 projects (Central: five and State: eight) were completed at a cost of Rs. 2.51 crore against released amount of Rs. 2.63 crore. The remaining 24 projects (Central: five and State: 19) were in different stages of completion and the expenditure incurred on these was Rs. 3.55 crore against Rs. 16.50 crore released. The Company did not take up eight (Central: four and State: four) projects. As a result, Rs. 10.90 crore remained unspent. Further, out of 10 centrally assisted projects, seven projects sanctioned during 1997-2001 remained incomplete for seven to eleven years and spilled over from 2004-05 to 2008-09.

Audit observed that apart from the above projects, the Company received a sum of Rs. 8.84 crore up to 2007-08 for another 35 infrastructural projects (Annexure-8). Despite availability of funds, the Company failed to commence these projects up to March 2009 due to various reasons like non-availability of land and shortage of staff in the engineering division of the Company.

- As on 31 March 2008, a corpus pertaining to the various infrastructural projects to the tune of Rs. 15.18 crore was lying with the Company in fixed deposits. The Company has not evolved any system of identifying the funds parked in its fixed deposit accounts against specific projects.

³ Figure includes Rs. 9.06 crore being the amount of refund on account of surrender of various projects during 2006-07 which pertained to earlier years and amount to the tune of Rs. 0.23 crore only were incurred on the projects.

- The Company did not have any long-term plan with respect to execution of its infrastructure development activities and the monitoring done by the Company management of these projects was also poor.
- Non completion of a number of these projects denied the Company substantial potential revenue.

Delay in submission of utilisation certificate

2.9.2 The revised Guidelines for release of Central Financial Assistance (CFA) to States / UTs under various plans / schemes operated by the Ministry of Tourism provides (January 1999) for release of 30 *per cent* of the approved Central Assistance on approval of the projects and second instalment of 50 *per cent* on receipt of utilization certificate for the amount released. Further, for approval of proposed projects involving construction activities, the State / UTs have to submit information/documents *viz.* certificate to the effect that a piece of land for the proposed project without encumbrances is available with the State / UTs and an undertaking that the work would be started within six months from the sanction of the projects.

Delay in submission of utilisation certificate resulted in non release of funds of Rs.0.57 crore from GoI.

Audit observed that the Company did not submit utilisation certificates in due time in respect of Rs. 0.95 crore received for five⁴ projects. These projects could not be started in time because of land availability issues and as a result the second instalment of CFA to the tune of Rs. 0.57 crore was not released (2004-05) to the Company and the intended benefits from the proposed projects could not be derived.

Management stated (November 2009) that the utilisation certificates had already been sent to the Government for needful. But the fact remains that the Company failed to submit the utilisation certificate in due time.

Diversion of funds

The Company incurred excess expenditure of Rs. 3.34 crore on various projects by diverting funds from other projects

2.9.3 As per the CFA guidelines as well as the DoT directives, the fund released for a specific purpose should be utilised strictly for the relevant purpose. No diversion of fund for any other purpose is permissible without the specific consent of the appropriate authority. Audit observed that the Company had incurred expenditure in excess of the fund provided for the specific projects to the tune of Rs. 3.34 Crore (up to March 2009) as detailed in **Annexure-9**.

Thus, there had been diversion of funds from the one project to another without specific sanction of the appropriate authority thereby resulting in excess expenditure of Rs. 3.34 crore in respect of various projects.

⁴ Development and Beautification of Tourist Spot Guneri (Gaya), Construction of Tourist Complex cum Tourist Reception Centre, Purnia, Construction of Tourist Complex cum Tourist Reception Centre Matsyagandha (saharsa), Construction of wayside facility at Patna on NH-30, Construction of Tourist Information Centre, Muzaffarpur.

Management admitted the facts and stated (November 2009) that the expenditure had been incurred in excess of the funds provided for the specific project so as to avoid the cost over-run in anticipation of reimbursement of amount including post approval from the Government.

