Chapter II

Performance Audit of Government Company

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Maharashtra Tourism Development Corporation Limited

Executive Summary

Maharashtra Tourism Development Corporation Limited (Company) was incorporated under the Companies Act, 1956 in January 1975 as a wholly owned Government Company to promote and develop tourism in the State of Maharashtra and to carry out commercial activities related to tourism. The Company receives financial assistance from the Government of India (GoI) and Government of Maharashtra (GoM) for implementing various schemes. As on 31st March 2016, the Company was operating 20 resorts, three restaurants, one scuba diving centre and one shopping centre. The Company had also leased out 91 units/properties (76 resorts and 15 restaurants).

The Company handed over possession of properties on lease for which they had no proper title. As a result, they could not enter into lease agreements and suffered loss. The Company had not framed any criteria for fixation of base price for leasing the properties. As a result, lease rent received by the Company was not commensurate with the investment and revenue of the property. The Company leased out/operated the properties after considerable delay. Consequently, the facilities could not be offered to tourist in addition to the revenue loss of ₹ 3.53 crore. The Company incurred development expenditure without obtaining any commitment from the lessee for increase in lease rent. The Company may fix responsibility on officials for inaction/delay in operation/leasing of properties.

As against the all India average of above 60 per cent during 2011-12 to 2015-16, the occupancy of the Company's resorts ranged between 42 and 50 per cent. There was declining trend in the occupancy of resorts from 50 per cent in the year 2011-12 to 43 per cent in 2015-16. No rational basis was adopted in fixing/revising the tariff including periodicity. The factors like tariff charged by similar operators in the vicinity, occupancy of the facility, infrastructure available and operational costs were not being considered while fixing the tariff.

The unutilised grants increased from ₹ 21.45 crore in 2011-12 to ₹ 219.05 crore at the end of 2015-16. The Company did not surrender the unutilised balance grants lying for more than six months as required under the GoI guidelines. The Company did not seek the approval of GoI/GoM for retaining unutilised grants. Instances of diversion of funds were also noticed. Utilisation Certificates submitted were in violation of terms and conditions of grants. The assets created at a cost of ₹ 12.16 crore remained idle and the chances of deterioration of these assets cannot be ruled out.

The Company awarded the work to an advertisement agency who was earlier disqualified due to lack of experience in online digital marketing which was the basic requirement for the work. This vitiated the process of open tender and resulted in irregular award of work. The Company funded the shortfall in sponsorship of ₹ 53.20 lakh for organising the Elephanta Festival which was irregular as it was in violation of the terms and conditions of contract with event management agency. The Company did not establish a mechanism to assess the impact of participation in various international and domestic events by way of collecting and analysing relevant data such as number of visitors who actually attended the events and business generated by participating hoteliers and travel agents.

The Company had not finalised their accounts from the year 2013-14 onwards. They had not prepared either the accounts manual or functional manuals for their operations. The asset register was not updated by the Company since 2013-14. Physical verification of Company's properties and assets were not carried out.

Introduction

2.1 Maharashtra located on the West Coast of India has a 720 km long coastline along the lush green Konkan region. Maharashtra abounds in numerous tourist attractions ranging from ancient cave temples, unspoiled beaches, ancient forts and monuments, forests and wildlife, unique hill stations, pilgrimage centres and has a rich tradition of festivals, art and culture, *etc*.

The following Table shows the tourist traffic in Maharashtra *vis-a-vis* all India average and its neighbouring States in terms of tourist inflow.

Table 1 : Comparison of tourist inflow of the State with neighbouring States

State	Number of tourists (in crore)		Growth rate
	2014	2015	
Maharashtra	9.70	10.78	11.13
Gujarat	3.11	3.66	17.68
Karnataka	11.88	12.05	1.43
Goa	0.40	0.53	32.50
All India	130.51	145.53	11.51

(Source: Website of Ministry of Tourism (GoI))

Maharashtra accounted for 7.41 *per cent* of the total tourist traffic in the country. The growth of the State in tourist inflow at 11.13 *per cent* was comparable with all India rate of 11.51 *per cent*. During the two years ending 2015, the State was visited by 20.48 crore tourists. While the number of tourists increased by 1.08 crore from 2014 to 2015 in absolute terms, the growth rate was however, below the growth rate of Gujarat and Goa, two neighbouring States.

The Tourism and Cultural Affairs Department is the Nodal authority for Tourism Sector in Maharashtra. Maharashtra Tourism Development Corporation Limited (Company) was incorporated under the Companies

Act, 1956 in January 1975 as a wholly owned Government Company to promote and develop tourism in the State of Maharashtra and to carry out commercial activities related to tourism.

The Company is under the administrative control of the Tourism and Cultural Affairs Department of the Government of Maharashtra. The Management of the Company is vested in a Board of Directors (BoD) comprising seven members. The day to day operations are carried out by the Managing Director with the assistance of the Joint Managing Director (JMD), General Manager, Deputy General Managers, Chief Accounts Officer, Executive Engineers (two) and Regional Managers (seven) at Regional level and Senior Managers (20) at unit level.

Activities of the Company

2.2 As on 31 March 2016, the Company was operating 20 resorts, three restaurants, one scuba diving centre and one shopping centre. The Company had also leased out 91 units/properties (76 resorts and 15 restaurants).

The Company receives financial assistance in the form of grants from the Government of India (GoI) and Government of Maharashtra (GoM) for implementing various schemes. The Company also carries out promotional activities which includes advertisement and participation in domestic and international events/exhibitions/festivals for showcasing the facilities available in the State.

