FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)

FOURTEENTH REPORT

(Presented on 9th March, 2017)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2017

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On

Kerala Tourism Development Corporation Limited

(Based on the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2011)

381/2017.

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2016-2019) having been authorised by the Committee to present the Report on its behalf, present this Fourteenth Report on Kerala Tourism Development Corporation Limited, based on the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011 relating to the Public Sector Undertakings of the State of Kerala.

The Report of the Comptroller and Auditor General of India for the year ended on 31 March, 2011 was laid on the Table of the House on 23-3-2012. The consideration of the audit paragraphs included in this report and the examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings constituted for the years 2014-2016.

This Report was considered and approved by the Committee (2016-2019) at its meeting held on 2-3-2017.

The Committee place on record its appreciation for the assistance rendered by the Accountant General (Audit), Kerala, in the examination of the Audit Paragraphs included in this Report.

The Committee wishes to express thanks to the officials of the Tourism Department of the Government Secretariat and the Kerala Tourism Development Corporation Limited for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government-Tourism and Finance Departments and the officials of the Kerala Tourism Development Corporation Limited who appeared for evidence and assisted the Committee by placing their views before it.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
9th March, 2017.

REPORT

ON

KERALA TOURISM DEVELOPMENT CORPORATION LIMITED

AUDIT PARAGRAPH

Introduction

2.1 The Kerala Tourism Development Corporation Limited (Company) under the administrative control of the Department of Tourism (DoT), Government of Kerala (GoK) was originally incorporated in December 1965 as Kerala Tourist and Handicrafts Corporation Private Ltd., with headquarters at Thiruvananthapuram. The Company started commercial operations in March 1966. The name of the Company was changed to Kerala Tourism Development Corporation Limited in July 1970.

The main objectives of the Company are starting, operating and promoting establishments, hotels, resorts, undertakings and enterprises, which are likely to accelerate the development of tourism in the State. To reflect this core activity, name of the Company was changed to KTDC Hotels & Resorts Ltd., in October 2010. In addition to the above, Company was also engaged in boating, tour operations and providing need based travel assistance and support services to tourists. The Company operated a total number of 70 properties, catering to luxury segment travellers (Premium properties-9), upmarket segments and budget travellers (Budget Hotels and Tamarind Easy Hotels-21) and travelling public (Motels and Restaurants). In addition, the Company was also engaged in running beer parlours spread across the State. Company had two units outside the State-Anantha Restaurant, New Delhi and Hotel Project at Chennai. While many properties of the Company are leased properties from DoT, none was leased out to other parties.

[Audit paragraph 2.1 contained in the report of the Comptroller and Auditor General of India for the year ended 31st March 2011]

Conclusion/Recommendation

No comments.

Organisational set-up

2.2 The management of the Company was vested in a Board of Directors consisting of 15 members (Official- 6 & Non Official-9). The Managing Director was the only functional Director of the Company who was assisted by the

Secretary & Finance Controller, Commercial manager, Marketing Manager and Chief Corporation Engineer in carrying out the functional activities of the company. There were separate unit managers to look after the day-to-day operations of each unit. The Company was having three Regional Officers headed by Regional Managers to monitor the activities of the centralised units in the respective regions-South, Central and North of the State. They were given the responsibility of management and administration of units under them.

[Audit paragraph 2.2 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Conclusion/Recommendation

No comments.

Scope of Audit

2.3 The working of the Company was last audited and included in the Report of the Comptroller and Auditor General of India (Commercial), Government of Kerala for the year ended 31 March, 1996. The Report was considered by the Committee on Public Undertakings (COPU) and their recommendations were included in its 63rd Report (1998-2000) which was presented to the House on 18th December, 2000. The implementation status of COPU recommendations was included in the present performance audit report wherever necessary. The present audit covers activities of the Company for the five years period 2006-07 to 2010-11. In conducting this performance audit, we examined records maintained at the Head Office and at 38 out of 70 units of the Company, the selection of which was based on stratified random sampling method.

[Audit paragraph 2.3 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011]

Conclusion/Recommendation

No comments.

Audit Objectives

2.4 The audit objectives of the performance audit were to ascertain whether the available resources were utilised economically, efficiently and effectively to achieve the objectives of the Company by analysing whether:

* the infrastructure available was utilised effectively to achieve maximum efficiency in operations;

* the marketing system was geared to the business needs;

* the Human Resource management was efficient;

* the project management and contract management were efficient and economical; and

* the Management Information System/ Internal Control/ Internal Audit system/ Corporate Governance practices were effective.

[Audit paragraph 2.4 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011]

Notes furnished by Government on audit paragraph is given in Appendix II.

Conclusion/Recommendation

No comments.

Audit Criteria

2.5 The following criteria were adopted for the performance audit:

* tourism policy, plan documents of Government and the Company:

* unit-wise targets fixed by the Company in respect of Turnover, Profitability etc.;

* norms fixed in respect of occupancy, food cost and reduction of the cost of operation;

* human resource policies of the Company:

* capital budgets and estimates for renovation/ capital works;

* policies and guidelines prescribed for Management Information System/ Internal Control/ Internal Audit/ Corporate Governance.

[Audit paragraph 2.5 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Conclusion/Recommendation

No comments.

Audit Methodology

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

* review of Board minutes, Agenda Notes and minutes of Other committee meetings;

* scrutiny of targets and achievements of the units;

* analysis of financial statements;

* scrutiny of project work files;

* examination of records in respect of estimation, mobilisation and utilisation of funds/grants;

* review of Minutes of Performance Review Meetings, MIS reports, Project Reports, Internal Audit Reports;

* interaction with the officials of various units/departments.

[Audit paragraph 2.6 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Conclusion/Recommendation

No comments.

Audit findings

2.7 The audit objectives, audit criteria and scope of the performance audit were explained to the Management in an Entry Conference (February 2011). Audit findings were reported to the Government/ Management (July 2011) and discussed in an Exit Conference (August 2011) which was attended by Secretary, Tourism Department, GoK and Managing Director of the Company. The

Company replied (August 2011) to the performance audit report but the Government had not furnished their reply. Views of the Management have been considered while finalising the report.

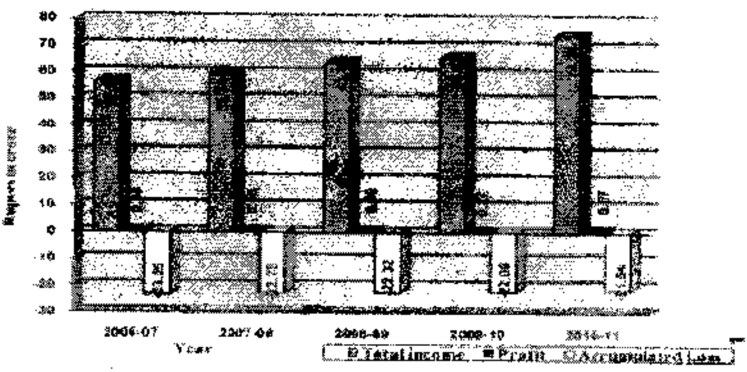
[Audit paragraph 2.7 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Conclusion/Recommendation

No comments.

Financial Position and Working Results

2.8 The Company is a wholly owned Government Public Sector Undertaking. Its Authorised Share Capital as on 31 March 2011 was ₹ 85 crore against which the Paid up Capital stood at ₹ 77.70 crore. The Company had been running continuously on very low margins during 2006-07 to 2010-11 and the Accumulated Loss of the Company as on 31 March 2011 was ₹ 21.54 crore. The position of Total Income and Profits of the Company during the five years ended 2010-11 was as placed below:



Though the Company had been maintaining its Sales, its margins being low were not enough to wipe out its Accumulated Losses.

[Audit paragraph 2.8 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Conclusion/Recommendation

No comments.

Return on Capital Employed

2.9 The Return on Capital Employed during the audit period was as follows:

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Paid-up Capital	48.60	59.45	70.70	71.70	77.70
Capital Employed	41.00	43.12	47.00	51.93	69.06
Net Profit/Loss after Tax and before Interest	2.08	1.96	1.41	0.73	1.00
Return on Capital Employed (per cent)	5.07	4.55	3.00	1.41	1.45

Though, the Company showed a positive Return on Capital Employed during 2006-07 to 2010-11, it showed a declining trend from 5.07 *per cent* (2006-07) to 1.45 *per cent* (2010-11). This was as against the average cost of funds ranging from 7.3 *per cent* to 8.4 per cent of GoK during the same period. The low Return on Capital Employed arose out of poor cash flows. Low occupancy and operational inefficiencies contributed to it. Due to poor returns, the Accumulated Losses could not be wiped out. The Company did not declare any Dividend during the period.

[Audit paragraph 2.9 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Tourism Growth in Kerala and Company's share

2.10 During the period 2006-07 to 2009-10, the State saw increase in tourist traffic (both domestic and foreign) but the Company was unable to capitalise on the growing tourist arrivals in the State as tabulated below:

Foreign guests

Year	Visited Kerala		Stayed in KTDC hotels	
	No. of tourists	% of increase as compared to 2006-07	No. of Tourists	% of increase as compared to 2006-07
2006-07	468658	-	16785	-
2007-08	554913	18.40	20166	+ 20.14
2008-09	570953	21.83	16172	(-) 3.65
2009-10	586667	25.18	11703	(-) 30.27

Domestic guests

Year	Visited Kerala		Stayed in KTDC Hotels	
	No. of tourists	% of increase as compared to 2006-07	No. of tourists	% of increase as compared to 2006-07
2006-07	6387724	-	130677	-
2007-08	6879884	7.70	122630	(-) 06.16
2008-09	7712250	20.74	117487	(-) 10.09
2009-10	8803917	37.83	122887	(-) 05.96

The falling tourist traffic in Company's properties was reflective of poor infrastructure facilities, maintenance, etc., combined with poor marketing and needs urgent management initiatives.

Management stated (August 2011) that due to global economic slowdown after 2008-09; foreign tourists had curtailed duration of their stay, thus adversely affecting the occupancy of its properties. The higher percentage of increase in tourist arrival in the State was mainly in districts where the Company's properties (budget & premium) were practically nil.

The reply was not reflective of the actual position. The statistics of tourist arrivals indicated that tourism had remained unaffected by global economic slowdown and even showed an increasing trend. The districts of Thiruvananthapuram, Ernakulam and Thrissur recorded the highest tourist arrival during the period but the Company's premium and budget properties at these locations failed to capitalise on this. The major audit findings are discussed in succeeding paragraphs.

[Audit paragraph 2.10 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

The Committee enquired why the Company showed a decline in the Return on Capital Employed from 5.07 per cent in 2006-07 to 1.45 *per cent* in 2010-11. The witness replied that due to poor budgetary support from Government and low operational profit, the Company could not conduct renovation up to 2011. The Committee wanted more clarification for the loss in operational profit due to low occupancy and enquired whether the Company took any measures to initiate promotional activities on par with private sector. The witness replied that the global economic slow down after 2008-09 had adversely affected the tourism sector in Kerala. Expressing strong dissent over the reply, the Committee pointed out that the statistics of tourist arrivals reveals that tourism remained unaffected by the global recession. Moreover, some districts in Kerala recorded the highest tourist arrivals during that period but KTDC's properties at these locations failed to capitalise this opportunity and to provide facilities at par with private sector. The Committee remarked that if the Company is not competent enough to accomplish the necessity of tourism, KTDC should be reshuffled totally including the Board of Directors and staff.

Operational Performance of Hotels and Resorts

2.11 The Company could make gainful returns only when each unit was run competitively and was able to cover its Cost of Operations and generate surplus. We observed that during the audit period, out of the 70 units of the Company, 35 units made Cumulative Profits and the other 35 units recorded Cumulative Losses. The Loss making units were found in all categories of properties.

Category of Unit	Total No.of Units	No. of profit making Units	Total profit made during the period 2005-06 to 2010-11[1] (₹ in crore)	No. of loss making Units	Total Loss made during the period 2005-06 to 2010-11[1] (₹ in crore)
1	2	3	4	5	6
Premium	9	5	27.52	4	4.42
Budget	8	3	1.23	5	2.88

1 Profit/loss arrived at after allocating advertisement expenditure, depreciation and gratuity provision pertaining to staff deployed to the units.

1	2	3	4	5	6
Tamarind	13	1	0.27	12	4.58
Motels	11	6	3.17	5	0.93
Restaurants and Beer Parlours	21	17	4.70	4	0.48
Others	8	3	2.46	5	1.87
Total	70	35	39.35	35	15.16

In the Report included in the Report of The Comptroller & Auditor General of India for the year ended 31 March 1996 it was observed that the Working Results of units were arrived at without allocating Head Office Overheads. COPU of State Legislature had also recommended for allocation of Head Office Overheads to units for the purpose of performance evaluation. The Company continued partial allocation of Head Office Overheads until 2009-10. Based on observations made during the performance audit, Company allocated its Head Office Overheads fully to all the functional units (on the basis of Turnover) while finalising Accounts for the year 2010-11. Consequently, number of Loss making units which otherwise would have been 29 increased to 35 during the year.

Management, in accepting (August 2011) the audit observation, stated that steps were being taken to reduce the number of Loss making units and improve the overall performance. We observed that the Company had introduced a system of Memorandum of Understanding (MoU) between Company and the units where separate targets were fixed for each unit in terms of Occupancy, Gross Income and Operating Profit. Management also stated that by virtue of certain inherent limitations like poor location, small room inventory etc, it was difficult to turn certain units into Profit making.

[Audit paragraph 2.11 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

The Committee observed that even though the Committee on Public Undertakings in 2000 had recommended for the allocation of Head Office Overheads to the units for the purpose of performance evaluation, the Company took more than ten years to implement the same to all its functional units.

When the Committee enquired about the undue delay in introducing performance related incentive scheme for managers, the witness replied that when there was audit objection regarding the sanction of additional incentive, the performance related incentive scheme introduced earlier was stopped. The Committee opined that the company could never achieve steady increase in profit without giving performance incentive which surely acts as a motivational force for better performance.