2.9.4 Delay in completion of the project/ Cost Over-run of the project

(Amount: Rs. in Crore)

Sl No	Projects	Year of Sanction	Original Estimate	Schedule Date of Completion	Revised Estimates	Actual Date of Completion	Expenditure Incurred	Cost Over-Run	Time Over-Run
1	Wayside Facility, Mahesh Khunt, Khagaria	2004-05	0.39	August 2009	0.97	Incomplete	0.44	0.57	--
2	Tourist Information Centre, Muzaffarpur	1999-00	0.39	February 2006	0.51	Incomplete	0.08	0.12	--
3	Surya Vihar Aurangabad	1998-99	0.36	June 2006	0.44	December 2008	0.51	0.15	2 years 6 months
4	Tourist facilities at Gangaghat	1997-98	0.29	April 2008	0.17	Work not yet started	--	--	--
5	Wayside facilities, Kishanganj	2004-05	0.64	February 2010		Work not yet started	--	--	--
6	Wayside facilities at Patna Bye-pass (NH-30)	2000-01	0.41	March 2006	--	Work started but stopped	0.08	--	--
	TOTAL							0.84	--

It can be seen from the table that:

Three projects suffered a cost over-run of Rs. 0.84 crore.

- Three⁵ of the test checked projects, suffered a cost over-run of Rs. 0.84 crore. Two of these were yet to be completed (August 2009).
- Four⁶ of the test checked projects, suffered a time over-run / delay in completion ranging from two years to 10 years. Two of these projects namely “Construction of Tourist facilities at Gangaghat” and “Construction of Way-side facilities at Kishanganj” despite being sanctioned in 1997-98 and 2004-05 respectively had not even started (August 2009).
- These delays in execution of projects were due to various reasons with non-availability of land, shortage of manpower, poor planning and monitoring being the major ones.

Management admitted (November 2009) the facts.

Inefficiency in Projects Planning and Execution

Construction of way-side facility at Maheshkhunt, Khagaria

2.9.5 Project for construction of Wayside Facilities in Maheshkhunt, Khagaria was sanctioned at an estimated cost of Rs. 0.39 crore in March 2005. A sum of Rs. 0.39 crore for the said project was released to the Company in

⁵ Wayside Facility, Mahesh Khunt, Khagaria; Tourist Information Centre, Muzaffarpur; Surya Vihar Aurangabad.

⁶ Surya Vihar Aurangabad ; Tourist facilities at Gangaghat; Wayside facilities, Kishanganj; Wayside facilities at Patna Bye-pass (NH-30).

2004-05 and the project was to be completed in 15 months. The work of construction of facility was not completed even after 57 months (December 2009).

Deficient planning and incorrect estimates led to time over-run and cost over-run of the project resulting in a potential loss of Rs. 0.16 crore.

Audit noticed faulty estimates and deficient planning with no site inspection and feasibility study being done prior to work commencement which led to inclusion of additional work as well as changes in the scope of original work in order to make the project commercially viable. This resulted in cost over-run of Rs. 0.57 crore (144.37 *per cent*). The Company suffered potential revenue loss of Rs. 0.16 crore⁷ for the period October 2006 to March 2009.

Management in its reply while admitting the facts stated (November 2009) that site protection works and approach road to the hotel could not be included in the purview of the contract due to fund limitation and the same had been tendered out separately and as such do not constitute the part of the original contract. The reply is not acceptable in Audit since site protection work, approach road etc constitute an integral part of any civil project so as to make the same commercially viable. The said work had been purposefully excluded from the scope of the original contract as with their inclusion deviation from the original cost of the project would have been very high.

Audit suggests that prior to taking up a project, a detailed project report / feasibility report based on site-inspection/survey should be prepared by the Company.

Development of tourist facilities at Gangaghat

2.9.6 The project “Development of Tourist Facilities at Gangaghat” was sanctioned in the 1997-98 for a sum of Rs. 0.29 crore. A sum of Rs. 0.05 crore was released to the Company in January 2004 as the Central Government component and Rs. 0.15 crore was released up to March 2006 as the State Government component. The work was awarded in July 2004 at an agreed value of Rs. 0.21 crore. However, work could not be taken up immediately on account of non-transfer of the title of the land in favour of the Company.