Working results

2.3 The working results of the Company for the period 2011-12 to 2015-16 were as follows:

Table 2 : Working results *(₹ in crore)*

Particulars	2011-12	2012-13	2013-14 (Provisional)	2014-15 (Provisional)	2015-16 (Provisional)
Revenue:					
Revenue from operations	26.79	26.75	33.75	31.12	31.06
Other income	15.44	11.45	10.03	8.72	3.10
Total	**42.23**	**38.20**	**43.78**	**39.84**	**34.16**
Expenses:					
Operating expenses	19.67	23.93	-	-	-
Other expenses	16.28	10.79	42.99[1]	39.36[1]	37.35[1]
Total	**35.95**	**34.72**	**42.99**	**39.36**	**37.35**
Profit before tax and extraordinary items	6.28	3.48	0.79	0.48	(-)3.19
Extraordinary items	-	0.22	-	-	-
Profit before tax	6.28	3.70	0.79	0.48	(-)3.19

(Source: Annual accounts and data furnished by the Company)

The Company had not finalised the accounts for the years 2013-14 onwards. The profit earned by the Company was on the decreasing trend from 2011-12 to 2014-15 on account of increase in operating expenses in the year 2012-13

1 This includes Operating expenses

(24.32 *per cent*) without corresponding increase in revenue. The Company incurred loss in 2015-16. The income from other sources of the Company also substantially decreased from ₹ 15.44 crore in 2011-12 to ₹ 3.10 crore in 2015-16.

Scope of audit and objectives

2.4 The Performance Audit (PA) covered the activities of the Company for the period 2011-12 to 2015-16. The Company has seven Regional Offices (ROs) across the State. Of the seven ROs, two each were situated in Konkan and Vidarbha Regions and one each in Western Maharashtra, Marathwada and Khandesh Regions. Audit selected five[2] (one from each geographical Region) out of seven ROs for scrutiny. The audit examination involved examination of records at Head Office and selected ROs including resorts and restaurants located across the State. A PA of the Company had featured in the Report of the Comptroller and Auditor General of India No.4 (Commercial) for the year ended 31 March 2010-Government of Maharashtra. The Report has not been discussed in the Committee on Public Undertakings, so far.

Audit objectives of the PA were to ascertain whether:

- properties were leased out prudently and in a transparent manner;
- resorts and restaurants functioned efficiently and tariff was appropriately fixed;
- financial assistance received for asset creation and promotional activities was properly utilised and a reliable data base of tourists was created; and
- effective and adequate internal control system was in place.

Audit criteria and methodology

2.5 The audit criteria adopted were derived from the following:

- Schemes devised by GoM/GoI for promotion of Tourism in the State and Tourism Policy of Maharashtra 2006;
- Agenda and Minutes of the BoD meetings;
- Agreements for leasing out properties;
- Advertising and publicity plans; and
- Delegation of Powers.

The audit methodology adopted involved explaining audit objectives to the Management during an Entry Conference held in May 2016, analysis of data/records with reference to audit criteria, issue of audit enquiries and draft Performance Audit Report to the Management/Government for their comments. The draft PA Report was issued (October 2016) to the Company and Government and their replies are awaited (November 2016). The audit findings were also discussed in an Exit Conference (November 2016) wherein

2 Aurangabad, Nagpur, Nashik, Pune and Ratnagiri

the representatives of the Company and GoM were present. The Company had, however, not furnished the reply despite repeated requests.

Acknowledgement

2.6 Audit acknowledges the co-operation and assistance extended by the Company at various stages of conducting the Performance Audit.

Audit findings

The Audit findings are discussed in succeeding paragraphs.

Audit objective 1: Whether properties were leased out prudently and in a transparent manner

Leasing of properties

2.7 The Company possessed 148.99 lakh square metre (sq.mtr.) of land as on 31 March 2011. They procured additional 7.04 lakh sq.mtr. land during the period between 2011-12 and 2015-16 from State Government, Maharashtra Industrial Development Corporation and private parties. The Company utilised 87.75 lakh sq.mtr. of the land and the remaining area of 68.28 lakh sq.mtr. at 33 locations had so far (August 2016) not been utilised. The Company had 96 resorts and 18 restaurants of which 76 resorts and 15 restaurants are leased out to private parties for operations. During the period from 2011-12 to 2015-16, the Company leased out 19 properties.

On completion of construction of resort/restaurants, the engineering wing of the Company intimates the same to the Land and Estate Section (LES) for leasing/operation. LES headed by Senior Manager (SM) reports to the Joint Managing Director. LES is entrusted with the responsibility of determining whether a property should be operated by the Company or leased out. When a property is considered to be suitable for leasing, LES invites tenders for leasing the properties and enters into lease agreement with the approval of the Board. LES is also responsible for complying with the obligations of the Company in leasing transactions. Audit observed that the Company had not formulated a leasing policy for leasing out its units on the basis of profitability, location and nature of property, *etc*. The Company therefore took decisions to lease out resorts/restaurants on a case to case basis. Further, the Company did not fix base price while inviting tenders for leasing the properties. The issues noticed in Audit are discussed below:

Leasing of property without proper title

2.8 The Company handed over possession of properties on lease for which they had no proper title. As a result, they could not enter into lease agreements and suffered losses in two cases as detailed below:

Yatri Niwas, Jyotiba at Kolhapur

2.8.1 The Company constructed Yatri Niwas, Jyotiba at Kolhapur (January 2008) on land owned by the Jyotiba Deosthan Trust (JDT), Kolhapur at a cost of ₹ 1.38 crore. Company invited tender and offered the resort to M/s. Goel Gupta Tourist Private Limited (GGTPL) in July 2008. The land had not been transferred to the Company. Hence, with due permission from JDT, the Company and GGTPL mutually agreed (December 2008) that the property could be occupied and managed by GGTPL by entering into Memorandum of Understanding (MoU) till the lease agreement was finalised.

As per MoU, the lessee was liable to pay compensation of ₹ 1.01 lakh per month for first five years and ₹ 1.15 lakh to ₹ 2 lakh per month from sixth to tenth year to the Company. In case of default in making payments, the Company was entitled to terminate the agreement, encash the bank guarantee and resume the possession of the resort.

Audit observed that the lessee approached (March 2009) the Company for reimbursement of expenditure incurred by them for additional work carried out in resort. They also sought (June 2010) the Company's assistance in getting the necessary permissions for operation of the resort by them. The Company did not respond to the requests of lessee. The lessee therefore proposed (December 2010) to return the resort to the Company. The Company however took action to repossess the resort only in October 2015, by which time, dues recoverable from the lessee (after encashment of bank guarantee) accumulated to ₹ 1.17 crore. The Company did not furnish any reasons for delay in taking back the possession of resorts. Audit also observed that the Company had made no efforts to enter into lease agreement with JDT for the land and thereafter with GGTPL. The necessary permissions for operation of the resort were also not obtained. The dues have so far not been recovered (October 2016).