Conclusion/Recommendation

1. The Committee is much distressed to note that as the number of loss making units of the Company has increased to a certain extent, the Company took more than ten years to implement the recommendation of COPU in 2000 for the allocation of Head Office Overheads to the units for the purpose of performance evaluation. The Committee remarks that the Corporation could gain profit only by giving incentive after evaluating the performance of each unit. Therefore, the Committee recommends that performance related incentive scheme may be introduced in all underperforming units to fast track growth.

Star Rating

2.12 The Department of Tourism, Government of India classifies hotels into different categories (1-star to 5- star deluxe, heritage etc.) based on the facilities and services offered. Hotels have to apply to the Hotels and Restaurants Approval and Classification Committee (HRACC) under the Department of Tourism, Government of India to get them rated. The star classification has an inherent business advantage. However, at present (November 2011) only one property of the Company (Hotel Aranya Nivas in the premium segment) had star classification.

Management assured (August 2011) to take necessary steps for obtaining star rating in a phased manner. It further added that all the criteria required for star rating could not be met by the Company due to the financial implications involved.

Management, however, had not made any proper analysis on how many of its properties were meeting the parameters required for star classification. No property-wise analysis had been made for the additional infrastructure facilities, if any, required and the financial commitment involved. We felt that even if additional facilities were required in its high end properties the financial commitment thereon would be more than offset by enhanced profitability and improved brand perception. The Company should urgently make short term and long term plan in its regard.

[Audit paragraph 2.12 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

When the Committee enquired about the steps taken by the Corporation for obtaining star classification to its high end properties the witness replied that for obtaining star rating several standards should be effected and the Corporation had already submitted the applications and listed out the names of Hotels which have applied for heritage, 4, 3, 2 and 1 star ratings.

To a query of the Committee regarding the additional facilities required to fulfill the parameters for star classification, the witness replied that change should be made at all levels and make over is being made in many of its units. The Committee directed to make property wise analysis for the additional infrastructure facilities required in its high end properties and to take effective steps for obtaining Star classification.

Conclusion/Recommendation

2. The Committee observes that star classification has an inherent business advantage which helps to enhance marketability and profitability of the Corporation. Therefore the Committee recommends to take necessary steps for obtaining star rating for all units and to make property wise analysis for the additional infrastructure facilities required in the units.

2.13 The Company was also losing financial concessions associated with star classification offered by GoK. For instance, Classified Hotels (1 to 5 star, 5 star Deluxe, Heritage etc.) approved by DoT, GoK were eligible for the subsidy in their electricity tariff for a period of five years from the date of approval by DoT. The concession in electricity tariff was reimbursable from DoT from the year 1998-99 onwards. Two of Company's premium properties (Tea County, Munnar and Waterscapes, Kumarakom) though commenced operation after the year 2000, could not avail this concession as they did not go for Star Classification Rating and Approval Certificate from DoT, GoK before April 2006. The loss of such concession in electricity tariff for the audit period from 2006-07 to 2010-11 for these two units worked out to ₹ 0.26 crore *(Annexure 7)*.

[Audit paragraph 2.13 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

The Committee expressed dissent over the irresponsible attitude of the officials of the Corporation for not availing financial concession offered by Government by means of subsidy and concession in the electricity tariff associated with star classification. The Committee desired to know the names of officers who did not take any steps in time to get certificates from Department of Tourism in order to avail subsidy and concession and directed to fix the liability against them.

Marketing

2.14 Marketing was one of the key managerial functions having an important bearing on the performance of the Company. We observed that:

- The expenditure towards advertisement and publicity was negligible, at an average of 0.68 *per cent* of Turnover during the last three years. Further, out of the total amount earmarked for advertising and publicity, 57 to 65 *per cent* of the funds on an average was spent in the non-impact sector ie., publications with limited circulation and not related to tourism sector.
- The Company did not have an exclusive Marketing Department though it operated in a highly competitive environment. Even though Government had accorded sanction for the formation of Marketing Department (February 2011), no efforts had gone into making it operational (September 2011) which hampered campaigning and business canvassing.

The Company was losing season after season share of tourist traffic. We noticed lack of planning and initiative in the marketing efforts of the Company to take advantage of the tourist traffic.

- The Management direction to the units to place hoardings and sign board within 6 kilometres radius of its properties was not complied with in many of its Tamarind and Budget category properties, thus leading to inadequacy of publicising these units at the regional/ local levels.
- Even though the Board of Directors suggested (June 2009) for the exclusive promotional campaign for Thekkady and Thirunelly units, in view of their unique position, the Management failed to devise any specific strategy for exploiting the full potential of those units.
- The Company participated in 12 international and 69 domestic Travel and Tourism fairs and Road shows incurring an amount of ₹ 0.79 crore during the period 2006-07 to 2010-11. The Company did not have any feed back mechanism for the impact assessment of these promotional campaigns. In fact, the measures taken by the Company had not yielded any positive result as was evident from the fall in tourist traffic at the Company's properties.
- The potential of pilgrim tourism/wellness tourism in the State was not explored or utilised by the Company resulting in decline in occupancy of properties like Nandanam, Guruvayoor, Ayurvedic Lake Resort Thanneermukkom etc.

Management replied (August 2011) that adequate steps would be initiated to enhance the Company's presence in the web world and efforts were underway to market its properties through all channels.

[Audit paragraph 2.14 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Occupancy

2.15 The occupancy in properties of the Company ranged from 17 *per cent* to 53 *per cent* during the audit period 2006-07 to 2010-11 as detailed below :

(in percentage)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Premium Hotels	53	50	43	40	36
Budget Hotels	36	36	34	28	30
Tamarind Easy Hotels	38	25	19	17	17
Average	42	37	32	28	27
State Average	68.9	70.15	62.65	59.85	Not available
All India Average	66.9	69.4	63.1	59.9	Not available

As seen from the table, occupancy during 2006-07 to 2010-11 was showing declining trend in all categories of properties of the Company and the year 2010-11 witnessed the lowest occupancy except for budget hotels which showed slight improvement. The Company's average occupancy performance of 42 *per cent* to 27 *per cent* compared very poorly with the average occupancy of 68.90 *per cent* (2006-07) to 59.85 per cent (2009-10) recorded by hotel industry in the State.

The Company was operating 21 hotels as at the end of 2006-07. The DoT, GoK handed over nine other properties to the Company for operation during 2006-07 to 2010-11.

Analysis of occupancy statistics showed that while number of units having occupancy upto 20 per cent increased from two to eleven, those having occupancy of more than 50 per cent decreased from five to two during the audit period.

Year	2006-07	2007-08	2008-09	2009-10	2010-11
1	2	3	4	5	6
No. of units operated	21	26	26	30	30
Room nights available	227030	237600	250347	269513	275687

1	2	3	4	5	6
No. of units having occupancy upto 20 per cent	2	6	10	13	11
No. of units having occupancy ranging from 21 to 50 per cent	14	14	15	16	17
No. of units having occupancy above 50 per cent	5	6	1	1	2

Management while accepting the audit findings, pointed out that performance based on city-wise averages would give a more realistic picture for comparison.

The fact, however, remained that properties of the Company fared poorly even when city-wise averages were adopted as was evident from performance of Bolgatty Palace Hotel, Kochi (paragraph 2.21) and Mascot Hotel, Thiruvananthapuram.

[Audit paragraph 2.15 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

The Committee enquired whether the Company had entrusted any marketing/advertising agency for the international campaign and further enquired about the reason behind the decline in tourist traffic despite the Company's participation in International Travel and Tourism Fairs. Then the witness replied that the Company had drastically changed and at present there is a marketing division consisting of nine marketing executives and a marketing manager and the occupancy has improved a lot. At present, only three units of the Company are running in loss while the other 74 units make profit to the company.

The Committee opined that the declining trend of tourist traffic was due to the lack of planning and initiative in formulation of an aggressive marketing policy and enquired the steps taken by the Corporation. As the witness did not give reply to the query, the Committee commented that the Company instead of taking any steps to study the measures taken by the private sector to attract tourists, the Corporation merely admits the objections raised by the audit. The witness further replied that the ineffective marketing, poor location, the restrictions to grant discount etc. are the main reasons for downward trend in the occupancy rate. Expressing dissent over the explanation of the management, as the poor location and small room inventory were the reasons that disabled the Company to turn certain units into profit making units, the Committee remarked that it is the responsibility of the Company to select best location for its units to attract tourists. To another query of the Committee about the corrective measures taken by the Company to turn the units into profit making and thereby to overcome the loss, the witness did not give any reply.

Conclusion/Recommendation

3. The Committee voiced its concern over the poor marketing strategy adopted by the Corporation resulting in reduced occupancy over the years and sought the reason behind the decline in tourist arrivals. The Committee also failed to comprehend how the Corporation would exist without a marketing division, while high competition is raging in all sectors of the industry. Therefore, in the current environment of global competition, the only way out is to make an edge over the Competitors and hence the Committee directs the Corporation to devise a strategic plan to reach into the key areas of trends of demand. To propel further growth, better marketing networks are crucial and hence, the Committee highlights the need for setting up an excellent marketing division to explore those areas and advises the Corporation to move ahead with a clear vision for development.

4. The Committee criticises the leaden performance of the Corporation. Rather than conducting a study regarding the various measures taken by the private sector, the Corporation merely blames the poor location, small rooms, inventory etc. for its lackluster performance. Therefore the Committee remarks that, in order to convert the loss making units into profit making ones, the Corporation should launch a strong marketing campaign across the globe.

5. The Committee also suggests that the Corporation may also consider the starting or construction of new projects in association with Tourism Department and instructs to execute those projects in time. Going forward, it would help to extend its operation to more destinations. It is also learnt that the Corporation has failed to capitalise the advantages in sectors such as heritage tourism, health tourism and adventure tourism. The vast and varied potential of eco-tourism projects were not properly explored. Properties like Thekkady and Thanneermukkam which have great USP in Global Tourism Chart were not adequately exploited. Moreover, the potential of Pilgrim Tourism in properties such as Nandanam- Guruvayur, Thirunelli-Wyanad were not fully explored. Meanwhile the abounding possibilities of Monsoon Tourism, Culture Tourism and Wellness Tourism etc., are yet to be tapped. Therefore the Committee directs the Corporation to take an earnest effort to grab the huge potential of the above sectors.

Tarriff

2.16 The Company had a differential tariff policy for its properties based on seasonal classification as 'Peak season', 'Season' and 'Off season'. The sale of rooms in the Company's properties was mainly carried out through direct booking from guests, bookings from tour operators/ agents, corporate bookings etc. The tour operators were broadly classified into three categories - Segment I, II and III in addition to 'Other Agents' based on the quantum of room nights canvassed by them. Special rates were offered to the tour operators with maximum discounts extended to the Segment I agents. The details of bookings through various modes in the major premium properties of the Company during the period from 2007-08 to 2010-11 were as given in *Annexure 8.* The percentage share of direct bookings exhibited a decreasing trend whereas the percentage share of bookings through travel agents increased substantially. The volume of bookings through operators of Segment II and III was negligible when compared to that of Segment I.

The special rates to agents offered for deluxe category rooms in respect of five properties during the season period of 2010-11 were as shown below:

Property	Published Tariff	Realisation of Tariff from Agents			Remarks
		Segment I	Segment II	Segment III	
Tea County, Munnar	4800	2877	3177	3227	Revenue less realised is ₹ 350 when transaction is routed through Segment I Agent instead of Segment III Agents.
Waterscapes, Kumarakom	5100	2777	3077	3127	
Hotel Samudra, Kovalam	3800	1988	2288	2338	
Mascot Hotel, Thiruvananthapuram	3950	1938	2238	2288	
Aranya Nivas, Thekkady	3900	2266	2566	2616	

We are of the opinion that as maximum discounts were extended to Segment I agents, other tour operators were not motivated enough to generate business for the Company. There was also the chance of other tour operators diverting their bookings through Segment I agents. We further observed that property-wise targets of room nights were not fixed for categorisation of the agents. This had adverse revenue implications to the Company as significant revenue was lost on bookings routed through Segment I operators.

Analysis of the sales of the top two Segment I agents (Intersight Tours & Travels and Jaimaruthy Holidays) in the major premium properties *(Annexure 9)* revealed that bulk of the business were generated at properties at Munnar, Kumarakom and Kovalam. These being otherwise highly attractive tourist destinations in Kerala, business could very well be generated on its own through enhanced marketing efforts by the Company. We observed that in the bookings from the above top two Segment I agents in seven premium properties during the period from 2007-08 to 2010-11, the Company had to forego income to the extent of ₹ 3.23 crore *(Annexure 9)* while the total revenue contribution because of these agents was only ₹ 7.40 crore. The discount policy in vogue failed to ensure growth of business in all the premium properties of the Company.

The Government and the Company, during the Exit Conference (August 2011), agreed to devise measures to increase bookings through Segment II and Segment III operators and direct/ online route in its properties.

[Audit paragraph 2.16 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

To the query of the Committee with regard to the measures taken by the Company to revamp the discount policy and to prohibit the misuse of discounts in tariff offered to segment I agents, the witness could not respond positively. The Committee pointed out that steps should be taken to increase direct/online bookings in the company's properties through segment II & III operators in order to control the advantage currently enjoyed by segment I agents.

Conclusion/Recommendation

6. The Committee is distressed to note that lakhs of rupees had been lost by the Corporation due to bulk bookings via segment I tour operators. Moreover it is pointed out that revenue loss had occurred as the company provided maximum discount to segment I agents only and did nothing to restrict the booking of other tour operators through segment I agents. Hence, in order to control the misuse of discount policy enjoyed by segment I agents, the Committee recommends to take necessary measures to facilitate direct/online booking in Corporation's properties. The Committee further recommends to conduct a study in each unit and success rate of each segment during a 2 year period and based on the findings a reallocation of booking may be made. The Corporation may also consider the possibility of setting aside 10 % of all rooms for direct/online bookings.