Audit observed (August 2009) that construction activities on site have still not commenced. Thus, lapses on the part of the Company with reference to:

- false declaration submitted by the Company to the Government of India regarding availability of land for the project; and
- consequent procedural delays in obtaining the title of the land as well as the finalisation of tender,

Delay in execution of the project led to blocking-up of fund of Rs. 0.20 crore for six years.

the project not only suffered an abnormal delay of almost ten years but this also led to the blocking-up of public fund to the tune of Rs. 0.20 crore for almost six years.

⁷ Based on assumption that the 8 rooms and 1 Dormitory (12 Beds) would have been occupied at an estimated occupancy rate of 60 *per cent*, their tariff being at a rate of Rs. 300 per Room and Rs.50 per Bed per day respectively.

Management in its reply has also admitted the facts.

Audit suggests that undue delay in tender finalisation process should be avoided and the project should be adequately monitored for timely completion.

Surrender of projects

Deficient planning, lack of competent personnel and poor monitoring and supervision led to blocking up of fund of Rs. 11.27 crore for two years.

2.9.7 Audit observed that four⁸ Centrally Financially Assisted Projects worth Rs. 11.27 crore were surrendered to the Department in December 2006 after partial execution.

Thus, funds to the tune of Rs. 11.27 crore remained idle with the Company for almost two years (December 2004 to December 2006). Reasons for non-execution of the project were mainly attributable to:-

- Deficient planning as well as poor assessment of technical requirements on the part of the Company as regards the execution of these projects. No feasibility reports were prepared and no prior site inspections were done before taking up the project.
- Lack of skilled manpower and shortage of staff in the engineering division of the Company.
- Procedural delays in finalisation of tender; and
- Poor monitoring of work by higher authorities since no significant progress had been made up to a period of two years from the date of receipt of fund for the same.

Management in its reply (November 2009) admitted the facts.

Audit suggests that engineering cell should be adequately equipped with quality manpower to achieve and execute projects.

Performance of hotel, catering and other services

2.10 The segment-wise operational performance of the Company during the last five years up to 2008-09 was as under:

(Amount: Provisional – Rs. in Crore)

Income											
Year	Total Income	Accommodation		Catering		Transport		Ropeway		Others	
		Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
2004-05	4.52	1.04	23.01	0.30	6.64	0.98	21.68	0.62	13.72	1.58	34.95
2005-06	4.18	1.13	27.03	0.27	6.46	1.41	33.73	0.62	14.83	0.75	17.93
2006-07	4.26	1.35	31.69	0.36	8.45	1.13	26.53	0.86	20.19	0.56	13.14
2007-08	5.58	1.52	27.24	0.35	6.27	1.43	25.63	1.10	19.71	1.18	21.15
2008-09	6.36	1.65	25.94	0.36	5.66	1.91	30.03	0.91	14.31	1.53	24.06
Total	24.90	6.69	26.87	1.64	6.59	6.86	27.55	4.11	16.50	5.60	22.49
Expenditure											
2004-05	4.44	0.88	19.82	0.20	4.50	1.12	25.23	0.22	4.95	2.02	45.50
2005-06	4.62	0.95	20.56	0.23	4.98	1.50	32.47	0.25	5.41	1.69	36.58
2006-07	3.44	0.80	23.26	0.25	7.27	1.21	35.17	0.20	5.81	0.98	28.49
2007-08	3.90	0.81	20.77	0.22	5.64	1.10	28.21	0.20	5.13	1.57	40.25

⁸ Tourist Complex Vishnu Vihar, Bodhgaya; Manersharif Project; Eco-tourism development, Valmikinagar; Construction of Bhimbandh, Munger

2008-09	4.30	0.89	20.70	0.24	5.58	1.51	35.12	0.22	5.12	1.44	33.48
Total	20.70	4.33	20.92	1.14	5.51	6.44	31.11	1.09	5.27	7.70	37.19

It can be seen from the above that accommodation and transport services altogether contributed more than 50 *per cent* of the total income of the Company. Further, 22.49 *per cent* of income was from other services viz. supervision charges received in respect of execution of projects, lease rentals etc.

Occupancy level

2.10.1 The Board of Directors of the Company had fixed (November 1992) the normal occupancy target for its units/ hotels at 60 *per cent*. The occupancy percentage (actual) of the 11 self-managed hotels of the Company for the period 2004-05 to 2008-09 is shown in **Annexure -10**.