Land at Harsul, Satara

2.8.2 GoM allotted (1995) 72 Hectares of land at Harsul, Satara to the Company on a lease of 30 years for development of a Golf Course. Though the lease agreement with GoM had not been executed, the Company invited (November 2007) Expressions of Interest (EoI) for development of Golf Course at Harsul and accepted the offer of M/s. Inspira Leisure and Hospitality Limited (ILHL) for leasing the land. The value of land was considered to be ₹ 19 crore and the lease premium offered was 27.50 *per cent* of value of land initially and 15 *per cent* of 75 *per cent* of value of land as yearly rent from fourth year to 30th year (27 years) or six *per cent* of the turnover whichever was higher. The minimum lease premium payable by ILHL for the lease period of 30 years worked out to ₹ 59.76 crore.

As per Letter of Intent issued (August 2008), ILHL had to pay ₹ 5.22 crore within 30 days. The MoU (August 2009) with the lessee *inter alia* provided that the Company would enter into lease agreement, remove the encroachment and high tension lines and get the usage of land changed. ILHL paid an amount of ₹ one crore out of ₹ 5.22 crore on 7 October 2008 and ₹ 4.22 crore in September 2011. Audit observed that the Company initiated the process of execution of lease deed with GoM belatedly and executed it in January 2016 only. As a result, the Company could not execute sublease agreement with ILHL on time. ILHL served (January 2016) a notice on the Company for termination of MoU due to non-performance of obligations by the Company and claimed an amount of ₹ 34.23 crore as compensation from the Company. There was no progress in implementation of the project (October 2016).

Thus, failure of the Company to pursue with the GoM for execution of lease immediately after taking possession of land resulted in non-realisation of revenue amounting to ₹ 10.70 crore[3]. There is also the possible liability towards compensation. The Company had not fixed any responsibility for non-compliance of obligations of Company.

Leasing of profitable resorts without fixing base price

2.9 The Company had not framed any criteria for fixation of base price for leasing out properties. As a result, lease rent received by the Company is not commensurate with the investment on the properties and revenue generated as detailed below:

Tourist complex at Mozari point, Chikhaldara

2.9.1 The Company completed the construction (October 2014) of Tourist Complex (TC) at Chikhaldara at a total cost of ₹ 8.32 crore. The Company after a delay of six months from completion of project, commenced operation of the complex from April 2015 and earned net revenue of ₹ 33.86 lakh up to February 2016. The Company, on the basis of tender, leased out (April 2016) the TC for 10 years and the lease rent was fixed at ₹ 18 lakh for the first year. The Company did not prepare estimated realisation and base price, based on its projected revenue before inviting tenders for leasing the property. Thus, the TC was leased at lower rent resulting in loss to the Company. They also spent ₹ 17.37 lakh in May 2016 on installation of diesel generator in the TC. As the resort was leased on 'as is where is' basis, an amount of ₹ 17.37 lakh spent on diesel generator set subsequent to the leasing of property was irregular.

Tuljapur Holiday Resort

2.9.2 The Company operated a resort at Tuljapur since 2013-14 and was earning an average profit of ₹ 0.50 lakh per month. The Company leased out (March 2016) the resort for a period of 10 years from the date of execution of lease agreement at an average rate of ₹ 0.30 lakh per month. This has resulted in potential revenue loss of ₹ 24 lakh worked out at ₹ 0.20 lakh per month for 10 years. This is even without considering the future increase in tariff and tourists.

The Company during the exit conference stated (November 2016) that the suggestion of audit for framing policy and a fixation of base rate would be considered.

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3 15 *per cent* of 75 *per cent* of value of land (₹ 19 crore) = ₹ 2.14 crore per year x 5 years = ₹ 10.70 crore

Delay in leasing/operation of resorts

2.10 The leasing/operation of the property immediately on completion of construction would ensure the availability of facilities to the tourist apart from generating revenue to the Company.

In the five test checked ROs, audit noticed delays in leasing out/operating the properties by the Company:

Table 3 : Details of properties leased out/operated belatedly

Sl. No.	Details of assets	Year of completion	Remarks	Loss of revenue[4] (₹ in crore)
1.	Tourist complex at Ramtek	November 2013	Leased from April 2016. Delay in completion of the allied electrical works resulted in delay in leasing the property.	0.41
2.	Shirdi resort	November 2015	Decision to lease out the rooms was not taken till June 2016. In July 2016 the Company began operating the resort.	3.07
3.	Tourist complex at Ambhora	June 2009	The electrical works were completed only in December 2013 and interiors were completed in July 2014. Tenders however were invited only in September 2015. Leased out in May 2016.	0.05
	Total			**3.53**

(Source: Information compiled by Audit)

The Company had leased out/operated the properties after considerable delay. Consequently, the facilities could not be offered to tourist in addition to the revenue loss of ₹ 3.53 crore.

The Company during the exit conference attributed (November 2016) the delays to pending allied works and facilities. The reply is not tenable since the Company should have simultaneously taken up the works to avoid inordinate delay and consequent loss of revenue. Further, in respect of Shirdi resort, though the facility was ready in November 2015, the rooms were offered to tourists only in July 2016.

Expenditure on development of leased resorts

2.11 The Company leased out the properties on 'as is where is' basis and the lease rent offered and accepted by the lessee is based on the potential of the property on the date of offer. Audit observed that the lease agreements did not contain any provision for increase in the lease rent on further improvement of property. Audit also observed that the Company incurred development expenditure without obtaining any commitment from the lessee for increase in lease rent in the following cases.

4 Based on lease rent received for subsequent period

Lonar resort

2.11.1 The Company (November 2010) leased out its holiday resort at Lonar, district Buldhana on 'as is where is' basis to a party for a period of 10 years. The lease rent payable by the lessee ranged from ₹ 50,000 to ₹ 92,000 per month. Subsequently, the Company spent (September 2014) ₹ 1.56 crore for renovation and upgradation of the resort. As the resort was given on lease for 10 years, incurring expenditure of ₹ 1.56 crore in upgradation/renovation of the resorts by the Company, without increase in lease rent resulted in undue favour to the party.