2.17 Food Cost

In the Action Taken Note (ATN) to the COPU Report (2000), the company had assured to maintain the food cost levels at 25 *per cent* of catering income for premium properties and 40 *per cent* for the units. In order to maintain the food costs at the prescribed level, the Company fixed (July 2008) benchmarks for catering expenditure for various categories of hotels. Maximum permissible food cost fixed for Premium Hotels, Business/ Budget Hotels/Tamarind Easy Hotels and Motels/ Restaurants were 25 *per cent*, 30 *per cent* and 35 *per cent* respectively.

We observed:

Majority of the units failed to achieve the targets fixed despite the operational freedom given to unit Managers.

- More than half of the extra expenditure on food cost was borne by premium properties pointing out to the need for higher internal control over purchase of provisions and vegetables, food production and sales in this segment because of the materiality involved.
- Inbuilt capability of the software HOTSOFT (installed in all premium properties) to analyse food costs on a daily basis was not being utilised pointing to lack of firm control over food cost.
- Even though units in Thiruvananthapuram (Mascot, Chaithram and Samudra) and also Tea county, Munnar had resorted to procurement of provisions from State run PSUs like SUPPLYCO, HORTICORP, KEPCO etc., at lower rates, the system had not been uniformly adopted by other units.

The expenditure over norms fixed on account of excess food cost during 2008-09 to 2010-11 worked out to ₹ 3.75 crore as detailed below :

Sl. No.	Sector	No. of Units	2008-09	2009-10	2010-11	Total
1	Premium	9	90.68	0.62	0.90	2.20
2	Budget	8	0.17	0.15	0.13	0.45
3	Tamarind Easy Hotels	13	0.18	0.15	0.15	0.48
4	Motel Aaram	14	0.15	0.08	0.10	0.33
5	Restaurant and BP	22	0.09	0.05	0.05	0.19
6	Others	4	0.07	0.00	0.03	0.10
Total		70[2]	1.34	1.05	1.36	3.75

2 This does not include four other units for which norms have not been fixed. Of the 70 units, 3 Motel Aarams and 1RBP were closed during 2009-10

The company failed to control food costs within its prescribed norms. Management stated that food cost percentage was fixed as a line of control but was not a rigid one. The objective was to try to come near to the line of control as it would be difficult for many units to achieve the norm due to low volume as food costs come down when scale of business is high. But the point remained that the food cost incurred by the units exceeded norms by wide margin indicating need for remedial steps.

[Audit Paragraph 2.17 contained in the report of the Comptroller &Auditor General of India for the year ended 31st March 2011]

Regarding purchase policy for the procurement of provisions, the witness replied that for all the units of the Corporation, provisions are purchased from Kerala State Civil Supplies Corporation and non vegetarian items from Meat Products of India.

Conclusion/Recommendations

7. The Committee is distressed to note that though action was taken based on the recommendation of COPU report of 2000 it could not derive desired results as it was not strictly complied with. This inaction on the part of Company resulted in a loss of Rs. 3.75 crore during 2008-09 to 2010-11 on account of excess food cost. The Committee also learnt that in most of the Company's properties, the food cost out of the catering income exceeded the permissible limit. Therefore the Committee recommends to ensure the procurement of raw material from govt. run organisations thereby reducing the extra expenditure on food costs.

Energy costs

2.18 Utility costs formed a major item of operating expenditure of the Company of which energy costs constituted the main component. Properties of the Company consumed energy mainly in the form of electricity (lighting and air conditioning), fuel for generators (standby power) and fuel for boilers (for heating running water). Figures pertaining to energy costs over the five years period

2006-07 to 2010-11 along with their comparison with industry average were as given below:

Year	Total Energy cost (₹ in crore)	Revenue from lodging and catering (₹ in crore)	Percentage of energy cost to revenue generated from lodging & catering	Industry average in percentage #
2006-07	3.89	48.94	7.95	6.65
2007-08	4.47	52.93	8.44	6.32
2008-09	4.52	55.18	8.19	7.34
2009-10	4.12	58.72	7.02	7.60
2010-11	4.56	66.60	6.85	NA

 # (Source: as per Audit Report)

For the years 2006-07 to 2008-09, as seen from column (4) and (5), the energy consumption was high when compared with industry average. The improvement in 2009-10 and 2010-11 was due to lower occupancy and higher tariff.

We observed that even though hotel industry across the world had been incorporating energy efficient systems Company had not conducted any energy audit in its properties except Hotel Mascot to explore efficient possibilities. None of the properties of the company had any non-conventional/alternative energy source like solar power despite cost saving brought out by ways suggested in energy audit of Hotel Mascot[3].

- Wide variations were noticed in parameters of efficiency of Diesel Generator sets indicating that internal control over consumption of fuel (HSD[4]) for generation of captive power in various properties was weak and the consumption/generation data was not being closely monitored.

3 As per the energy audit report, installation of solar panels would result in an annual savings of ₹ 15 lakh

4 High Speed Diesel Oil

- Company issued 38 purchase orders for 358 air conditioners valued at ₹ 0.81 crore as part of renovation/creating additional facilities in various properties, without insisting on star rating of the products which was indicative of energy efficiency norms issued by Bureau of Energy Efficiency-Government of India.

Management, while admitting (August 2011) that energy audits had not been conducted, pointed out that energy costs of the Company were comparable with industry standards and that steps were being taken to improve the internal control over fuel consumption. They also assured to take steps to bring down the energy cost to the extent possible.

[Audit Paragraph 2.18 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

The Committee enquired about the measures taken by the Corporation to conduct energy audit for assessing the ways for energy savings. The witness responded that energy audit was conducted in Mascot Hotel on an experimental basis and it will be conducted at other properties of the Company also. Moreover, biogas plants, LED lights having low consumption, air conditioners of five star category etc. are being installed in majority of the KTDC Hotels to bring down the energy cost to the maximum extent. The witness also informed that Rain Drops at Chennai has been working completely with Solar power.

Conclusion/Recommendations

8. The Committee observes that the energy consumption of the Company during 2006-07 to 2008-09 was above the industry average. The Committee is grieved to note that the Company neither extended the cost savings measures implemented in Hotel Mascot to other units nor conducted any energy audit in its properties except Hotel Mascot. Therefore the Committee suggests that energy saving mechanism should be introduced in all destinations and explore the possibility of using non-conventional energy sources and also the implementation of energy efficient methods in the Company's properties.

Segment wise performance of hotels and resorts

The performance of each of the segments of the properties of the Company was as discussed below :

Premium Hotels

2.19 A review of the performance of the premium hotels showed that four out of nine units in this category made an Aggregate Loss of 4.42 crore while the remaining five earned a total Profit of ₹ 21.52 crore during the period 2006-07 to 2010-11.

Though Company's properties enjoyed unique locational advantages they recorded poor operational results mainly due to poor marketing and maintenance.

[Audit Paragraph 2.19 contained in the report of the Comptroller & Auditor General of India for the year ended 31 March, 2011.]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

2.20 Hotel Samudra, Kovalam could achieve an average yearly occupancy of 50 per cent on only two occasions during the audit period. The Expenditure Turnover Ratio of the unit increased from 72.35 per cent in 2006-07 to 126.70 per cent in 2010-11, further adversely affecting its profitability. The below par operational performance was mainly due to poor room facilities, poor food quality and maintenance as observed in the Individual Property Audit Report (December 2008) prepared by an external agency. The Company decided to renovate the properly only in August 2009 but the renovation work was taken up belatedly (June 2010) on piecemeal basis through 69 different agencies. Though the property was shut down for a period of five months from June 2010 to September 2010, the work was not completed (May 2011). The Profit of the unit declined from ₹1.59 crore in 2007-08 to (-) ₹ 0.59 crore in 2010-11.

[Audit Paragraph 2.20 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

2.21 The performance of Bolgatty Palace/ Island Resorts had been declining since 2006-07 and was below par when compared with the overall industry performance in the locality. The unit registered occupancy of only 57.7, 51.6, 41.8 and 41.1 per cent when compared with the industry average of 75.4, 75.2, 67.4 and 64.4 per cent respectively during the years 2006-07 to 2009-10. In a property audit conducted by an independent agency during the years 2008-09 and 2009-10 the unit managed only a fair ranking in parameters of experience of check-in, restaurant services, food quality and maintenance of premises. The Average Room Revenue (ARR) of the property during the year 2009-10 was only ₹2243 as against industry achievement of ₹2610. The Revenue Per Available Room (Rev Par) during the same period was only ₹ 963 indicating poor utilisation of room inventory. The unit had not taken any effective action to increase its occupancy by brand positioning, aggressive marketing etc.

[Audit Paragraph 2.21 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

2.22 The occupancy of Ayurvedic Lake Resort, Thanneermukkom unit declined from 17 per cent in 2006-07 to an abysmally low of nine per cent in 2010-11. We observed:

- The Resort was designed with a connected load of 100 KVA; the Company was allowed to avail only a maximum of 33.33 KVA load at a time by KSEB and as a result it was left unmarketable.
- The Establishment Expenditure recorded a quantum jump due to Fixed Charges and the increase in the number of permanent employees during the period 2006-07 to 2009-10 further added to Operational Losses.

Management stated (August 2011) that the property was constructed by the DoT without considering the operational convenience and was taken over by the Company as per Government direction. The Company was in the process of promoting the resort as an Ayurvedic resort after necessary upgradation.

The reply was, however, silent as to the increase in strength of employees and Establishment Expenditure. Being a commercial entity, the Company should make special efforts to make the property viable.

[Audit Paragraph 2.22 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

The Committee condemns that the company took no earnest efforts to complete the renovation work at Hotel Samudra within the stipulated time though the property was shut down for a period of five months which resulted in a substantial reduction of profit from 1.59 crore in 2007-08 to -0.59 crore during the period 2010-11. Then the witness replied that as the work was carried out through 69 different agencies, it was very difficult to co-ordinate the work, as of now the Company has an Engineering division headed by Chief Engineer.

To the query of the Committee regarding the occupancy of Ayurvedic Lake Resort at Thanneermukkam, the witness informed that the Company was forced to take over the Resort, which had been constructed without considering the operational convenience by the Department of Tourism and hence the Company decided to promote the resort as an Ayurvedic Resort after necessary upgradation and closed for two years for the renovation work. The hotel was modified into cottages and currently it is a fulfledged one having better occupancy.

Conclusions/Recommendations

9. The Committee is aggrieved to note that even though the premium hotels had unique locational advantages, it could not capitalise the advantage and all of the units could not achieve profit. It is also observed that these hotels could not make profit because of poor marketing and maintenance. The renovation work of Hotel Samudra, Kovalam was started belatedly, that too on a piecemeal basis. Moreover the renovation work was not completed in time. The Committee remarks that incompletion of work in time shows the inefficiency and irresponsibility of the officials concerned. The Committee observes that many Premium Hotels have registered loss over the period of audit due to poor administration. Premium properties like Hotel Samudra, Kovalam, Bolgatty Palace/Island Resorts, Ayurvedic Lake Resort, Thanneermukkom etc. registered reduced occupancy over the years. Therefore the Committee recommends to take corrective steps and earnest efforts to increase the occupancy of Premium Hotels. Proper control over Administrative and Establishment expenses may be taken care of and irregular payments should be halted to avoid seepage in revenue. It is also recommended to cut down its administrative expenses so as to achieve economy in operations.

Budget Hotels

2.23 Out of eight Budget Hotels operated by the Company during the audit period, five sustained an Aggregate Loss of ₹ 28.8 crore and the remaining three hotels made a total profit of ₹ 1.23 crore.

A further analysis of the performance revealed that three out of five loss making hotels were continuously making Losses during the audit period. The performance of Hotel Chaithram showed a marked improvement during 2009-10. In case of Malabar Mansion, Kozhikode, the profitability was due to operation of beer parlour.

The Management stated (August 2011) that all the loss making properties of the Company were showing improved performance and this would increase significantly once online reservation system was extended to this category also.

[Audit Paragraph 2.23 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

The witness informed that currently all the budget hotels earns much profit and Raindrops at Chennai which was running in loss of ₹ 3 crore now gained a profit of ₹ 1 crore.

Conclusion/Recommendations

10. The Committee observes that online booking system will increase easy accessibility which in turn will improve occupancy. Hence the Committee recommends that in order to improve profitability, online room reservation system should be introduced in Budget Hotel also.

Tamarind Easy Hotels (TEH)

2.24 The Yatri Nivas Hotels (a budget category accommodation) constructed and handed over to the Company by DoT, GoK using funds from Central Government wore a negative brand image on account of lack of ambience, poor maintenance and up-keep and lack of modern amenities. The Company re-branded (2007-08) the existing Yatri Nivas hotels and new units handed over by DoT as 'Tamarind Easy Hotels' and spent ₹ 500 crore (Annexure 10) for the upgradation/modification works (undertaken during 2007-08 to 2010-11) by providing additional amenities (mainly installing air conditioners and water heaters). However, the performance of all the units (6 existing and converted and 7 new units) continued to be discouraging and all the units except TEH Parassinikkadavu recorded Losses. Cumulative Loss recorded by the Tamarind units during the period from 2005-06 to 2010-11 amounted to ₹ 4.58 crore.

We observed that TEHs differed in facilities offered and were not amenable to be clubbed under a single category/brand. Uniform tariff structure for the tamarind brand was adopted without considering the differences in the individual hotels and the Company had to drastically reduce (May 2011) tariff.

[Audit Paragraph 2.24 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

The Committee enquired why the Tamarind Easy Hotels are categorizing under a single brand even though the amenities provided in them differ from one another. As the witness could not give a convincing reply the Committee remarked that the Corporation had adopted uniform tariff for hotels without considering their difference in amenities which might be the reason for making continuous loss by those units.

Conclusion/Recommendation

11. The Committee can't comprehend the logic behind the branding of Tamarind Easy Hotels under a single brand name. It is observed that though Tamarind Easy Hotels (TEH) were branded under a single brand name and assigned uniform tariff rate, they differ widely in their amenities and most of them were lacking in facilities. Hence the Committee suggests that a revised strategy may be adopted in the branding of TEHS and the tariff rate may be fixed in accordance with amenities available. The Committee also propose a revival plan for providing modern amenities in all TEHs.