Audit observed that:-

- As against the occupancy target of 60 *per cent* the actual occupancy of rooms of nine self-managed hotels of the Company ranged from 16 *per cent* to 58 *per cent* and the actual occupancy of Dormitory beds in respect of its eight self-managed hotels ranged between nine *per cent* to 56 *per cent* during the period 2004-05 to 2008-09, except three self-managed hotels where the occupancy percentage exceeded 60, the main reasons of which was the use by State administrative departments. The target of occupancy was never reviewed by the Board and the efforts made by the Company in increasing the occupancy were inadequate as the targeted occupancy could not be achieved in almost all the hotels of the Company.
- The non-achievement of the targeted occupancy (60 *per cent*) of the Company in respect of its self-managed hotels also resulted in a potential loss of revenue to the Company to the tune of Rs. 5.15 crore (**Annexure – 11**) during the period 2004-05 to 2008-09.
- All the units were lagging behind the budgeted revenue targets set by the management during the period 2004-05 to 2008-09. Audit also observed that the percentage of units which could not achieve the targeted income ranged between 50 *per cent* and 92 *per cent* during the period 2004-05 to 2008-09 (**Annexure – 12**).

The Company could not achieve its targeted occupancy of sixty *per cent* resulting in loss of potential revenue of Rs. 5.15 crore.

Growth of tourism and share of the Company

2.10.2 Though tourism is recognised as an industry, the Government has not laid down any tourism policy for the State and the same is still under stage of final approval. A note appeared in the Report of the Comptroller and Auditor General of India (Commercial), Government of Bihar, for the year 2003-04 that Rs. 0.12 crore was made available to the Company (May 1998) for preparation of Master Plan, out of which only Rs. 0.04 crore was utilised by it up to March 2004. Since then, no further expenditure has been made and even

after 30 years of its incorporation, the Company has not been able to prepare any master plan for growth of tourism in the State.

The number of tourists visiting the State vis-à-vis those who availed the accommodation facilities in the Company's hotels during the period of review i.e. 2004-05 to 2008-09 is detailed in the table given below:-

(Figures in Numbers)

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1	Number of Tourists ⁹ visited Bihar					
	(a) Domestic	79,93,082	90,13,749	1,02,73,143	1,13,11,472	1,19,37,131
	(b) Foreign	36,280	93,666	1,25,721	2,21,796	3,28,716
	(c) Total	80,29,362	91,07,415	1,03,98,864	1,15,33,268	1,22,65,847
2	Percentage of Tourist Growth	21.67	13.43	14.18	10.91	6.35
3	Operated capacity of beds of the Company's hotels	1,73,740	1,73,740	1,73,740	1,73,740	1,73,740
4	Tourists who availed the accommodation facilities of the Company ¹⁰					
	(a) Domestic	40,869	45,484	44,145	55,230	59,627
	(b) Foreign	1,354	988	752	1,982	2,644
	(c) Total	42,223	46,472	44,897	57,212	62,271
5	Percentage of tourists availing Company's accommodation facilities					
	(a) Domestic	0.51	0.50	0.43	0.49	0.50
	(b) Foreign	3.73	1.05	0.60	0.89	0.80
	(c) Percentage of tourist availing accommodation facilities of Company w.r.t. total number of tourist visited Bihar.	0.53	0.51	0.43	0.50	0.51
6	Percentage of tourists stayed in Company's hotels w.r.t. the operated capacity of beds of the Company's hotels	24.30	26.75	25.84	32.93	35.84
7	Number of tourist using the private sector facilities	1,31,517	1,27,268	1,28,843	1,16,528	1,11,469

Despite heavy increase in tourist inflow, the Company's share in the tourist traffic ranged between 0.43 to 0.53 per cent.