Resort and restaurant at Trimbakeshwar

2.11.2 The Company (September 2012) leased the resort and restaurant at Trimbakeshwar, Nashik to Sanskruti Holiday Resort for a period of five years. As per agreement, licence fee/compensation payable was in the range of ₹ 16.92 lakh for first year and ₹ 19.32 lakh for fifth year. Subsequently, the Company under took renovation work in April 2013 *i.e.*, nine months after leasing the resort. The work was completed (August 2015) at a cost of ₹ 1.70 crore. As the resort was under renovation, concession in lease rent was also given to lessee from June 2013 to September 2015. The lessee in March 2016 intimated the Company that they were incurring losses on operation of the resort and were therefore surrendering the resort. Accordingly, the resort was taken back (June 2016) by the Company.

Audit observed that the resort and restaurant were leased out to lessee for five years on 'as is where is' basis. Thus, carrying out repairs and renovation/ upgradation of resort at a cost of ₹ 1.70 crore without increasing the licence fee/compensation lacked financial prudence.

It was noticed that even after taking the resort back from the lessee, the lessee continued to have physical possession of the resort and was continuing operation of the resort. The Company did not take action to resume physical possession of the property, though they had invited tenders to lease the property again.

Conference hall alongwith Royal tents at tourist complex Sillari at Nagpur

2.11.3 The Company (July 2011) entered into a lease agreement to run and manage TC at Sillari (Pench) in Nagpur for a period of five years. The lease rent was fixed in the range of ₹ 17,260 per month for first year, to ₹ 20,980 per month for the fifth year. The Company carried out (March 2014) upgradation and refurbishment of TC at a cost of ₹ 1.52 crore including one conference hall and two Royal tents. It was seen that the Company without any increase in lease rent handed over the possession of conference hall and royal tents to Lessee. This resulted in undue favour to the party.

Recovery of dues

2.12 The lease agreement of properties provided for payment of dues on time and remedies available to the Company in case of default. Interest was also recoverable from the lessee for delay in payment. The Company could terminate the lease agreement and repossess the property in case of non-payment of dues. The Recovery section of the Company headed by the Senior Manager who is reporting to Joint Managing Director is responsible for recovery of dues from the operators. Audit observed that the Company had not prescribed any time limit for initiating action against the defaulters. As a result, the Company could not fix any responsibility on the officials for not taking timely action for recovery. The Regional Managers sent monthly reports on the status of recovery related to the properties of the regions to the Head Office.

Audit also observed that the Head Office of the Company received recovery details from the ROs including the details of defaulters. Regional Office, Pune, however, did not furnish the details of defaulters in their return. There was no system for periodical compilation of arrears and submission of the information to Managing Director/Board of the Company for appropriate action. The Recovery section issued Demand letters to operators/lessee on case to case basis. The outstanding dues from the lessees as on July 2016 were ₹ 16.92 crore in 72 cases. Failure of Company in taking immediate action for recovering outstanding lease rent resulted in accumulation of dues.

A few illustrative cases where the Company did not invoke the provisions of the agreement and allowed accumulation of arrears are tabulated below:

Table 4 : Details of non-recovery of dues

Sl. No.	Property	Name of lessee	Area	Possession handed over	Total dues recoverable (₹ in lakh)	Remarks
1.	Land at Harnai	M/s. Kamat Holiday Resort Private Limited	1.88 hectare	February 1994	24.13	Default since 1994. No action for recovery initiated.
2.	Restaurant at Chikhaldara	Sachin and Sachin Corporation	29,722 square metre	July 1992	98.18	Lessee made part payment since beginning. Notice issued in December 2016.
3.	Vashi	M/s. Emirates Shipping Lines FZE	Holding pond	April 2009	42.31	Default since October 2009. Court case for recovery initiated only in August 2014.
					164.62	

(Source: Information compiled by Audit)

The Company did not take timely action as per the agreement such as termination and repossession of the property which resulted in accumulation of dues of ₹ 1.65 crore (March 2016) in the above three cases. The Company had not fixed any responsibility for inaction in recovery of dues.

Operation of Deccan Odyssey train

2.13 The Company was operating a luxury train (Deccan Odyssey) since 2004 connecting important tourist destinations as part of tourist promotion. M/s The Luxury Holidays (TLH) approached (2009) the Company with a proposal for operation of the train on this route. The Company accepted the proposal and allowed TLH to operate tours during the years 2010-13. According to the agreed terms between the Company and TLH, TLH shall pay ₹ 27 lakh per week for 2010-11 and ₹ 31 lakh per week for 2011-12 and 2012-13 to the Company in addition to actual haulage charges payable to railways. TLH defaulted on payment of dues to the Company and railways from 2010-11 and in November 2012, the Company issued a legal notice for payment of dues amounting to ₹ 13.24 crore (dues up to October 2012) including haulage charges payable to Railways. The Company however, allowed the operators to continue the services till March 2013. The Company took back the rights of operation of the luxury train from TLH in April 2013 when the agreement period for operation of tour expired. Since TLH failed to pay the outstanding dues, the Company filed (March 2014) a case for recovery of dues and proceedings for winding up of TLH which were pending.

Audit observed that Company allowed TLH to continue the operation of the tours in spite of huge outstanding dues. As a result, the arrears accumulated to ₹ 17.92 crore till February 2014 including ₹ 11.80 crore paid to railways towards haulage charges on behalf of TLH.

Recommendations

The Company needs to ensure clear title before leasing. The base price for each property needs to be fixed considering the investment on and revenue generated by the property. The properties need to be leased out immediately on completion of construction/acquisition. Lease agreement may provide for enhanced lease rent in case any expenditure on future development of leased property is incurred by the Company. The Company may fix responsibility on officials for inaction/delay in operation/leasing of properties. The Company may prescribe time limit for initiating action for recovery of dues and fix responsibility for non-compliance.