Motel Aarams

2.25 Motel Aarams (wayside amenities providing boarding and lodging to travelling public) were constructed by DoT, GoK and handed over to the Company for operation. Out of 11 Motel Aarams, four were making continuous Losses and we observed that some of these units were taken over without conducting proper viability study. Though, these units were making Losses continuously during the period, the Company had not taken any effective steps to make these units viable. The Loss made by five Motel Aarams during the period under audit worked out to ₹ 0.36 crore.

Despite the Board decision (January 2005) to close down the Loss making units, the Company continued operation of the motels at Athirappally and Adoor which resulted in further Loss of ₹ 0.36 crore (Athirappally ₹ 0.19 crore, Adoor ₹ 0.17 crore).

[Audit Paragraph 2.24 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

The Committee enquired why the operations of motels at Athirappally and Adoor were being continued despite the decision of the Board to close down these loss making units. The witness replied that as there are only two rooms in the unit at Athirappally, the Company is planning to construct more rooms there to make it viable and as of now the unit at Adoor was closed.

Conclusion/Recommendation

12. The Committee recommends to conduct proper feasibility study before heading to new projects such as Motel Aaram so that the number of loss making units can be lessened. The Committee also recommends to allocate adequate funds from the Government for the timely annual maintenance of Tamarind Easy Hotel, Motel Aaram, etc. so that facilities may be improved which in turn will lead to betterment of business and profit to the properties.

Restaurants and Beer Parlours

2.26 During the period under audit, the Company started seven new Restaurants and Beer Parlours (RBP) and closed ten units. As on 31st March, 2011, the Company had 21 RBPs. The total loss made by the four continuously Loss making RBPs as on 31st March 2011 was ₹ 0.48 crore and 17 units together made a profit of ₹ 4.70 crore.

We observed that the Company continued operation of RBP, Haripad despite the Board decision (January 2005) to close it down which resulted in further loss. The Company meanwhile closed three profit making RBPs citing failure to find suitable alternative premises to carry out the business on expiry of the lease period of these premises. Total profit made by these three units for five years period prior to closure was ₹ 1.14 crore as detailed below :

Name of unit	2003-04	2004-05	2005-06	2006-07	2007-08	Total Profit
Aluva	0.04	0.01	0.04	0.09	0.07	0.25
Valancherry	0.11	0.16	0.11	0.17	-0.02[5]	0.53
Olavakode	0.07	0.09	0.11	0.10	-0.01[6]	0.36
Total						**1.14**

Management replied that closure of the above units was due to reasons beyond their control like non-availability of suitable premises. The contention was not acceptable as closure of these profitable units had only benefited the private parties operating in the area.

[Audit Paragraph 2.26 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

The Company had continued the operations of loss making units despite the decision of the Board to close it down. Besides that they even closed the profit making units of Beer Parlour citing that the lease period has been expired. The Committee enquired the reason that beholds the Company from renewing the lease agreement. Then the witness replied that to renew the license, the consent of the owner is required. The Committee was not convinced with the reply and opined that it was very unfortunate and the Company had not taken any steps either to

5 No sales activity during the period

6 Loss during this period was due to adjusting Administrative Expenditure of ₹ 4.14 lakh against ₹ 1.79 lakh charged in 2006-07.

renew the lease agreement or to find suitable alternative premises to carry out the business on expiry of the lease period. The Committee opined that the closure of the units had benefited the private parties in the nearby area and expressed their suspicion of illicit nexus between Company officials and private parties. The Company directed to start new units in place of closed ones and the witness agreed to do so.

Conclusion/Recommendation

13. The Committee expresses its dissent over the continued operation of loss making RBP, Haripad despite the decision of the Board to close it down and also the closing of the three profit making units for want of premises. Therefore the Committee recommends to open the Restaurant 2 Beer Parlour (RBP) by finding suitable premises where it can be operated profitably.

Performance of Boat operations

2.27 The Company undertook boat operations in five centres, namely Thekkady, Veli, Kochi, Kumarakom and Malampuzha. The revenue generated from boat operations in each of the unit and the contribution of each unit to the total boating revenue (expressed as percentage) of the Company was as given in *Annexure II.* As was evident from the data, Turnover from boating operations declined after 2008-09. Boat operations at Thekkady contributed the major chunk of boating Revenue due to partial monopoly enjoyed by the Company in Periyar Lake; the only other agency involved being the Forest Department.

[Audit Paragraph 2.27 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

Under utilisation of potential for boat operations

2.28 Even though some of the properties of the Company (ALR Thanneermukkom, Waterscapes, Kumarakom and Bolgatty Palace Hotel, Kochi) had very good potential for boat operations, the same was underutilised despite the decision taken in the Managers' meeting (August 2007) to concentrate on this segment to increase overall revenue. While there was no boating activity at Thannermukkom and Bolgatty, share of revenue from boat operations at Kumarakom declined from 5.63 per cent in 2006-07 to 2.86 per cent in 2010-11.

[Audit Paragraph 2.28 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

Boat operations at Thekkady

2.29 The Forest Department controls boating activities at Thekkady and the Company operates four safari boats in the lake. The boats operated were all handed over to the Company by DoT and were of varying capacity ranging from 20 seats to 126 seats. We observed that the Company was not deriving the full potential for revenue from its operations at Thekkady due to operation of lower capacity boats. Analysis based on operational performance of boats showed that in terms of number of trips per month, JALARAJA (boat having largest capacity) had a break even point six times lower than the smaller capacity boat JALAMOHINI showing higher revenue earning potential of larger boats. Operation of higher capacity boats was preferable also in the context of passenger safety since the smaller boats were of vintage type of upto 45 years.

Management replied (August 2011) that capacity enhancement at the destination required permission from the Forest Department. We, however, observed that there was failure to obtain the required clearance from the Department.

[Audit Paragraph 2.29 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

The Committee enquired why boating operations were stopped in Thanneermukkam waterscapes, Kumarakom and Bolgatty Palace Hotel, Kochi. The witness replied that since the Company could not compete with the private sector in this arena, the Company gradually stopped boating operations. Expressing displeasure over the reply, the Committee suggested that since boating is one of the major source of revenue, existing method of boating should totally be revamped and the Company should concentrate more in high capacity House boats. It is also observed that the operations of low capacity boats in Thekkady had led to revenue loss and hence Committee suggested a change over to safer high capacity boats.

Conclusion/Recommendations

14. The Committee observes that the revenue generated from boating operation is much less compared to its vast potential in tourist destinations. The Committee is aggrieved to note that the Company stopped the boating operation in Thanneermukkom Water Scapes, Kumarakom and Bolgatty Palace Hotel by merely stating the lame excuse that the company could not compete with private sector. The Committee is distressed to note that the Corporation did nothing to promote boating despite boating being a major sources of revenue. The Committee is shocked at the Company's decision for lower capacity boats in Thekkady despite its turnover and it suggests to introduce boating services in all potentially viable properties of the Corporation. Therefore the Committee recommends boating operations of high capacity boats with adequate safety measures.

Manpower management

2.30 Manpower management is essential in hospitality sector in which the Company is functioning. Taking this into view the HVS FH & RA Indian Hotel Industry Survey had placed the average manpower per room for industry at 1.7 to 2.0. We observed while going through the manpower needs of the Company that it had an average strength of 2.17 to 2.74 per room.

The percentage of employee cost in comparison with total earnings of the Company rose from 25.27 per cent (2006-07) to 32.04 per cent (2010-11) as detailed in the following table :

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Total Earnings	56.56	59.34	63.86	65.93	74.26
Salaries Wages and Other benefits	14.29	18.54	18.76	19.84	23.79
Percentage of employee cost	25.27	31.24	29.38	30.09	32.04

Besides it employed the services of 629 to 907 contractual staff adding weight to the work force and affecting the finances adversely. We also observed violations in established method of determining staff strength, staff promotions and postings. Promotions were effected without ensuring the required experience in the lower post, no benchmarks were fixed for administrative overheads in the individual properties resulting in deployment of excess staff.

[Audit Paragraph 2.30 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

With respect to the above audit para, the witness informed that the Company has now drastically changed with expansion while the staff strength was not sufficient enough to cater to the needs that has increased with expansion. The Committee pointed out the audit objection that the Company had an average manpower strength of 2.17 to 2.74 per room while the permissible average is 1.7 to 2.0. The witness explained that the Company has Restaurants and Beer Parlours in addition to Hotels and hence man power strength could not be ascertained according to the number of rooms alone. The Committee wanted to furnish the details regarding the sanctioned staff strength, category, qualification, existing staff strength, shortage etc., The Committee pointed out that for the effective functioning of the Company, qualified candidates should be posted through PSC.

Conclusion/Recommendation

15. The Committee observes that the average manpower strength per room in Company's properties is high compared with the industry average. Therefore Committee recommends to assess the staff strength and desires to furnish the details regarding the sanctioned staff strength, category, their qualification, existing staff strength, shortage etc., The Committee also recommends that for the effective functioning of the company, qualified candidates should only be appointed through PSC towards sanctioned staff strength.

Construction and renovation works

2.31 Properties of the Company are being upgraded and renovated periodically to keep them in good condition and to provide better amenities to attract more customers.

We observed:

- The work for the construction of three Star Hotel at Chennai was awarded [(July 2007) at ₹ 10.46 crore through KITCO Ltd., (Project Management Consultant (PMC)] with a stipulated period of completion of 10 months. Deficient pre-award formalities and monitoring of the work by KITCO and stoppage of work (May 2008 to June 2009) by the contractor demanding price escalation affected the progress of work. GoK while sanctioning the price escalation of ₹1.54 crore directed to recover penalty for further delay beyond 10 months. The work has not been completed so far (November 2011) and no penalty has been recovered. Due to substantial delay in completion of the project, the Company lost the anticipated Profit amounting to ₹2.12 crore for two years. KITCO had recovered mobilisation advance along with interest amounting to ₹0.93 crore from the contractor during the period December 2007 to November 2010 which had not been passed on to the Company. Interest loss on this account amounted to ₹0.15 crore. Management in their reply (August 2011) giving the reasons for various lapses did not contest the audit observation.
- The work for the construction of Marina House at Bolgatty was awarded (February 2008) at ₹3.64 crore after the expiry of the validity period (November 2007) of offer. The contractor refused (April 2008) to execute the work. The failure of the Company to issue work order within validity period led to re-tendering to a new contractor at ₹4.46 crore resulting in additional expenditure of ₹0.82 crore.

Management replied (August 2011) that the delay in award of work was due to delayed government sanction.

- Though the Company was having an Engineering Wing, the major civil works for the new properties/major renovation works for existing properties were being executed through KITCO as consultant for the entire project activities. A review of records revealed that the Company had paid consultancy fee of ₹1.37 crore in respect of seven projects entrusted to KITCO. The Company had not made any cost benefit analysis for executing the major civil works through KITCO despite having a dedicated engineering wing. None of the works entrusted to

KITCO was completed within the time schedule. KITCO was executing agreements on behalf of the Company with the contractors even though it was only a PMC. As per the agreement executed with KITCO by the Company, there was no provision to recover penalty for the delay in completion of works. The agreements executed by KITCO with the contractor contained the penalisation clause which enabled them to recover liquidated damages at the rate of one per cent of the contract value per week subject to maximum of 10 per cent for delay in completion. In the absence of penalisation clause in the agreement with KITCO, the Company could not enforce recovery of ₹1.50 crore (being 10 per cent of the contract value) for the delay in completion of three projects [(i) Road work to Bolgatty from Goshri - ₹0.10 crore, (ii) Three Star Hotel Project at Chennai- ₹1.05 crore and (iii) Marina House ₹0.35 crore]. Retention money recovered from the contractors was being retained by KITCO and was not passed on to the Company. Interest loss on this account worked out to ₹0.12 crore. The Company was undertaking works on behalf of the DoT while entrusting its own works to KITCO.

Company stated (August 2011) that the permanent technical staff available in the engineering wing was not sufficient to undertake the large number of works spread across the State. Though no cost benefit analysis was done, execution of major works through KITCO was beneficial since it enabled the engineering wing to renovate Tamarind Easy Hotels in time. While admitting delay in completion of works executed, it was stated that this was not entirely due to KITCO. Reply was, however, silent on defective agreement clauses as to recovery of liquidated damages/retention money.

We observed that renovation of Tamarind Hotels did not improve their profitability. The causes of delays in most of the projects were due to non fulfillment of pre-project formalities (getting clearance from local authorities, survey of site, preliminary design etc.,) for which KITCO was directly responsible.

[Audit Paragraph 2.31 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

The Committee sought explanation for entrusting KITCO as consultant for the major civil works and renovations work of company's properties, though the Company has an Engineering wing to execute such work. The Committee also queried abut the huge loss incurred by the Company due to incompletion of works in time. The witness replied that now the works have been completed and the Company was forced to terminate KITCO since it did not complete the work within the time limit. To a question of the Committee as to whether there was any penalty clause in the tender agreement to make KITCO accountable for delay on their part, the witness did not give a reply. The Committee opined that if penal provision for noncompletion of work in time was incorporated in the agreement, the Company could have claimed ₹1.50 crores as damages. So non-inclusion of penalty clause added a loss of ₹1.50 crores on Company. The Committee was aggrieved to note that the Company in not utilising its own Engineering wing has given a huge amounts as consultancy charges to outside agencies.

Conclusion/Recommendations

16. The Committee observes that the construction and renovation works of the Company got delayed due to entrusting of work to KITCO as consultant. The committee is worried to note that the Company entrusted the construction and renovation work of the Company to KITCO despite having an Engineering wing. Therefore the Committee recommends that all the construction works should be executed directly through its engineering wing. The Committee criticises the Corporation for not including penal provision in the agreement. The Committee opines that if it had incorporated penal provision, an amount of ₹1.50 crore could have been saved by the Corporation and such incidents will not recur in future.