It can be seen from the above table that despite a 52.76 per cent increase in tourist inflow between 2004-05 and 2008-09, the percentage of tourists availing Company's accommodation facilities remained low. Percentage of domestic tourists who availed the Company's accommodation facilities ranged between 0.43 and 0.51 and the percentage of foreign tourists availing Company's accommodation facilities remained between 0.60 and 3.73. Audit observed that the low occupancy of the Company's hotels and the consequent alienation of tourists to the private sector were mainly attributable to the following operational inefficiencies:

- Inadequate / absence of house-keeping facilities
- Lack of annual strategic plan / norms / policy for periodical and preventive repair and maintenance of its properties.
- Lack of qualified man-power in the Company's hotels.
- Inadequate transport facilities to the guest.
- Lack of adequate monitoring and supervision on the part of management. In spite of low occupancy, reasons were not analysed and no remedial action was taken. The feedback given by the customers was rarely acted upon to improve services.

⁹ Data furnished by Department of Tourism, Government of Bihar.

¹⁰ The data with reference to number of tourists who availed the accommodation facilities of Company's hotels was computed on the basis of room occupancy of the hotels

Management in its reply (November 2009) admitted the facts and has noted the audit observations for future improvements.

Room tariff fixation

2.11 The Company did not have a uniform policy for fixation of room rent. There was no periodical review of tariff with reference to the prevailing market trend and need for quality service. The tariff was fixed on the recommendation / proposals of the hotel managers which were neither based on any costing principle nor on any market survey. Audit observed that the tariff revision proposals as submitted by the respective hotel manager were framed mainly to compensate for the increase in overheads in particular hotels or for the general increase in prices.

The Company increased the room tariffs of its self-managed hotels ranging from 10 to 20 *per cent* on ad-hoc basis during the period 2004-05 to 2008-09. Audit observed that at the time of revision of tariff in its self-managed hotels, no serious efforts with respect to the up-gradation of accommodation facilities *viz.* room services, house-keeping facilities *etc.* were made by the Company which is evident from the simultaneous decline in the occupancy rate of its eight¹¹ hotels. This was notwithstanding the feedback tendered by the tourists/guests in respect of the accommodation facilities at regular intervals. Further, the Company was allowing off-season discount (April to September) as well as discount to the valued/ regular customers; the discount rate allowed to regular guest being in the range of 10 *per cent* to 30 *per cent*. It was noticed that the rate of discount was fixed by the CMD of the Company, on an ad-hoc basis and no uniform policy with reference to the discounts to be offered to the tourists/guests existed in the Company.

Management in its reply (November 2009) admitted the facts and has noted the audit observations for future improvements.

Poor management of lease properties

The Company did not carry out any cost-benefit analysis prior to leasing out its properties.

2.12 As on 31st March 2009, the Company had leased out five¹² hotels, three¹³ restaurants and other properties like shops, youth hostels, cafeteria, and pilgrim shed *etc.* Audit noticed that the Company had not carried out any Cost-Benefit Analysis (CBA) before leasing and had not laid down any policy in respect of units to be run on their own and those to be leased out. As many as 19 properties were leased out without entering into lease agreements. Further, where the lease agreements were entered into, they were not registered under the provisions of the Transfer of Property Act, 1882.

¹¹ Hotel Kautilya Vihar-Patna, Hotel Tathagat Vihar-Rajgir, Hotel Siddharth Vihar-Bodhgaya, Hotel Buddha Vihar-Bodhgaya, Hotel Sujata Vihar-Bodhgaya, Hotel Azatshatru Vihar-Rajgir, Hotel Gautam Vihar-Rajgir

¹² Hotel Amrapali Vihar-Vaishali, Hotel Dighi Tank-Darbhangha, Hotel Sersah Vihar-Sasaram, Tourist Complex-Purnia, Tourist Complex- Vaishali

¹³ Restaurant Kautilya Vihar, Restaurant Siddhartha Vihar, Restaurant at Arial Rope-way-Rajgir

Audit noticed in the case of:

a) **Hotel Karn Vihar, Munger** - The license for the operation of the hotel was terminated in July 2005 for default in payment of lease premium and the same was handed over to the District Administration, Munger in August 2007 without entering into an agreement and without pre-determination of lease premium. Not a single rupee of income was realised on account of lease premium. Thus, the Company failed to safeguard its financial interest as a result of which the company suffered a loss of potential revenue of Rs. 0.07 crore.