Audit objective 2: Whether resorts and restaurants functioned efficiently and tariff was appropriately fixed

Occupancy and operational performance of resorts

2.14 The Company operates 20 resorts as on 31 March 2016. The occupancy details of these 20 resorts run by the Company during the five years ended 31 March 2016 are given below:

Table 5: Occupancy details of resorts

Year	2011-12	2012-13	2013-14	2014-15	2015-16
Number of resorts	19	19	19	17	20
All India average (in percentage)	60.90	60.40	60.40	60.40	60.40
Overall occupancy (percentage)	50	48	42	43	43
Number of resorts with occupancy above 60 *per cent*	3	2	2	2	3

(Source: Data furnished by the Company)

- Audit compared the occupancy of the resorts during the period 2011-12 to 2015-16 with the all India average of hotel industry. It was noticed that as against the all India average of above 60 *per cent* during 2011-12 to

2015-16, the occupancy of the Company's resorts ranged between 42 and 50 *per cent*. Further, there was declining trend in the occupancy of resorts from 50 *per cent* in the year 2011-12 to 43 *per cent* in 2015-16. Audit scrutiny revealed that during three out of five years (2011-12, 2012-13 and 2015-16), the number of resorts with less than 20 *per cent* occupancy was in the range of one to three.

- As per the reports of Resort Managers and feedback from the tourists, poor quality of rooms and deficiencies in communication facilities like telephone/internet were the main reasons for lower tourist inflow to the Company's resorts. Though feedback on the facilities was obtained from tourists by resorts, audit did not find any evidence of a system to take follow up/remedial action by Management for addressing the issues raised by the tourists.

2.15 The operational performance of the resorts operated by Company during 2011-12 to 2015-16 was as follows:

Table 6 : Details of properties operated by Company ***(₹ in crore)***

Year	Profit earning units			Loss incurring units		
	No.	**Revenue earned**	**Profit**	**No.**	**Revenue earned**	**Loss**
2011-12	14	18.25	10.58	5	0.48	0.36
2012-13	12	17.10	9.62	7	0.54	0.71
2013-14	16	21.93	12.83	3	0.50	0.22
2014-15	14	19.90	9.82	3	1.39	0.20
2015-16	19	24.38	12.39	1	1.31	0.09
Total		**101.56**	**55.24**		**4.22**	**1.58**

(Source: Information compiled by Audit)

Out of 20 resorts operated by the Company, 19 resorts earned profit during 2015-16. The percentage of profit to revenue however declined from 58 *per cent* in 2011-12 to 51 *per cent* in 2015-16.

Fixation of tariff in resorts and restaurants

2.16 During the period under review, the Company increased the tariff three times (August 2012, July 2013 and September 2014) by adding 10 *per cent* over the prevailing tariff. Audit observed that no rational basis was adopted in fixing/revising the tariff including periodicity. Audit also observed that factors like tariff charged by similar operators in the vicinity, occupancy of the facility, infrastructure available and operational costs were not being considered while fixing the tariff. The Company had not appointed (August 2016) a consultant as resolved by the BoD (May 2015) to prepare a tariff fixation policy in the Company's resorts.

The rates of food items offered at the three[5] restaurants managed by the Company were revised by the Head Office on the basis of the rates proposed by the respective managers. Audit observed that the rates of food items were fixed without analysing the cost of material and other related cost. Audit

5 Ajanta, Elephanta and Fardapur

observed that the Company was not earning profits from operation of any of its restaurants.

The Company during the exit conference stated (November 2016) that a consultant had been appointed and future tariff revisions would be based on their recommendation.

The Company registered 1,289 units under Bed & Breakfast scheme to create facilities for travellers with the help of private parties at seasonal destinations. The Company, however, did not put in place a mechanism to analyse customer feedback regarding facilities and services and impact of the scheme in generation of income and employment to local people.

Recommendations

The Company may fix tariff at resorts/restaurants considering all the relevant factors and after conducting market survey. The Company needs to improve the quality of service and facilities in resorts for increasing the occupancy at resorts.

Audit objective 3: Whether financial assistance received for asset creation and promotional activities was properly utilised and a reliable data base of tourists was created

Utilisation of financial assistance from GoI/GoM

2.17 The GoI/GoM releases financial assistance in the form of grants to the Company to support the tourism development initiatives like construction, up-gradation and providing additional amenities at resorts. As per the terms and conditions of the sanction of the grants by GoI, amounts released were to be utilised within six months from the date of release, failing which the amount along with interest was to be surrendered to GoI. During the period 2011 to 2016, the Company received grants for 24 projects from GoI and for 18 projects from GoM as detailed below:

Table 7 : Details of grant received ***(₹ in crore)***

Grants received from GoI				
Year	**Opening balance**	**Received**	**Utilised**	**Unutilised grant**
2011-12	21.45	57.61	39.57	39.49
2012-13	39.49	10.28	19.05	30.72
2013-14	30.72	53.92	33.01	51.63
2014-15	51.63	17.91	22.59	46.95
2015-16[6]	46.95	53.96	39.01	61.90
Total		**193.68**	**153.23**	
Grants received from GoM				
2011-12	-	49.20	0.08	49.12
2012-13	49.12	57.40	46.75	59.77
2013-14	59.77	85.71	30.93	114.55
2014-15	114.55	26.01	50.34	90.22
2015-16	90.22	102.81	35.88	157.15
Total		**321.13**	**163.98**	

(Source: Information provided by the Company)

6 The funds of GoI although received in 2014-15 were released by State Government during 2015-16

It could be seen from the above table that the unutilised grants had increased from ₹ 21.45 crore in 2011-12 to ₹ 219.05 crore at the end of 2015-16. The Company did not surrender the unutilised balance grants lying for more than six months as required under the GoI guidelines. Audit scrutiny revealed that the Company did not seek the approval of GoM/GoI for retaining unutilised grants. It was seen that non execution as well as delay in execution of projects was the main reason for non utilisation of grant.