Other Audit Observations

Uneconomic operation of Oak Field Resorts, Munnar

2.32 The GoK took possession of Oak Field Resort at Bison Valley Village in Udumbanchola Taluk and as per orders of Hon' ble High Court of Kerala (January 2009) entrusted the same to the Company for running for a period of three to four months. Subsequently, the Government extended (March 2009) the period till the final judgment of suit pending before the Hon'ble High Court. The average occupancy of the unit was less than 11 per cent and the unit incurred a loss of ₹0.32 crore during its 26 months of operation from February 2009 to March 2011. The Company was yet to take effective action for getting the loss reimbursed from the Government.

Management replied (August 2011) that the matter had been brought to the attention of the Government and a final decision was awaited.

[Audit Paragraph 2.32 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

When the Committee enquired about the actions taken to make the operations profitable, the witness replied that Company had to give back the property as it was not feasible and a High Court order is also pending in this regard.

Conclusion/Recommendations

No Comments.

Engagement of manpower for cleaning contracts

2.33 The Company had been outsourcing manpower for cleaning activities in its various properties at a mutually agreed rate based on the area cleaned from the year 1999-2000 onwards.

Scrutiny of the five cleaning contracts awarded during 2006-07 to 2010-11 revealed:

- Wide variations between actual area of the properties and area sanctioned for cleaning. The area to be cleaned was worked out based on the staff requirements in the Company's properties rather than actual area to be cleaned.
- The contract workers recruited for cleaning activity were deployed in other operational areas like office administration, accounts, cooking, front office management, dish maintenance.

- Proper registers were not maintained by the units for recording the area cleaned by the workers though payments were envisaged on the basis of area actually to be cleaned, indicating poor control over the outsourced service.

Management accepted (August 2011) that some of the units were engaging employees recruited through cleaning contracts in other operational areas to overcome acute shortage of manpower. It was also submitted that this arrangement had cut down establishment and salary cost.

[Audit Paragraph 2.33 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

The committee was perturbed to note that the contract workers recruited for cleaning activities were deployed in office administration, accounts, cooking, front office management and dish maintenance. The Committee criticises the Company for not posting qualified candidates in the administrative field.

Conclusion/Recommendations

17. The Committee is surprised to note that the Company deployed contract workers recruited for cleaning activities in other departments. The Committee view this as a serious lapse that seems to tarnish the very image of the Corporation. Image & brand building are crucial for any service industry. Hence the Committee opines that training of staff in areas such as customer relationship management is critical to the success of the tourism industry, and therefore the Corporation should take measures that all employees are adequately trained in this respect and personnel having required qualification should only be posted in respective departments.

Role of Board of Directors

2.34 The Board of Directors of the Company comprised six official members and nine non-official members. As all important matters affecting the Company are to be deliberated in Board meetings, the presence of members and their effective participation in the deliberations play an important role in the functioning of the Company. During the period from 2006-07 to 2010-11, 21 Board meetings were conducted. The attendance of the official and non-official members in these meetings in the audit period was as detailed below :

Year	No. of Board Meetings	Total No. of Board Members[7]	No. of Official Members	No. of Official Members attended	No. of Non-Official Members	No. of Non-Official Members attended
2006-07	4	32	28	20	4	3
2007-08	4	60	28	7	36	27
2008-09	4	60	24	9	36	34
2009-10	4	60	24	14	36	26
2010-11	4	75	30	14	45	31

The participation of the official directors in the decision making process was inadequate and was only 47 per cent in 2010-11. Further, the Board did not comprise members having professional qualification and industry knowledge.

Very rarely in the Board meetings were there any specific unit wise monitoring of the performance and proposals for improvement. Given the low occupancy of the properties it would be appropriate if unit wise detailed review of performance was taken up as an agenda in each meeting which would facilitate close monitoring to bring about improvement in occupancy level and profitability of the operation.

Management stated (August 2011) that participation of official directors in the Board meetings was improving. It was also stated that the matter of appointment of Directors having professional qualification and industry knowledge would be brought to the notice of Government. With regard to review of performance of units it was assured that performance review of units now done at head quarters level would be reported to the Board.

7 Total No. of members in a year is the product of No. of members in the Board and the No. of meetings held in the year. (8 members in 2006-07 and there after 15 members).

[Audit Paragraph 2.34 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

The Committee observed that in order to improve the performance of Company's properties all irregularities prevailing in the Company should be completely wiped off. The Committee remarked that in each Board meeting unit wise detailed review of performance should be taken up as agenda in order to improve occupancy in these units and the Board of Directors should consult with the professionals having industry knowledge in specific areas such as boating, tour operations, Ayurveda tourism etc. The Committee directs the Government to take necessary steps to ensure attendance of official Directors in the Board meeting and to make concrete suggestions for the improvement and it should be placed in the review meetings for the better performance of the Company.

Internal Audit & Internal control

2.35 The Internal Audit of the Company was entrusted to external firms of Chartered Accountants. The general guidelines for Internal Audit, scope and areas to be covered which were outlined in the appointment letter of internal auditors were only general in nature. As the Company had not formulated an Internal Audit Manual, the points to be reviewed under different areas of operation during an audit were not specified in detail.

We observed that transactions of the Company were reviewed in Internal Audit but system deficiencies had not been brought out for corrective action. For instance, although Internal Audit was bound to appraise the economy and efficiency with which resources of the Company were utilised, the comparative inefficiencies in energy consumption, food production etc., across the units were not brought out.

An overall review of the Internal control system revealed the following:

Financial Internal Control

As per the approved procedure of the Company, credit period permissible to travel agents was limited to 21 days to be further supported by Bank Guarantees for the credit limit. Maximum credit period permissible for other category of customers was only 30 days. We observed that:

- There was no stipulation of credit limit based on risk analysis. No bank guarantees were being collected to regulate the amount of credit that could be given. This lapse facilitated various travel agents to default/delay in remitting dues.
- Major portion (87 per cent) of sundry debtors related to premium properties. Maximum amounts were due in Mascot Hotel, Thiruvananthapuram where debtors included Government Departments, celebrities and bureaucrats.
- There was no system of fixing responsibility on Managers for recovery of dues which was sanctioned by them despite the Board decision in this regard.
- Management Information System on debtors was inadequate. Due to non matching of receipts against bills (Bill matching) when payments were made by the parties, the accounting software was incapable of generating reliable age-wise data on debtors.

Monitoring system

In order to improve the performance of the Company's properties, Management introduced the system (August 2008) of entering into Memorandum of Understanding (MoUs) with unit level managers. Under the system targets with regard to Occupancy, Income and Profitability were fixed on quarterly basis. Performance of units against the targets was analysed in the quarterly MoU meetings chaired by the Managing Director. Review of the system since its inception showed that:

- Number of units which could achieve the target for occupancy was only three in 2009-10 and seven in 2010-11 out of a total number of 31 units for which occupancy targets were applicable. In case of target for income, only 24 and 30 units out of 70 units could achieve the target in 2009-10 and 2010-11 respectively.
- Concrete steps for improvement of performance were rarely seen suggested in the review meetings. Diagnosis of the problems and guidance was lacking.

- Standardised format was being applied across the board for performance evaluation. Hence, parameters applicable for hotels were also adopted for restaurants and boat operations. It was also noted that targets were not being set for fuel cost, administrative cost etc.
- Even though two and a half years had elapsed since introduction of the MoU system, system of accountability and reward had not been integrated into the target and monitoring system without which we feel the intended benefits could not be fully realised.
- The post of Vigilance Officer was vacant for the last 18 months. Surprise inspections by the Vigilance wing were not being carried out at present.

Non-maintenance of Control Registers

The Control Registers for various functional activities such as Purchases, Works etc., were not being maintained by the Company. The Company did not maintain a separate register for grants showing the details of funds received, amount utilised and physical achievement etc., of each individual project. As such, information pertaining to the year-wise and scheme-wise utilisation of grants was not compiled and analysed.

[Audit Paragraph 2.35 contained in the report of the Comptroller and Auditor General of India for the year ended 31 March, 2011.]

Notes furnished by Government on Audit Paragraph is given in Appendix II.

Citing the audit objection regarding the Internal Audit and Internal Financial Control, the witness replied that registers are maintained at Head Office and with respect to grant utilisation, it is shown in the respective accounts itself and consolidated accounts are not maintained. The Committee directed to fix responsibility at each level for recovering dues, its implementation monitored by supervisory officers and all Registers maintained according to Companies Act.

The Committee criticised the Company for the delay caused in furnishing reply even after three years of placing the report. The Committee directed to submit detailed report within 2 months.

Conclusion/Recommendations

18. The Committee observes that the Internal Audit system's working was only overall in nature. The Committee is of the view that the scrutiny on the working of the Company was not done diligently and effectively and was not taking due effort in auditing the areas where the Company's working was not up to the mark and was showing lapses. The Committee expresses its concern over the inefficient functioning of Internal Control Mechanism of the Company which failed to suggest timely corrective measures. Therefore the Committee recommends to strengthen the Internal Audit and Control Mechanism which include proper review of unit wise functioning, maintenance of control registers etc.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
9th March, 2017.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Department Concerned	Conclusions/Recommendations
1	2	3	4
1	1	Tourism Department	The Committee is much distressed to note that as the number of loss making units of the Company has increased to a certain extent, the Company took more than ten years to implement the recommendation of COPU in 2000 for the allocation of Head Office Overheads to the units for the purpose of performance evaluation. The Committee remarks that the Corporation could gain profit only by giving incentive after evaluating the performance of each unit. Therefore, the Committee recommends that performance related incentive scheme may be introduced in all underperforming units to fast track growth.
2	2	Tourism Department	The Committee observes that star classification has an inherent business advantage which helps to enhance marketability and profitability of the Corporation. Therefore the Committee recommends to take necessary steps for obtaining star rating for all units and to make property wise analysis for the additional infrastructure facilities required in the units
3	3	Tourism Department	The Committee voiced its concern over the poor marketing strategy adopted by the Corporation resulting in reduced occupancy over the years and sought the reason behind the decline in tourist arrivals. The Committee also failed to comprehend how the Corporation would exist without a marketing division, while high competition is raging in all sectors of the

1	2	3	4
			industry. Therefore, in the current environment of global competition, the only way out is to make an edge over the Competitors and hence the Committee directs the Corporation to devise a strategic plan to reach into the key areas of trends of demand. To propel further growth, better marketing networks are crucial and hence, the Committee highlights the need for setting up an excellent marketing division to explore those areas and advises the Corporation to move ahead with a clear vision for development.
4	4	Tourism Department	The Committee criticises the leaden performance of the Corporation. Rather than conducting a study regarding the various measures taken by the private sector, the Corporation merely blames the poor location, small rooms, inventory etc. for its lackluster performance. Therefore the Committee remarks that, in order to convert the loss making units into profit making ones the Corporation should launch a strong marketing campaign across the globe.
5	5	Tourism Department	The Committee also suggests that the Corporation may also consider the starting or construction of new projects in association with Tourism Department and instructs to execute those projects in time. Going forward, it would help to extend its operation to more destinations. It is also learnt that the Corporation has failed to capitalise the advantages in sectors such as heritage tourism, health tourism and adventure tourism. The vast and varied potential of eco-tourism projects

1	2	3	4
			were not properly explored. Properties like Thekkady and Thanneermukkam which have great USP in Global Tourism Chart were not adequately exploited. Moreover, the potential of Pilgrim Tourism in properties such as Nandanam-Guruvayur, Thirunelli-Wyanad were not fully explored. Meanwhile the abounding possibilities of Monsoon Tourism, Culture Tourism and Wellness Tourism etc., are yet to be tapped. Therefore the Committee directs the Corporation to take an earnest effort to grab the huge potential of the above sectors.
6	6	Tourism Department	The Committee is distressed to note that lakhs of rupees had been lost by the Corporation due to bulk bookings via. segment I tour operators. Moreover it is pointed out that revenue loss had occurred as the company provided maximum discount to segment I agents only and did nothing to restrict the booking of other tour operators through segment I agents. Hence, in order to control the misuse of discount policy enjoyed by segment I agents, the Committee recommends to take necessary measures to facilitate direct/online booking in Corporation's properties. The Committee further recommends to conduct a study in each unit and success rate of each segment during a 2 year period and based on the findings a reallocation of booking may be made. The Corporation may also consider the possibility of setting aside 10 % of all rooms for direct/online bookings.