b) **Hotel Janki Vihar, Sitamarhi**: The license, for operation of said hotel on lease was accorded in April 2004. The lessee sublet the premises to a Non Governmental Organisation and a school thereby violating the purpose for which it was leased. Thus, absence of adequate supervision and monitoring on the part of the management led to the operation of the said hotel in contravention of the objectives of the company.

c) **Chandragupta Jal Vihar, Patna**: In respect of nomination of a commission agent for marketing and operation of its swimming pool, the terms and conditions of the appointment order stipulated the minimum guaranteed turnover for the first year at Rs. 15 lakh which was to be increased by 10, 20, 30 and 40 *per cent* in subsequent years. The Commission Agent had to submit to the Company, post-dated cheques of the amounts equivalent to the minimum guaranteed turnover, which were to be seized if the minimum guaranteed turnover was not achieved.

Audit observed that during the year 2004-05, a turnover of Rs. 5.90 lakh was achieved by the commission agent which was much lower than the minimum guaranteed turnover. Despite this, the post-dated cheques were returned by the Company to the said commission agent. Further, in May 2006, it came to the notice of the Company that the said operator had been collecting tariffs in excess of the tariffs of Rs. 5000 fixed by the Company in respect of lawns and pandal booking and was found to be *prima facie* guilty of shielding Company's income to the tune of Rs. 23.86 lakh. Notwithstanding such information, the Company again failed to seize the Post-dated cheques for the guaranteed amount of Rs. 15 lakh.

Non-observance of the terms and conditions of the work order as well as lack of exercise of due diligence with respect to the control procedures on the part of the Company resulted not only in extension of undue benefits to the operator but also deprived it of business worth Rs. 9.10 lakh as well as revenue worth Rs. 23.86 lakh.

Management in its reply (November 2009) admitted the facts and has noted the audit observations for future improvements.

Non-observance of financial discipline led to operation of the properties in disregard to the goals of the company. Besides, it also resulted into a loss of revenue of Rs. 0.33 crore.

Performance of Transport Services

2.13.1 The Company has its transport units at Patna and Bodhgaya to provide vehicles on hire. Transport services also include private vehicles hired by the Company on commission basis. Earnings from the transport wing comprise 27.55 per cent of the total income of the Company between 2004-05 and 2008-09.

The fleet strength of the Company as on 31 March 2009 was 11 buses (including four Volvo buses purchased in 2008-09) and 28 light vehicles.

The operational performance of the transport division of the Company over the past five years up to 2008-09 is as below:

(Amount: Provisional- Rs. in crore)

Year	Income	Expenditure	Profit/ (loss)	Percentage of profit / (loss)
2004-05	0.98	1.12	(0.14)	(14.29)
2005-06	1.41	1.50	(0.09)	(6.38)
2006-07	1.13	1.21	(0.08)	(7.08)
2007-08	1.43	1.10	0.33	23.08
2008-09	1.91	1.51	0.40	20.94

From the above table it can be seen that although the income from the transport division has increased during the period of review, but this is not in proportion to the increase in expenditure and the division had been incurring losses up to 2006-07. The division posted a profit of Rs. 0.40 crore during 2008-09 which was mainly attributable to the increase in quantum of business generated on account of pre-paid taxi services (Airport to different locations of Patna) and chartered sale (*i.e.* outside vehicle).

Audit observed that:

- As on 31 March 2009 a sum of Rs. 2.80 crore was recoverable from Government departments and a sum of Rs. 0.02 crore from private parties and the age of debtors ranged between two to three years. This sharply went up from Rs. 1.06 crore as at the end of 31 March 2008.
- Transport division has not evolved any system for periodical review of its tariff irrespective of increase /decrease in the prices of POL. The tariff rates have not been revised since the year 2005.
- The Company has not compiled vehicle utilisation report; therefore, Audit could not review performance of respective vehicles and subsequent preparation of Management Information System (MIS) with reference to the vehicles.

Recoverable Dues

2.13.2 The Company's transport unit provides transport facilities to its tourists for site seeing *etc.* on hire. For this purpose apart from providing its own vehicles, the Company also hires vehicles from third parties on commission basis. The Company pays hiring charges to private vehicle operators at the

tariff rate prevailing after due deduction of its commission. Subsequently, the Company raises the bill on its customer.