Audit further observed that GoI discontinued the funding for 10 Central Financial Assistance (CFA) projects for which GoI had sanctioned ₹ 213 crore (October 2011 to February 2016). The physical progress of these projects ranged from 10 to 80 *per cent*. Audit observed that though CFA scheme was discontinued in April 2015, the Company belatedly demanded (September 2016) further funds of ₹ 64.86 crore from GoM for completion of these 10 projects. The request of the Company was pending with GoM (December 2016). As a result, these projects which were at different stages of implementation remained incomplete (December 2016).

Irregular issue of utilisation certificates

2.17.1 According to the terms of sanction for grants received from GoI under CFA schemes, UCs are required to be issued from time to time.

In five projects executed by the Company, UCs submitted were in violation of terms and conditions of grants as tabulated below:

Table 8 : Details of projects ***(₹ in crore)***

Sl. No.	Project	CFA received	UC value	UC date	Total value of works undertaken till UC date
1	Public amenities at Elephanta	4.00	4.00	25 November 2013	2.09
2	Harihareshwar	1.77	1.77	18 January 2014	0.41
3	Aurangabad Mega circuit	4.69	4.69	31 May 2014	3.55
4	Satara circuit	1.60	1.60	5 July 2014	0.50
5	Development of Amravati	0.91	0.91	7 August 2014	0.89
	Total	**12.97**	**12.97**		**7.44**

(Source: Information compiled by Audit)

As evident from the table the value of UCs exceeded the actual value of works executed in respect of the five projects as on the date of issue of UC. Thus, incorrect UC of ₹ 12.97 crore was submitted to GoI.

2.17.2 In respect of grants received for development of Solapur and Aurangabad Mega circuit projects, the UCs were given (May 2014 and January 2015) for 12 and 42 components respectively, whereas works were actually undertaken only for six and three components respectively and the remaining components were not taken up.

2.17.3 In respect of grants received for five[7] projects, the Company issued UCs on transferring the funds to the agencies executing the projects without ensuring the progress of works actually undertaken. Thus, the Company intimated GoI that the grant was utilised though the amount was lying unutilised which was irregular.

The Company stated that they had received only 80 *per cent* of the grant and the balance 20 *per cent* receivable in respect of executed projects would be adjusted against the amount received for projects which were not taken up.

Non compliance with terms and conditions of GoI grants

2.18 The Company did not comply with terms and conditions of grants from GoI. The test instances noticed in audit are discussed below:

Diversion of funds

2.18.1 According to the terms and conditions for the grants, prior approval of GoI was to be obtained, if the funds sanctioned for a project are considered for diversion to other projects.

2.18.1.1 The Company received grant of ₹ 1.91 crore from GoI for Nagzira, Pitezari, Umarzari and Navegaon projects in Vidarbha region. The Company completed the projects incurring an expenditure of ₹ 1.42 crore and diverted the balance grant of ₹ 49 lakh to another work *viz*. construction of Bodhalkasa tourist complex without obtaining prior permission from GoI.

2.18.1.2 The Company issued work order (December 2011) to M/s Arteria Technologies Private Limited for ₹ 2.98 crore to introduce Enterprise Resource Planning (ERP) system consisting of five[8] Modules which included purchase of licenses and implementation of SAP and training. The final phase of the project was completed in May 2013 and it was ready for Go-live. The Company paid ₹ 2.21 crore (June 2012 to August 2015) on account of purchase of licenses and implementation of SAP-ERP system, Annual Maintenance Contract and training. They had also purchased server and computer for implementation of the project at a cost of ₹ 1.16 crore. Audit noticed the following:

- Although the system was ready for Go-Live in May 2013, it had not been made operational by the Company so far (September 2016) for which reasons were not furnished by the Company. Thus, the expenditure of ₹ 2.21 crore incurred so far by the Company for implementation of SAP-ERP system remained unfruitful.

7 Development of Mahur-Nanded project, Convention Centre at Nashik, Theme lighting at CST, Development of Amravati, Aurangabad Mega circuit

8 Financial and Controlling, Material Management, Human Capital Management and payroll, File Management and Project Management Modules

- The Company decided that the cost of implementation of SAP-ERP system was to be met through the internal accruals of the Company. It was, however observed that without the approval of the State/Central Government, the Company diverted ₹ 2.25 crore from the grants of Ajintha-Ellora Development Project.

The Company during the exit conference stated (November 2016) that concurrence before diversion of grants to other projects would be taken in future. The reply however, was silent on the regularisation of funds already diverted.

Proposal without availability of land

2.18.2 The Company has to provide land availability certificate at the time of submission of proposal for financial assistance from GoI. The Company submitted a proposal to GoI for development of tourism at Nagardhan, Ramtek, Nagpur stating that the land for the project was available with the Company. Accordingly, GoI (2008-09) released grant of ₹ 1.74 crore for the project. Audit noticed that the project could not be commenced so far due to non availability of land. Thus, the Company had certified wrongly while submitting proposal for grant. The Company had neither utilised the grant nor surrendered it to GoI so far (December 2016).

The Company during the exit conference stated (November 2016) that the land availability certificate was issued presuming that GoM land would be made available for the project. This was indicative of the fact that certificates were issued on presumptive basis, in violation of the GoI scheme.

Purchase and operation of tourist buses (Volvo)

2.18.3 The Company purchased (October 2012) five Volvo buses at a cost of ₹ 5.41 crore to be operated in Konkan Region (KR) of the State for attracting tourists out of the grants given to it by GoM. Audit observed that:

The Company purchased multi axle Volvo buses which were longer than the normal Volvo buses. As the buses were not suitable for the narrow roads in KR, the Company could not operate these buses in KR.

Though the buses were purchased out of grant released for purchase of buses to be used only in KR, they were being operated on commercial routes like Nagpur-Pune and Pune-Mumbai. Thus, the key objective of promoting tourism by providing easy accessibility in KR was not achieved.

The Company during the exit conference accepted (November 2016) the contention of Audit.