1	2	3	4
7	7	Tourism Department	The Committee is distressed to note that though action was taken based on the recommendation of COPU report of 2000 it could not derive desired results as it was not strictly complied with. This inaction on the part of Company resulted in a loss of ₹ 3.75 crore during 2008-09 to 2010-11 on account of excess food cost. The Committee also learnt that in most of the Company's properties, the food cost out of the catering income exceeded the permissible limit. Therefore the Committee recommends to ensure the procurement of raw material from Government run organisations thereby reducing the extra expenditure on food costs.
8	8	Tourism Department	The Committee observes that the energy consumption of the Company during 2006-07 to 2008-09 was above the industry average. The Committee is grieved to note that the Company neither extended the cost savings measures implemented in Hotel Mascot to other units nor conducted any energy audit in its properties except Hotel Mascot. Therefore the Committee suggests that energy saving mechanism should be introduced in all destinations and explore the possibility of using non-conventional energy sources and also the implementation of energy efficient methods in the Company's properties.
9	9	Tourism Department	The Committee is aggrieved to note that even though the premium hotels had unique locational advantages, it could not capitalise the advantage and all of the units could not achieve profit. It is also observed that these hotels could not make profit because of poor

1	2	3	4
			marketing and maintenance. The renovation work of Hotel Samudra, Kovalam was started belatedly, that too on a piecemeal basis. Moreover the renovation work was not completed in time. The Committee remarks that incompletion of work in time shows the inefficiency and irresponsibility of the officials concerned. The Committee observes that many Premium Hotels have registered loss over the period of audit due to poor administration. Premium properties like Hotel Samudra, Kovalam, Bolgatty Palace/Island Resorts, Ayurvedic Lake Resort, Thanneermukkom etc. registered reduced occupancy over the years. Therefore the Committee recommends to take corrective steps and earnest efforts to increase the occupancy of Premium Hotels. Proper control over Administrative and Establishment expenses may be taken care of and irregular payments should be halted to avoid seepage in revenue. It is also recommended to cut down its administrative expenses so as to achieve economy in operations.
10	10	Tourism Department	The Committee observes that online booking system will increase easy accessibility which in turn will improve occupancy. Hence the Committee recommends that in order to improve profitability, online room reservation system should be introduced in Budget Hotels also.
11	11	Tourism Department	The Committee can't comprehend the logic behind the branding of Tamarind Easy Hotels under a single brand name. It is observed that though Tamarind Easy Hotels (TEH) were

1	2	3	4
			branded under a single brand name and assigned uniform tariff rate, they differ widely in their amenities and most of them were lacking in facilities. Hence the Committee suggests that a revised strategy may be adopted in the branding of TEHs and the tariff rate may be fixed in accordance with amenities available. The Committee also propose a revival plan for providing modern amenities in all TEHs.
12	12	Tourism Department	The Committee recommends to conduct proper feasibility study before heading to new projects such as Motel Aaram so that the number of loss making units can be lessened. The Committee also recommends to allocate adequate funds from the Government for the timely annual maintenance of Tamarind Easy Hotel, Motel Aaram, etc. so that facilities may be improved which in turn will lead to betterment of business and profit to the properties.
13	13	Tourism Department	The Committee expresses its dissent over the continued operation of loss making RBP, Haripad despite the decision of the Board to close it down and also the closing of the three profit making units for want of premises. Therefore the Committee recommends to open the Restaurant 2 Beer Parlour (RBP) by finding suitable premises where it can be operated profitably.
14	14	Tourism Department	The Committee observes that the revenue generated from boating operation is much less compared to its vast potential in tourist destinations. The Committee is aggrieved to note that the Company stopped the boating

1	2	3	4
			operation in Thanneermukkom Water Scapes, Kumarakom and Bolgatty Palace Hotel by merely stating the lame excuse that the company could not compete with private sector. The Committee is distressed to note that the Corporation did nothing to promote boating despite boating being a major sources of revenue. The Committee is shocked at the Company's decision for lower capacity boats in Thekkady despite its turnover and it suggests to introduce boating services in all potentially viable properties of the Corporation. Therefore the Committee recommends boating operations of high capacity boats with adequate safety measures.
15	15	Tourism Department	The Committee observes that the average manpower strength per room in Company's properties is high compared with the industry average. Therefore Committee recommends to assess the staff strength and desires to furnish the details regarding the sanctioned staff strength, category, their qualification, existing staff strength, shortage etc. The Committee also recommends that for the effective functioning of the company, qualified candidates should only be appointed through PSC towards sanctioned staff strength.
16	16	Tourism Department	The Committee observes that the construction and renovation works of the Company got delayed due to entrusting of work to KITCO as consultant. The committee is worried to note that the Company entrusted the construction and renovation work of the Company to KITCO despite having an Engineering wing.

1	2	3	4
			Therefore the Committee recommends that all the construction works should be executed directly through its engineering wing.The Committee criticises the Corporation for not including penal provision in the agreement. The Committee opines that if it had incorporated penal provision, an amount of ₹1.50 crore could have been saved by the Corporation and such incidents will not recur in future.
17	17	Tourism Department	The Committee is surprised to note that the Company deployed contract workers recruited for cleaning activities in other departments. The Committee view this as a serious lapse that seems to tarnish the very image of the Corporation. Image and brand building are crucial for any service industry. Hence the Committee opines that training of staff in areas such as customer relationship management is critical to the success of the tourism industry, and therefore the Corporation should take measures that all employees are adequately trained in this respect and personnel having required qualification should only be posted in respective departments.
18	18	Tourism Department	The Committee observes that the Internal Audit System's working was only overall in nature. The Committee is of the view that the scrutiny on the working of the Company was not done diligently and effectively and was not taking due effort in auditing the areas where the Company's working was not up to the mark and was showing lapses. The Committee expresses its concern over the inefficient functioning of Internal Control Mechanism of the Company which failed to suggest timely corrective measures. Therefore the Committee recommends to strengthen the Internal Audit and Control Mechanism which include proper review of unit wise functioning, maintenance of control registers etc.

APPENDIX II

NOTES FURNISHED BY THE GOVERNMENT ON THE AUDIT PARAGRAPHS

Action Taken

No comments

Noted. No comments

Noted. No comments

Noted. No comments

Noted. No comments

Noted. No comments

Noted. No comments

Noted. No comments

Noted

Noted for future improvement action.

It may kindly be noted that the return on capital em is the relation between the profit earned and the employed. When the profit increased / capital em reduced the ratio would be high and the reverse happen if the profit reduced and capital em increased. Here we are in the process of increas profitability by concentrating in the area of reduc expenditure and increase the sales volume and ca

Expenditure parts included the following.

a) Raw Material cost (Catering, Beverages, Liquor etc.

b) Human resource cost,

c) Administrative cost,

d) Power and Energy cost,

e) General repair and upkeep cost,

f) Depreciation and other write offs.

a) **RawMaterial cost (Catering, Beverages, Liquor etc**

In our case we are exercising enough control controlling the expenditure of Catering, Beverages, etc. Rate contract for the supply of catering items, purchase of provisions, consumables etc., has help control the expenditure in this area. Wherever the

SUPPLYCO, HORTICORP, KEPCO are there. we are pur[illegible]
items from there only. .

The purchase of Liquor and Beer is possible onl[illegible]
Beverage corporation and at the same time the selling pri[illegible]
be fixed only by comparing with selling price of the item
by our competitors and also by the Civil Supplies corpo[illegible]
retail outlets. We are taking all efforts to increase th[illegible]
volume of this area.

2. Human Resource Cost.

This includes the permanent employees, contract [illegible]
out sourced employees arranged through contra[illegible]
unskilled work. Here,the labour cost on permanent [illegible]
is fixed and we could not exercise any control over the
reduce the same. Other two areas we are trying [illegible]
engaging minimum number of employees only. [illegible]
be noted that in the case of private hotels they could e[illegible]
labours in operational side on split duty system. But [illegible]
we cannot even think of such a concept. Moreover th[illegible]
turnover in hospitality field is very high and if we [illegible]
the casuals during off season time, getting competent [illegible]
during the season period is very difficult. we [illegible]
impossible. We are operating our show by facing [illegible]

types of restrictions. All these factors are affecting th which leads to reduce the profitability of the organization

b) **<u>Administrative cost:</u>** We are taking all earnest effort reduce the cost under this category by minimizing t travelling, Telephone expenditure etc., To reduce the teleph expenditure we implemented the Customer User G system.

c) **<u>Power and Energy cost:</u>** We have taken enough step reduce the cost of electricity, water, fuel etc., Energy aud has been carried out in Mascot Hotel. In certain u Hotel Chaithram and Samudra while carrying out renovation works we are introducing the concept of e audit findings to get the result of energy auditing.

Installation of Bio-gas plant has helped us in reducing the for cooking and also the cost of waste disposal. Replace of electrical equipments with energy efficient equipments, using LED bulbs. Solar water heater system some of the methods adopted to reduce the cost in this are

d) **<u>General Repair and Maintenance:</u>** In the Hotel oper side it is one of the important points to keep the pr always look like new. It is possible only after carrying frequent repair and maintenance. Most of our Hotels are old and frequent repairs and maintenance are required to

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the property competitive in the market. This is increasing our cost and ultimately leads to reduce the profitability of the organization.

e) **Depreciation and write off;** As explained above to keep the hotel property neat and tidy the Linen and other furnishings in the Hotel has to be changed every year. Changing of Cutlery & Crockery, Beds & Pillows, Carpet & Mattress etc., are being changed every year which is increasing the cost of operation and also affect the profitability.

It may kindly be noted that when the age of the property increases normally the operational expenditure and maintenance expenditure would also increase and ultimate result would be reduced profit and reduced return on investment.

In the Revenue part the following points need consideration.

1) Year by year the total room inventory available in the market is increasing by way of induction of new Hotels, Appartment stay, Home Stay, House Boats etc., It is true and is a real fact that people would prefer to stay in new property alone. In our case most of our properties are very old and we are competing in the market with the new born properties. So the efforts we have taken to sustain atleast in this level may be appreciated.

Ours being a public sector undertaking have to fix a general tariff and also has the limit upto which the tariff could be reduced even at the off season time. But in the case of private entities they could take decision then and there and could fix the room tariff even at very minimum that would not even fetch the marginal cost incurred.

We have already taken efforts to increase the room sales by giving attractive incentives to the marketing agents, Tour operators etc.., The online reservation system is picking up and we are hopeful and optimistic that in coming years our online system would take care of many deficiencies in this area.

The audit and the committee may consider above explained points and the limitation that prevailed before a public section undertaking.

Most of our premium and budget hotels are very old and major renovation is due. Competing with new private hotels having modern facilities is very difficult task and we are working in such an environment.

When the competition increase and the sellers have no control over pricing, then the result would be loss / minimal profit margins. This has happened in our case also. Now many private properties in Trivandrum and Ernakulam are finding it difficult to survive and even facing the situation of close down. But in our case we are surviving only because of our changed strategy. This cannot be termed as our inefficiency.

The audit may kindly be noted that the Hotel industry being a capital and labour intensive industry the profit margin would be minimal. Because of our presence in the field we could able to give employment atleast 2000 employees throughout the year. All the above clarification may be considered and the observation be dropped. However we would be taking all efforts to increase the ROI.

In the audit observation it has very specifically mentioned that the Districts Thiruvananthapuram, Ernakulam and Thrichur recorded the highest tourist arrival during the period of audit but KTDC's premium and budget properties at these locations failed to capitalise this.

In this regard first we have to look into how many properties we have in these locations and what are the nature, conditions of our properties.

In Thiruvanathapuram we have Mascot Hotel as Premium Hotel, Hotel Chaithram as Budget Hotel and Hotel Samudra as another Premium Hotel.

Mascot Hotel is a business hotel and most of our clients at there are business related officials from inside and outside the state. Leisure tourists are very rarely opted to stay in Mascot Hotel. Occupancy of this hotel depends up on the economic scenario prevailed in around the state. Moreover during this period new property like Taj at Kovalam and Trivandrum, Moothut at palayam, Residency Towers near Statue ,Classic Avenue at Thampannoor, Udaya Samudra at Kovalam etc., entered in to the field and made the competition too tuff. All the outside business environment put us in a situation like sinking and even in such a situation we could earn the reported occupancy for Hotel Samudra, Mascot Hotel, Hotel Chaithram etc.,

In the case of Hotel Chaithram it was very old property and the renovation was due for years. People always prefer new properties to stay. This could be seen from the occupancy rate increased when we carried out partial renovation of Hotel Chaithram. The occupancy which was 40% in 2009-10 has been increased to 67% during 2013-14 and during 2014-15 we expected the annual average of around 70%.

Ernakulam property Bolgatty palace: It may be noted that the

Bolgatty Palace Hotel is Premium Hotel property the KTDC has in Ernakulam. In and around Ernakulam there are lot of new hotel property has come and all those properties has to share the available market inflow. Naturally there would be fall in occupancy and that is not because of the problem of us. People always like changes and it is nature that when new properties are come in definitely they would try that properties to enjoy the new experience. In such a situation what we could do is to renovate our properties in such a way to get new feel. Keeping in mind that point we renovated our Hotel Chaithram at Trivandrum, Thanneermukkom lake resort, Hotel Nandanam at Guruvayoor, Hotel Samudra at Kovalam, Tamarind hotels etc., and hence we could able to stop further decline in tourist arrivals in our properties.

The audit may take the case of Munnar and Idukky. 10-15 years back there were limited number of Hotels and tourist homes in Munnar and Idukki. Now the situation was changed. Innumerable new hotels, Home stay, Appartment stay etc., has come in Idukky and Munnar. All these has affected the market share of KTDC. Even then we are surving in all these location only because of our marketing strategy and sincere efforts.
The audit may kindly take note of the situation that we

are surviving in this filed only because of our sincere and agreessive efforts put into to increase our business. The realities in the field may kindly be recognized and the audit observation dropped.

There are many factors that affecting the profitability of a unit. The location, Physical condition and age of the property, combination of labour (permanent, trainees and outsourced employees) proximity to the input material market, availability of power and other energy at reasonable cost, market competition etc., etc.,

It may be noted that KTDC has number of units spread throughout Kerala. Among these units some are located in good tourist locations, some in developing location and certain units are in a location that we could not do anything. To operate a small unit like Tamarind , Motels, Restaurants Restaurant and Beer parlours we have to engage atleast 14- 16 persons. If we engage permanent staff alone in a unit then that unit could not be operated profitably. We cannot introduce the split duty system where the employees are forced to take rest during off business hours of the day and work when the business hours start. But in private sector, it is possible and hence their labour cost and cost ratio is at lower. We are running the show with a mix of permanent, Trainees, Contract labour and low cost out sourced contract employees. But in certain location we have to make some changes by considering various social set up of the location and the employees of the organization. When the concentration of the permanent employees in a unit increases, the cost of labour increases and the unit's profitability would come down. If the unit is not in a business location definitely the end result would be loss. All these are the inherent problems attached to a public sector undertaking and what we could do is try to minimize such situations. We are taking earnest efforts to increase the sales volume and reduce the loss.

It may be noted that the profitability of the unit was compared without allocating the head office overhead. The logic behind is that if we allocate all head office overhead to the units and compare the profitability, we could not assess the real strength or weakness of the unit. To get a clear picture of the operational efficiency of each unit, we adopted the theory of compare the performance of the unit by taking into account the direct income and direct expenditure related to the operation of that unit alone. The audit observation has been noted and we would try to do the same. But it may be noted that if we take a crucial decision based on the final result after allocating the HO expenditure the decision would be that a good unit got closed. Then there arise another critism that a unit which was operating on operation profit was closed based on the wrong interpretation of allocation theory. We request the audit to assess the real situation and allowed us to continue the practice that we are following. Hence we request the audit to drop the observation in this regard.