The position of sundry debtors built up from un-recovered dues on account of hiring charges over the past five years is depicted below:-

(Amount: Provisional- Rs. in crore)

Period	Opening Balance	Bills raised for the year	Bills realised during the year	Balance	Growth percentage Increase of Sundry Debtors w.r.t the closing balance of the previous year
2004-05	0.05	0.37	0.31	0.11	120
2005-06	0.11	0.83	0.72	0.22	100
2006-07	0.22	0.87	0.66	0.43	95
2007-08	0.43	1.40	0.87	0.96	123
2008-09	0.96	1.84	0.07	2.73	184

It is evident that the sundry debtors have been accumulating over the years. The percentage increase in sundry debtors' position with respect to the closing balance of previous year ranged from 95 to 184 *per cent* during 2004-05 to 2008-09.

Audit observed that a sum of Rs. 1.50 crore was paid by the Company to third parties in respect of the vehicles hired (2004-05 to 2008-09), but the management was not aware of as to against which bill, how much money had been realised as there was no periodical reconciliation of bills raised and money realised.

Thus, the Company had not framed a Receivables Management policy and was not aggressive in realisation of its accruals because of its own short comings. This led to the blocking up of Working Capital to the tune of Rs. 2.73 crore up to 31 March 2009 and the consequential loss of interest.

Management in its reply stated (November 2009) that a major part of the dues have been recovered in the financial year 2008-09. Management's reply is not convincing since recovery made during 2008-09 was merely Rs.0.07 crore.

Extension of undue benefit to private operator

2.13.3 With a view to offer quality bus services to tourists, the Company awarded work order to a private operator to operate two air-conditioned buses on Patna-Ranchi-Patna route under Public Private Partnership (PPP) mode in May 2007.

Absence of a sound receivable management policy led to blocking up of working capital to the tune of Rs. 2.73 crore

Audit observed:

- Absence of agreement with the operator for the said commercial venture even after expiry of one year from the date of operation; only a work order was issued.
- The clause with reference to the minimum guaranteed amount in the work order was not included as has been done in the case of operation of buses under the PPP mode on Patna-Mundeshwari route.
- Work was awarded at a lower rate of eight *per cent* of the sales proceeds notwithstanding the fact that the same operator had been plying buses on the same route with Indian Tourism Development Corporation Ltd. (GoI undertaking) at a fixed commission of 10 *per cent*.
- As per work order, tickets were to be issued and collections were to be made by the Company. However, the tickets were issued by the operator and collection was being received by him and no checks were being exercised by the Company to see that the proceeds were deposited into the Company's accounts on day-to-day basis.

Non-observance of financial interests resulted in extension of undue benefit of business worth Rs. 0.62 crore to the private operator and loss of income of Rs.0.06 crore.

Audit concludes that this resulted in extension of undue benefit to the private operator to the tune of Rs. 0.62 crore in terms of sales worked out at the rate of 60 *per cent* of the seating capacity of the buses. Besides the Company also suffered a loss of commission income of Rs. 0.06 crore; the said loss of commission worked out at the rate of 10 *per cent* on the basis 60 *per cent* of the seating capacity of the buses. It was further observed that not a single rupee of income on account of PPP operated buses even at the agreed rate of 8 *per cent* has been received by the Company up to March 2009.

Management in its reply stated (November 2009) stated that the Company has never given any undue benefit to private party. However, the reply of the Management is not specific since the justification for the same is wanting and the reply failed to address the Audit reportings.

Advertisement and Publicity

The company did not have a sound media policy and the expenditure towards advertisement & publicity was insignificant.

2.14 Advertisement and publicity enjoy a unique position in promoting tourism business. The Company had never taken adequate and aggressive steps to promote its hotels and other facilities to attract tourists especially considering the stiff competition from the private sector.