Non-utilisation of grant for training and capacity building

2.18.4 With a view to build capacity for all partners and stake holders in the tourism sector in co-ordination with GoI, the tourism policy 2006 envisaged training needs assessment of tourism staff and plan for training programme. As per the scheme of 2009, the GoI would provide grant ranging from ₹ 9,375 to ₹ 12,012 per trainee and the training was to be provided for a duration of six to eight weeks. Fifty *per cent* of the grant would be released as first instalment and the balance would be released after submission of utilisation of first instalment. GoM and implementing institute should make efforts to facilitate employment to the candidates. During the period 2011-12 to 2014-15, the GoI sanctioned grant of ₹ 3.49 crore, out of which ₹ 1.75 crore was received by the Company as first instalment. The Company utilised the first instalment for training during the financial year. The Utilisation Certificate (UC) of first instalment however, was submitted only in the next financial year. As a result, the Company could not avail the remaining 50 *per cent* as second instalment which was available only if the UC was furnished in the same financial year. Thus, the objective of assessing and providing necessary training to the tourism staff to build capacity could not be achieved as envisaged in the tourism policy.

Avoidable expenditure towards consultancy services

2.19 The Company invited (June 2011) Expressions of Interest (EoI) for empanelment of Project Management Consultants. In response, the Company received 42 offers. Financial bids received (June 2011) showed that the lowest bid (Mahimtura Consultants Private Limited) was 1.10 *per cent* of the project cost for pre-tender activities and 1.90 *per cent* of the project cost for post tender activities. After evaluation based on presentation and financial bids, the Company noticed wide variation in the rates quoted by consultants and decided to approve a list of consultants for empanelment and obtain quotes for specific projects on need basis. Audit observed that the Company did not prepare the panel as proposed.

The Company nominated nine consultants between February and July 2013 for 11 works at a consultancy fee of two *per cent* each for pre-tender and post tender activities. Audit observed that the Company did not obtain the quotes for specific projects as decided earlier in June 2011. The Company did not also consider the L1 rate obtained against the EoI invited for empanelment of PMCs in June 2011. This resulted in extra expenditure of ₹ 64 lakh to six consultants on payment of consultancy fee at the rate of two *per cent* in respect of 11 works instead of 1.10 *per cent* for pre-tender activities and 1.90 *per cent* for post tender activities.

Non-utilisation of Assets created under financial assistance from GoI

2.20 The Company had created various assets for which financial assistance from GoI was received. Test check of the assets of the five selected ROs revealed that assets costing ₹ 12.16 crore were not put in use for the benefit of tourists and they were remaining idle as shown below:

Table 9 : Details of projects

Sl. No.	Details of assets	Cost of assets (₹ in crore)	Year of completion	Reasons of non-utilisation
1.	Conference hall at Karla resort	5.04	May 2014	Demand for existing Conference hall was very low. The Company however, went ahead with construction of another conference hall which was lying idle.
2.	Restaurant building at Karla	0.32	January 2011	The Karla resort had one restauarant and the demand for a second restaurant was not analysed by the Company. It was leased out only during January 2013 to April 2014. As there was no demand, the restaurant is idle since then.
3.	Two Deluxe House boats for Bankot and Dabhol	2.14	January 2015	Lying idle due to lack of basic infrastructure such as dockyard, jetty *etc*. The Company has now proposed for hiring a jetty at Bankot.
4.	Three High Speed Boats	1.14	February 2008, May 2009 and October 2010	Boats were used for trials only. No action was taken for putting these boats in use.
5.	Jetty at Ganpatipule resort	0.34	October 2014	Water sports activities not started and therefore jetty not put to use. The Company has now proposed for leasing the jetty.
6.	Upgradation of Ridhapur resort	0.27	March 2014	No response for leasing the resort. The Company undertook upgradation work although earlier resort was vacant due to lack of demand.
7.	Deluxe/semi-deluxe suite at Aurangabad	2.54	July 2013	Lying vacant as the interior work has not been taken up so far.
8.	Wayside amenities centres at Balapur, Akola	0.37	September 2013	Leased out during March 2015 to March 2016 and lying vacant due to lack of demand.
	Total	**12.16**		

(Source: Information compiled by Audit)

Thus, although the Company utilised the grants received under financial assistance from GoI the assets could not be used to achieve the intended objectives. As a result, investment of ₹ 12.16 crore on the creation of above assets remained idle and the chances of deterioration of the above assets also cannot be ruled out.

Promotional activities

2.21 In order to promote tourist destinations of Maharashtra, the Company advertises in print and electronic media and participates in international and domestic events, exhibitions, fairs and festivals. For these activities, the expenditure is incurred out of the grants received from GoM. The expenditure on advertisement and publicity during 2011-12 to 2015-16 was ₹ 149.57 crore.

Irregular award of work to advertisement agency

2.22 The Company called for (June 2012) EoI from reputed advertising Companies to empanel for its digital Media campaign. After satisfying the pre-qualification criteria, the agencies were to be finalised on the basis of presentation and financial bids.

Of the eight agencies which responded to EoI, four agencies which satisfied the eligibility criteria were shortlisted and were asked to make presentations. Based on the presentation, Goldmine Advertisement Agency (GAA) was ranked first and the financial bids were also opened (November 2012). The Company however, decided to call (January 2013) the other four agencies which were rejected due to non-fulfillment of pre-qualification criteria. Accordingly, one among the disqualified agencies, Xebec Communications (XCs) earlier disqualified due to lack of experience in online digital marketing (which was the basic requirement for the work) made presentation to the Company. After the presentation, the rankings of five agencies were made and XCs was ranked first followed by GAA.

Audit observed that the financial bid of GAA was the lowest (₹ 1.96 crore) followed by XCs (₹ 3.05 crore). CVC guidelines stipulate that post tender negotiations should be made only with L1. In deviation of CVC guidelines, the Company negotiated with the XCs and told them to work at the rate offered by GAA. Accordingly, the Company awarded (September 2013) work amounting to ₹ 1 crore and ₹ 0.95 crore to GAA and XCs respectively.

Audit observed that the Company re-invited the four agencies who did not satisfy the eligibility criteria initially after opening of financial bids of eligible bidders. This vitiated the process of open tender and resulted in irregular award of work to XCs amounting to ₹ 0.95 crore.