.12 Star Rating.

It is a fact that the star rating has advantage in certain market segment. But it is not a mandatory factor that in order to play in the competitive market star rating is compulsory. While we analyzing the market situation we could see that all properties in the market owned by the private entrepreneurs are not star rated, even then they are getting business.

Earlier our Mascot Hotel had THREE STAR rating. But the business fluctuation in that unit is not because of missing the Star rating but of some other factors. Most of the high officials of various Government departments using this property for their official purpose and the presence of such officials has created some hesitance and panic among the private clients to select this property. Many guests do not like the atmospehere where the government macheieries attention is too mukch. This has affected the business of this property. Earlier Hotel Chaithram had Single Star, Hotel Samudra had 2 star with 4 star facility etc., But the reduction in business was not because of the absence of star rating. It is because of the age of the property. People wanted new property / the property that looks like new always. Whether rating is there or not is immaterial.

All Stare rated hotel has fixed its tariff at higher end. In the case of private hotels though they could show the tariff matching with the surrounding market, it has the flexibility of coming down even at the marginal operating cost rate. In most of the private hotels, the field level staff would be very close to the owner and they have every flexibility to reduce the tariff at any lower end. But in our case we could go up to a level up on which delegation is given. Granting of clear cut delegation is essential in government set up also. If we adopt the practices that are being followed in private sector, then there would be rain of corruption allegation. So we being in the public sector have to face many restrictions.

Given below the occupancy details of some of our major hotel units where we have not yet taken Star ranking but has carried out repair and renovation.

	2010-11	2011-12	2012-13	2013-14	2014-15
Hotel Samudra	23.00	44.00	47.00	46.00	52.00
Aranya Nivas	40.00	49.00	48.00	43.00	renovation
Bolgatty Palace	50.00	29.00	32.69	32.00	36.20

Bolgatty Palace Hotel Kochi	50.00	29.00	32.69	32.00	36.20
Lake Palace Thekkady	28.00	34.00	41.00	39.72	48.00
Tea County Munnar	84.00	70.00	70.00	57.00	67.00

There exist many other trade practices to bring more business which we could not practice. We request the audit to peer into the real situation of how a Government organization in hospitality industry could work. With all restricted parameter before us we are operating the shows successfully.

We have already takên steps to take Star classification of all our hotel properties. It will cost us more. Even then we try our best to comply with the audit observation. We request the audit to consider all explained points and the points that we could not explain in writing with material evidence and drop the audit observation.

/e could not apply for star rating as it was felt that all the criteria meant for the appropriate ratings could not be met by the corporation considering the financial implications involved. In order to get the tariff concession, we had to carry out many more works at that time and after completing the works in all respect only we could apply for star classification approval. Classification of hotels under star category calls for more of investment and personnel. Facilities already provided may cover many of the requirements, but there are certain additional items which would be required like specialty restaurant, coffee shop, facilities for physically disabled etc based on the category asked for.

Here the audit has reported loss of Rs.0.26 Cr. related to the unit Tea County Munnar and Water Scapes Kumarakom. In this case Munnar we are getting electricity from TATA and we are of the belief that the KSEB would not subsidize the energy consumed from TATA. Regarding Waterscape Kumarakom we have not tried because of the fact that the cost of additional capital arrangement would erode the benefits obtained as subsidy of Rs.0.18 cr. During that period we were on Bank term loan and additional capital investment means additional interest burden. *In this context, it may please be noted that the Department of Tourism has to give the subsidy and Department of Tourism and KTDC are two arms of the State Government; hence availing of subsidy from the Department of Tourism by KTDC is in effect a payment from government to government only and as such there was no real loss to the government.* The audit may kindly be accepted the above clarification and dropped the observation.

In the auditing it was reported that only negligible amount has been spent for advertisement and publicity. In this regard it may be noted that the audit has taken the whole income of KTDC for ratio calculation. Actually all our marketing is aimed at for improving the business of our Hotels and not for the Restaurants and Beer parlours, Motel Araams, Boating etc., Hence the expenditure incurred for advertisement and marketing activities has to be compared with the relevant income. If we do that exercise we could see that the average expenditure on this head is between 4 % to 6.6% of the income earned from the Hotel groups.

Given below the working which was extracted from the audited accounts.

Item	06-07 Rs.Cr.	07-08 Rs.Cr.	08-09 Rs. Cr.	09-10 Rs.Cr.	10-11 Rs.Cr.
Lodging Income	15.64	18.21	17.53	17.37	19.78
Catering Income related to Hotels.	15.00	16.21	18.03	19.65	[illegible]
Total of Lodging and catering income.	**30.64**	**34.42**	35.56	37.02	42.13
Advertisement and Marketing related exp.	2.03	1.97	1.60	1.50	1.74
Marketing exp % to related income.	6.62%	5.72%	[illegible]	4.05%	[illegible]

The audit observation is noted. [illegible] we have in[illegible] line reservation system. The [illegible] that it has penetrated in the market and recurring expenditure in this regard would be reduced. We have planned [illegible] strategy also to attract more people through the [illegible] net work.

b) Though the government has accorded sanction to set up a Marketing Division we could not implement the same because of the promotion policy and recruitment rules pending with the Government. Now the policy has been cleared by government and we would be filling up the vacancy by complying with the procedure requirements.

c) We have placed Hoardings in many places. But the disappointing factor here is that if we erect any Hoarding in the National Highway side, the Road authority would immediately remove the same. In certain places we have placed hoardings in private parties' premises. We would be taking earnest steps to erect more Hoardings and Sign Board in all possible location. During our review meetings we have instructed all our units to install more number of hoardings.

d) The observation is noted. The audit may kindly be noted that there is no full proof system to quantifying how much business have been obtained through our promotional activities through Travel and tourism fairs and road show. The intention of doing all these marketing activities is to create awareness among the general public and prompt them to select our property. The real selection of our properties may be direct or through our marketing agencies. Since we don't want to bluff the audit we openly say that the real situation cannot be identified by anybody.

e) It may be noted that our Hotel Nandanam at Guruvayoor is a very old property and total renovation has already been due. Even in that pathetic condition we could achieve the reported result. In Guruvayoor there are lot of new hotel properties came into existence. To compete with those properties the only way was to carry out massive renovation. We carried out the required renovation and the business of that hotel has been increased. Now the unit is making profit.

The above clarification to the point No.2.14 may kindly be accepted and the observation be dropped. We would be taking earnest efforts to improve the total situation for the growth of the organization.

The average occupancy of the premium hotels was low during 2010-11 mainly on account of Hotel Samudra, which was under fully closed for five months and partially for some months for renovation works during the period. The average occupancy in Hotel Samudra, which was around 45% during the years 2006-07 to 2009-10 came down to around 23% during 2010-11 on account of the renovation and construction of convention centre works. The impact of economic recession had also adversely affected the occupancy from 2008-09 in negative growth of 6.96% in foreign tourist arrival during the calendar year 2009. The hospitality industry in the State had gone through a difficult patch from 2008-09 on account of economic slowdown, terrorist acts and health scares on account of H1NI virus. This has resulted in a decline in foreign tourist inflows. In an economic downturn, the hotel industry and the airline industry are amongst the first to be hit adversely and also are amongst the slowest to recover, since the spending on travel is considered a discretionary spend for most leisure travellers and some business as well. With reference to the comparison with all India average occupancy, we may submit that for getting a realistic picture about our performance city average may be compared. For example the average occupancy in the city of Kochi during 2009 was reported to around 43% only when the all India average was around 60%. So also the comparison of the occupancy rate of KTDC Tamarind or Budget hotels with all India average would not give a realistic picture.

We have noted the audit observation with regard to the declining trend in the occupancy rates and are taking all steps to reverse the trend. Now in premium sector except Mascot Hotel Trivandrum and Water Scape Kumarakom all others have improved the position of profit making. We are also trying to increase the profitability by increasing the revenue from other areas like convention activities and its related catering income, leasing out of open spaces for public function so that the idle space can be utilised and income generated.

The audit may take into account the increase in room inventory by way of induction of new hotels, Apartment accommodation, Home Stay arrangement etc., We have to face all this situation.

The audit may consider above clarification and the observation be dropped.

It is an accepted practice in the Tourism market to rely up on major Tour operators and Travel agents. They to a great extend influence the people around to attract our property. Many private hoteliers were successful because of the dependency of good marketing agency. We also realized the fact and inorder to survive in the competitive environment we also followed the marketing methods adopted by the private parties, and hence we selected Segment-I, Segment-II and Segment-III marketing agencies. Everywhere people are very intelligent. The Segment-II and Segment-III agencies approached Segment-I and diverted their business through Segment-I. Ultimately the result was that only the segment –I existed in the field. We could not do anything in this situation. What we could do is that either we elevated all agencies into segment-I and continue the business or do not entertain the Segment-II. Both method has its cost.

We have already started the online reservation and the system is doing well. Inorder to promote and make this system more attractive we introduced 10% to 12% discount to the guest who reserves the room through our on line reservation. This has its positive result. We are hopeful that we could bring our on-line reservation system as a best one and gradually we could avoid too

much dependence on the travel agents in Segment
would keenly watch the progress of this arrangeme
will do whatever we could. If the audit could s
any new method that could fetch better result th
we could try. Above clarification may kindly be ac
and the observation be dropped.

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usually look into this area of each unit and clear signals were given to control that area if it exceeded.

In our case many of our properties have large area of fee land which has to be kept bright in the night every day. Take the case of Hotel Samudra, Mascot Hotels, Waterscapes, Tea Country, Bolgatty Palace, Thanneermukkom lake resort, Aranya Nivas, Periyar House etc., In all these property the public area is high hence the expenditure on this part would be high. In Thekkady we are using generator throughout the period. Same way in the evening when the general consumption of electricity is high we are forced to operate the generator also.

We have already given message to all our staffs to switch-off all lights and equipments when they are not in use. We are of the firm belief that our consumption of electricity is optimum and no purposeful wastage. To save the electricity we are in the process of changing the ordinary type bulbs to LED. In all new properties and in renovated properties we are using LED bulbs only. New air condition units are having 5 star classification to save the energy. In all hotels units we have introduced room key circuit breaker which is helping us to switch off all electrical equipments when the [illegible] with key and the guest is outside.

It is true that we have carried out energy auditing in Mascot Hotel only. The input obtained from that study is being utilized for other units also. We have installed Solar water heater in our Chennai Hotel and we are trying to introduce the same in major properties also.

The audit may consider our clarification and the observation be dropped.

Profit and loss figures furnished in the report noted

Cancellation of chartered flights to Kovalam from 2008-09 was the prime reason for the sudden fall in the performance of Hotel Samudra. It may be noted that Kovalam and Kumarakom were the two tourism centers in the State worst affected by the impact of global recession, Mumbai terrorist attack etc. If the arrival of tourists through chartered flights were continued, we would have even thought of postponing of the renovation works though it was long overdue. We choose the period for renovation considering the general drop in tourist business in the Kovalam region.

As indicated above, there were no charter operations from 2008-2009; hence steep decline in occupancy in Kovalam and that have reflected in our Hotel Samudra, Kovalam. It may be noted that a couple arriving in a charter flight stay in a room for fourteen nights and a couple from the domestic segment stay at Kovalam for a day or two; hence to compensate a couple arriving through charter guest, we need at least 7 domestic couple guests if a couple stay at an average of 2 nights. When there are no charter flights to Kovalam, a destination extended up to Poovar with a number of good branded resorts, the availability of rooms will be more and demand is less, selection opportunities existing nearby hence

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there will be a lot of hard dynamic bargaining, which the KTDC properties are not equipped with due to a number of reasons. The occupancy of KTDC properties also depend upon the business practices adopted by our competitors, substitutes, superior products who do not have any constraints at all in the rate management. Some leading hotel chains have the rate of the day depending up on demand of the day. These business models put a big constraint on Samudra owing to our difficulty in the rate management and this constraint is applicable to all KTDC properties.

Regarding the delay in renovation works, it may be noted that it was so happened. With the good intention we awarded various works to different agencies. But the prevailed work culture cause to delay the work and our plan failed. Now we are taking enough care not to happen such situation in future. As the act was not purposeful, we request the audit to drop the observation.

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We have noted the audit observations and will take all necessary steps to improve the performance of Bolgatty. In this context it may please be noted that Bolgatty cannot be purely considered as a city hotel due to its location, it is more of a resort type unit. The occupancy of resorts is season based. A business executive may not opt Bolgatty due to availability of large numbers of modern hotel in city where the rates are amenable to any extent. Hence comparing with the occupancy of a down town city hotel may not give a realistic picture. In the HVS survey report it is stated that *"the Kochi hotel market has witnessed a trend of declining occupancies in the past two years, even though the average rates have seen a marginal increase. The new supply entering the market coupled with the demand-supply imbalance is responsible for this trend."* We are not in a position to obtain star classification for Bolgatty due to certain technical problems associated with the transfer of land in the name of KTDC from the government. Now the situation has improved. New convention centre has improved the scope of the business of the property. We expects many conference in the coming period which would increase the room occupancy and rental revenue. We have also planned to let out the open lawn for public purposes which would also bring more revenue and profit.

The resort at Thannermukkom was handed over by Tourism Department to operate on lease basis and all the works both civil and electrical were arranged by Tourism Department through CPWD. Like other Motels and Yatri Nivases, this property was also taken over by KTDC as per the government direction and hence there was no scope to carry out any market/feasibility study. The construction of the building was done without considering the operational convenience of a resort. Originally this property was the site office/ staff quarters of the Thannermukkom Bund Project. The basement was not suited for multi story building and CRZ rules do not permit to consutruct multi story buildings. When the Bund project was over, to make use of the construction, renovation on existing building was carried out with minimal cost by DoT through CPWD and handed over to us.