The meagre expenditure incurred by the Company towards advertisement & publicity over the last five years is given below:

(Amount: Provisional- Rs. in Crore)

Year	Total cash Expenditure	Expenditure incurred on account of Advertisement and Publicity	Percentage of Expenditure incurred on account of Advertisement and Publicity
2004-05	3.97	0.06	1.51
2005-06	4.26	0.11	2.58
2006-07	3.19	--	--
2007-08	3.66	0.06	1.64
2008-09	4.12	0.03	0.73

It can be seen from the table given above that the expenditure of the Company towards advertisement and publicity, printing of brochures *etc.* was at a maximum of 2.58 *per cent* of total cash expenditure in 2005-06. The Company did not have a sound media policy and efforts of the Company towards promotion of its hotels and other facilities in order to attract tourists and thereby boost tourism in the State was inadequate.

Management in its reply (November 2009) admitted the facts and has noted the audit observations for future improvements.

Corporate Governance

2.15 Corporate governance is the system by which companies are directed and controlled by the management in the best interest of the shareholders with greater transparency and by ensuring better and timely financial reporting. The Board of Directors is primarily responsible for the governance of their companies. In this regard Audit observed:

Frequent changes in incumbency led to non-evolvement of a long term/perspective plan for the company.

a) Frequent changes in incumbency - The post of Chief Executive Officer of the Company was held by seven incumbents from 2004-05 to August 2009, with their tenure ranging from mere two months to 16 months. Such frequent changes in incumbency resulted in lack of initiative at the top level to formulate and implement any long-term Action Plan for improvement in the working of the Company which is evident from the absence of any long-term Corporate Plan/ five or 10 years Perspective Plan/ road map with milestones for achievement there against.

b) Arrears of accounts – As per the provisions of section 166, 210, 230, 619 and 619 (B) of the Companies Act, 1956 read with the section 19 of the Comptroller and Auditor General’s (Duty, Power & Condition of Services) Act, 1971, the accounts of the Company for every financial year are required to be finalised within six months from the end of the financial year. It is the responsibility of the Board of Directors to get the Annual Accounts of the Company finalised in due course and arrears of accounts to be cleared in a time-bound manner so that proper financial control could be exercised.

Audit observed that the accounts of the Company were in arrears from the financial year 1996-97 onwards but no concerted efforts were found made by

the Company to get the accounts of the Company finalised even after an expiry of 12 years from the said financial year.

Management in its reply as regards the arrear of accounts stated (November 2009) that regularisation of the accounts is in progress.

Conclusion

Notwithstanding the State's potentiality for being considered as a favoured tourist destination given its rich historical backgrounds, diverse cultures as well as the world heritage status of Bodhgaya, the tourist potential of the State remained largely untapped due to lack of planning and professional approach in the management of business by the Company. Despite 30 years of its existence, the Company has failed to meet the challenges and standards of the private sector. The Company's failure in attracting tourists and promoting tourism in the State can be seen from the fact that:-

- the Company's share of domestic tourist as well as foreign tourists during the period of review ranged between 0.43 *per cent* to 0.51 *per cent* and 0.60 *per cent* to 3.73 *per cent* despite steep hike in the inflow of tourists to the State to an extent of 52.76 *per cent* during 2004-05 to 2008-09.
- Lack of basic amenities and non-professional approach to render quality services, failure in adopting aggressive marketing and publicity practices to attract tourists,
- Poor planning, lack of adequate monitoring and supervision during project execution resulted not only in unwarranted delay/time over-run as well as cost over-run of the projects but also in blocking and diversion of public fund as well as abandonment/surrender of important projects.
- the Company failed to exercise financial prudence in respect of leasing out of its assets to third parties. Further, Internal control system was found to be deficient in many areas.

Recommendations

State of Bihar rich in its historical background, diverse culture and having principal places of pilgrimage for Buddhists and Jains *etc.* has tremendous potential for becoming a favoured tourist destination.

Audit suggests the Company should:

- Prepare long-term perspective plan/road maps defining targets to be achieved.

- **Infuse professionalism in management of its hotel, catering and transport services with a view to provide qualitative services to attract tourists from private sector operators.**
- **Adopt aggressive marketing and publicity practices.**
- **Undertake serious efforts to improve the process involved in planning and execution of the infrastructural projects with an aim to avoid procedural delay and to complete the projects in due time.**