Fairs and festivals

2.23 The Company organises fairs and festivals during which the Company holds cultural events and showcases crafts to attract tourists and promote tourism in the State. The Company incurred an expenditure of ₹ 36.58 crore on fairs and festivals during five years ending March 2016. Audit observed that the Company had not developed a system for data collection on tourist inflow and impact analysis of economic benefits from the fairs and festivals. Audit scrutiny indicated that the Company did not also establish a mechanism to assess the impact of participation in various international and domestic events by way of collecting and analysing relevant data such as number of visitors who actually attended the events and business generated by participating hoteliers, travel agents, *etc*.

Audit scrutinised seven festivals/fairs where expenditure was above ₹ 1 crore involving a total expenditure of ₹ 10.70 crore and following point was noticed:

Failure to bring sponsorship as per MoU resulting in additional expenditure

2.24 The Company invited (June 2014) proposal from 10 empanelled Event Management Agencies (EMA) for organising the Elephanta Festival (EF). The empanelled agencies were asked to make presentations and submit financial bids. While inviting the bids, the Company clearly stated that the agency selected for the said work should bring sponsorship for 90 *per cent* of the estimated expenses of the festival and only 10 *per cent* shall be contributed by the Company.

On the basis of the bids received Working Elements (WE) was selected as the EMA for organising the EF. Accordingly, work order for ₹ 1.60 crore for organising the EF was issued to WE in February 2016, of which WE was required to bring in ₹ 1.44 crore through sponsorship. Audit observed that WE mobilised only an amount of ₹ 90.80 lakh towards the sponsorship as against requirement of ₹ 1.44 crore as per contract. The Company, however, funded the remaining ₹ 53.20 lakh for organising the EF in violation of the terms and conditions of contract. This also resulted in undue favour to the party and loss to the Company as they had to fund the shortfall from its own sources for organising the EF.

The Company during the exit conference stated (November 2016) that the agency could not get adequate sponsorship due to shortage of time. The reply is not tenable since the action of the Company was not in line with the terms and conditions of work order.

Database of tourists

2.25 In order to make sustained efforts for tourism development, GoM brought out Maharashtra Tourism Policy (TP), 2006 which became operative from 1 November 2006 for a period of 10 years or till substituted by another policy. The policy *inter alia* envisaged development of a mechanism to collect tourism statistics in the State for better tourism management and development of a computerised database to store and analyse the data collected.

Audit observed that though the Company had collected yearly tourist data, the same was not correlated with the previous year's data. As a result, critical trend analysis and monitoring of tourist inflow was not carried out.

Audit examined the tourist data provided by the Company and the data available in the website of Ministry of Tourism, GoI and found wide variation as tabulated below:

Table 10 : Details of tourist inflow

Year	Tourist inflow as per Company[9] (in crore)			Tourist inflow as per MoT[10] (in crore)			Variations in percentage	
	Domestic	Foreign	Percentage of foreign tourists	Domestic	Foreign	Percentage of foreign tourists	Domestic	Foreign
2011-12	15.50	0.21	**1.35**	7.48	0.27	**3.61**	107.22	(-)22.22
2012-13	Not available			8.27	0.42	**5.08**	-	-
2013-14	18.39	0.31	**1.69**	9.41	0.44	**4.47**	95.43	(-)29.55
2014-15	20.23	0.34	**1.68**	10.34	0.44	**4.26**	95.65	(-)22.72

(Source: Information furnished by the Company and Ministry of Tourism, GoI website)

Audit could not find any records to show that the Company made any efforts to analyse the reasons for such data discrepancy. In the absence of assurance of reliability of data, audit could not ascertain the impact of initiatives taken by the Company to increase tourist traffic.

Recommendations

The Company should ensure utilisation of grants received from GoI and GoM for stated purpose within stipulated time and submit proper utilisation certificates. The Company needs to strengthen the accountability mechanism and fix responsibility for incorrect certification of utilisation. The selection of contractors for advertisement, publicity activity and consultants should be carried out in a transparent, economical and efficient manner. The Company may develop a computerised integrated database for better tourism management.

Audit objective 4: Whether effective and adequate internal control system was in place

2.26 Internal control is a management tool and should comprise, *inter alia,* proper allocation of functional responsibilities within the organisation, proper operating and accounting procedures to ensure accuracy and the reliability of accounting data, efficiency in operations and safeguarding of assets and review of the work done by one individual by another whereby possibility of fraud or error is minimised. During the review of internal control system of the Company, following deficiencies were noticed:

The Company had not finalised accounts from the year 2013-14 onwards. The Company had not prepared accounts manual or functional manuals for their operations. The asset register was not updated by the Company since 2013-14. Physical verification of Company's properties and assets were not carried out. The scope of Internal Audit carried out by a firm of Chartered Accountants did not cover transactions relating to purchase of land, leasing of

9 Information provided by Company

10 Government of India Website

resorts and restaurants, execution of various projects and expenditure relating to advertisement. Internal Audit Reports were not submitted to Managing Director/BoD for scrutiny and remedial action.

Recommendations

Timely finalisation of annual accounts of the Company may be ensured. The Company may prepare functional/accounts manuals for their operations. The Company should streamline and strengthen their internal control mechanism.

Conclusion

The Company did not ensure clear title before leasing the properties and properties were leased without fixing base price. There were instances of delays in leasing out and incurring expenditure for development of properties that were already leased. Action for recovery of lease rent for resorts were not effective. Company did not invoke the provisions of lease agreement which would enable the Company to repossess the property in case of non-payment of dues.

There was a decline in the percentage of tourist availing the facilities created in the resorts of the Company due to deficiency in quality of services. The Company has not framed any policy on fixation/revision of tariff for their resorts and restaurants. The rates were fixed without any market survey and cost analysis.

Grants were not utilised as per the terms and conditions of their sanction. Inaccuracies in utilisation certificates furnished to GoI/GoM for grants received from them were noticed. There were irregularities in selection of contracts for advertisement, publicity activity and consultants.

The Company had not finalised their accounts for the year 2013-14 onwards. They had not prepared accounts manual or functional manuals for their operations. The asset register was not updated by the Company since 2013-14. Physical verification of Company’s properties and assets were not carried out. Internal Audit Reports were not submitted to Managing Director/BoD for scrutiny and remedial action.

The matter was reported to the Government/Management (October 2016); their reply was awaited (December 2016).