On completion of the project, CPWD had applied for power supply to KSEB and KSEB had informed them to limit the power supply to 30 KW since the sub-station feeding power to the resort is already overloaded and they are not able to accommodate the 100 KVA load as requested. We have also tried to get an 11 KV supply from Cherthala, but was not succeeded since this line/cable has to cross the railway line and the railway was not ready to give permission for the same. So the load has to be limited to 30 KW and obtained the power supply.

In 2010 December a new substation was commissioned by KSEB near Alappuzha and some of the load from Thannermukkom feeder changed to the new substation. After that only the KSEB took action on our application for power given by us. Since the work was executed by CPWD, Electrical Inspectorate approval was not obtained and there was no drawings also, because CPWD get the approval from Central Electricity Authority. We followed up the matter and get the approval. Though the outside upkeep view of the property is attractive, the interior arrangement was of an ordinary Budget hotel. It cannot be compared with the highly paid premium properties or good budget hotels set up by KTDC. This restricts the flow of high spending groups.

This property has 32 rooms spread along. The rooms are spread in 2.5 acres of land and in seven blocks. The restaurant is in the south east side and arranging rooms service is tedious job and required additional man powers. Upkeeping the entire areas required atleast 3 staff throughout. Retaining of Bell boys in all 3 shifts is essential as the rooms blocks are widely spread. It may kindly be noted that the staff requirement was optimum to carry out the average business. But because of lack of ambiance inside the rooms repeated guests were not obtained. It may kindly be noted that we have engaged only minimum staff that was very essential for the average operation of the unit.

As we realized the fact that the property could turn the corner only after carrying out the renovation, we closed down the unit and carried out required renovation and the properties general ambiance has been increased. On 12/01/2015 we inaugurated the renovated property and was named as "SUVASAM LAKE RESORT" . We are hopeful that the unit in the present condition would bring good fortune to us.

We request the audit to accept our clarification and the observation be dropped.

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Noted. Hotel Chaithram is showing improvement in occ and revenue after renovation and consequent increase i Golden Peak has improved the occupancy and profit.

With regard to Nandanam, Guruvayur hiking of elevate the hotels in higher class had caused the occup come down. But the revenue has increased because of . Mangalya improved its performance even after the the tariff. Garden House Malampuzha improved its inspite of the poor demand of the destination absence of any active picnic activities and upkeep of the Garden boating etc. Pepper Grove is through a period of gestation and it is impro performance.

With regard to the operation of Malabar Mansion we would like to inform that the rooms of that pre not be let out because of the unsafe condition of the The physical conditions of all rooms are in such condition that it may come down at any moment operation of the Beer Parlour in that building is unsafe are operating the same with the belief that it is in the floor and if any contingency happen it would not to the group floor.

By considering the safety we are in the process of setting up of hotel in Kozhikode. Department of Tourism have recently set up the State Institute of Hospitality Management, Catering Technology & Applied Institution (SIHM) in the 6.18 acres of land owned by Kerala Soaps and Oils Limited at West Hill, Kozhikode. Based on the request of KTDC, the Governing Body of SIHM in its meeting held on 12/04/2010 had decided to share 1.18 acres of land to KTDC for the construction of a hotel under KTDC, which would also compliment the activities of the Institute of Hospitality Management. We have already requested for transfer of 1.18 acres of land to KTDC on long-term lease basis and steps are underway for transfer of the land. So far the land has not yet been transferred to us for taking up our new venture. Calicut Corporation with the request to permit us to carry out massive renovation. But the corporation's attitude was negative and we have no other option but to continue the present operation of beer parlour as such. We are thinking of grouping this property under Restaurant & Beer Parlour.

Given below the occupancy % details for the last 13 years. From that statement we could say that our performance is not bad.

	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14
Mascot	39	40	52	37	46	62	57	44	35	39	36	35	34
Samudra	27	30	31	29	38	42	56	37	34	23	44	49	45
Water scape	23	37	35	32	39	56	44	46	45	47	33	31	31
Aranya Nivas	24	13	24	33	36	49	39	38	39	40	49	48	43
Tea County	48	43	44	42	56	76	77	80	83	84	70	70	57
Bolgatty	35	28	33	33	43	58	52	42	41	50	29	33	31
Lake palace	40	30	43	60	58	69	64	47	28	28	34	41	40

During January 2003 to March 2004, there were only 15 letable rooms in Mascot Hotel. Other rooms were closed for renovation. Waterscape kumarakom was inaugurated in 20001 with 19 rooms and 21 rooms were added in May2002.

Hotel Samudra was on renovation during the period 2010-11

Tea county Munnar- the number of rooms increased from 43 to 67 during December 2010.Marina house rooms were added to the Bolgatty Palace during April 2010.

Thannermukkom unit started its operation during 2005, Since the performance was not good the property closed in 2012 for renovation. We have already introduced Online Reservation System for all the Budget category hotels also. We hope that the performance of the Budget category hotels would improve significantly in the coming years.

The Tamarind Hotels are our old Yatri Nivases renamed to get better marketing penetration among the middle class people. Most of the buildings are very old and not in the commercially viable location. When it was constructed during the initial period of 1990s the room size and other facilities were enough to attract the middle class guest. When new lodges and small hotels came into existence, people liked that properties and our business gradually eroded. At that time in almost all Yatri nivases we started Beer Parlours and our concentration of room sale was lost, that lead to reduction in room revenue. But it may be noted that at that time revenue generation was very much essential to us to take new projects and also to carry out renovation of our old prestigious properties. All such plan was executed successfully from the fund generated through the beer parlour operations.

When segment analysis was carried out we realized that the Yatri Nivases' main objective are not satisfied with the operation of beer parlour alone and we have to concentrate on bringing more revenue from room sale. By the time the room condition was very pathetic. Mosaic floor, European closet, unfit cots, very inferior room furnishing etc., were not lured the people and we took decision to renovate the Yatri nivas to get better face lift and also decided change the name to

Tamarind a new branding concept. The property was upgraded by carrying out required repair and renovations installing new A/c units etc., etc., During that period it was also decided that if we retain the Beer Parlour in Yatri Nivases, it would further worsen the situation and all the investment would be lost. Hence decision was also taken to shift the beer parlour outside the Yatrinivases. We could see from old records that the Yatri nivases were on profit because of the Beer parlour operation. Now if we compare the figures of Yatri nivases without beer parlours, we could see that our yatri nivases performance are not bad.

The online reservation system has increased the performance of the Tamarind Hotels. Now we have given adequate liberty to the unit officers to reduce the room tariff to avoid loss of business opportunity.

Lack of flexibility in engaging the staffs on split duty system, restriction on retrenchment of staff during off season period etc., are some of the internal factors adversely affecting the performance of Yatri Nivas properties. The external factors are that in all location many new average type hotels have come into existence and they have enough flexibility in operation that we cannot adopt.

The audit may kindly be noted that if we do not renovate and upgraded the Yatri nivases the situation may be further worse than before. We still believe from our experience that the decision of converting the Yatri Nivases into Tamarind was a wise decision to salvage the property from sinking.

Earlier our concept was to try to bring uniformity in tariff and also the service offered. But from the feedback we realized that the new Tamarinds are better properties than the others like Tamarind Kannur, Trichur, Kollam etc.,. Now we have given enough freedom to the Tarmarind managers to give discount up to 30% in deserving cases. The Tariff which was fixed at Rs.1400/- for double occupancy room was reduced to around Rs.1000 to 1200. Now the situation has improved and we are in strong belief that within two years time all Tamarind Hotels would be on profit.

We request the audit that above clarification may be accepted and the observation be dropped.

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Out of the 7 Motel Aarams shown in the table, 3 Motels MA, Pallathuruthy, MA, Kumarakom and MA, Adoor etc., were returned to the Department of Tourism viz., Motel Araam Pallathuruthy was not an ideal place for the restaurant business alone. When we were operating the unit, the road access to that property was very difficult. Vehicle parking facilities were also minimum. At evening time that area look like a deserted place and no travelling public would get down there to take food from there. Even if sufficient business is not obtained we have to maintain minimum number of staffs and the expenditure on that side aggravated the loss position. Motel Aaraam Adoor location is such that we would not get sufficient business to operate the unit on profit. Same way the Motel Aaraam Kumarakom. In the case of Kumarakom we have our own premium property behind that. Initially we utilized the motel facilities for our boat operation and subsequently we were forced to stop that arrangement. Starting of a Beer parlour lead to assemble sub-standard clientele in front of the gate of Waterscape, that created bad feeling to the guest coming to our property. Moreover the business of the Motel was not encouraging. M.C Road maintenance works took lot of time and that adversely affected the business of our Motel Aaraam Kottarakkara. When the

road work was over at the end of 2010, the situation c
Now the unit is running very smoothly and good p
obtaining from that unit. Motel Aaraam Palaruvi has
red almost from its beginning. Though it is in tourist
we could not run the unit profitably. One of the main
is staff problem. We are thinking of return that prop
Department of Tourism.

MA, Punalur - The unit has just started during that
location is not conducive enough to bring more
business. Only local business would get there and
business mainting the unit is practically impossible
have obtained a Beer Parlour there and the unit is
profitably.

MA, Athirappally- There is only two rooms at the
getting of room sale at there is very difficult. The
come there to see the water falls would come for
only if there is no facility available nearby the wa
In the present set up even a private entreprene
not success at there by doing legal business.
thinking of closing down the property.

It is requested to the audit to accept our exp
submitted above and the observation be dropped

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RBP, Thenmala, RBP Ponmudi and RBP, Peruvamuzhy etc. were already closed. RBP Harippad is now running on profit in the changed building. RBP Kollam was in a very bad location and the physical appearance of the unit itself would definitely bring wrong reputation to the KTDC and hence we stopped the operation in that building.

The Aluva RBP was closed since we didn't get a suitable building at reasonable rent in nearby places. In Valanchery we got new premises; but due to strong protest from the local community, we were not able to operate the RBP. The Olavakode unit was closed on account of the bad condition of building. We could not also get another building in a good location nearby. All the above units were closed due to reasons beyond our control and not on account of any other factors.

The audit has given a comment that the closure of the unit has benefited the private parties operating in that area. This argument is not correct. The building owner also can collude with the private bar operators and move against us. So the one sided blame would definitely affect the morale of the officials at all level.

We have not taken any decision to close down the profit making units. If the building owner is not giving us the consent to continue the unit in the particular building, we have

The audit may kindly be noted that if we do not renovate and upgraded the Yatri nivases the situation may be further worse than before. We still believe from our experience that the decision of converting the Yatri Nivases into Tamarind was a wise decision to salvage the property from sinking.

Earlier our concept was to try to bring uniformity in tariff and also the service offered. But from the feedback we realized that the new Tamarinds are better properties than the others like Tamarind Kannur, Trichur, Kollam etc... Now we have given enough freedom to the Tarmarind managers to give discount up to 30% in deserving cases. The Tariff which was fixed at Rs.1400/- for double occupancy room was reduced to around Rs.1000 to 1200. Now the situation has improved and we are in strong belief that within two years time all Tamarind Hotels would be on profit.

We request the audit that above clarification may be accepted and the observation be dropped.

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Noted. It may be noted because of the restriction, imposed by the Forest Department, limited numbers of Boats are operating the Periyar Lake. Only the KTDC and the Forest Department have the permission to operate the Boat in Periyar Lake. Here the demand is high because of the supply is limited, only because of that monopoly our boat operation in Thekkady is profitable. The Boating operations in all other places are not profitable only because of the operating cost was high. The safety regulations to be complied with involved substantial costs. We have to employee enough number of competent staff in all area of operation. If sufficient supply of guest is not obtained, the operation would end up in loss. Outside Thekkdy there are lot of private operators in the field to compete with. If we make a start in any new location immediately the private people would enter into there and make the situation worse by way of unethical competition. This has been said so because we were the pioneer in House Boat. We had 6 House boats during 1994 to 2002. Initially it was operated successfully. But many private people entered into this area and the situation worsened. Cut throat

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competition and staffing pattern lead our house boat operation a failure. However we would take all possible steps to start boating operation in Thanneermukkom, Veli, Bolgatty and in Kumarakom.

A tourist boat operated by KTDC was capsized in the Periyar Lake on 30-09-2009, leading to loss of lives of 45 persons. This tragic incident had adversely affected the boating operations under KTDC. The boating operations which was stopped in the wake of this accident were resumed only from 15-01-2010 after complying with all directions issued by the government in G.O.(Ms) No.240/09/TSM dated 16-10-2009.

Noted. In Thekkady, KTDC and the Forest Department are the only two agencies plying boats in the Periyar Lake. We have permission to ply only five boats. For operating higher capacity boats etc as suggested by audit permission from the Forest Department / Government is essential. In the wake of the tragic boat accident at Thekkady, stringent restrictions were imposed by the government and the Forest Department. The Boating at Thekkady is an issue which can be sorted out only if the Forest Department allows us to operate more number of boats at least in the tourist peak season period. The main issue here is the demand is more but the supply is limited, which is difficult to increase.

In this regard we humbly request the audit to recommend the Forest Department to allow us to operate more boats so that the revenue from this area could be increase further.

HVS International in their survey reports always states that the amounts and ratios presented should not be considered a standard for any type of property, region, city, star category or price category, but only as a guideline for comparison. The all India average total rooms per hotel in the survey report were 72. The comparison of average employees per room gives a realistic comparison only when the number of rooms in a hotel in around 50 or more. Since in most of the units under KTDC, the number of rooms is limited, for example in the case of Tamarind Hotels the number of rooms varies from 7 to 20, the comparison with industry average will not give a comparable figure. In the case of TTDC, the employee cost will be lower than that of KTDC because TTDC is reported to be outsourcing services such as food and beverages, front office operations, cleaning, housekeeping, gardening, fuel dispensing, motor boat operations, electrical and plumbing maintenance and maintenance of stores in its hotels through reputed agencies. In the HVS survey report, it was also indicated that *"Kochi and Thiruvananthapuram displayed high Administrative and General Costs due to the increasing strikes and labour union issues in the State"*. The average employee cost of unskilled labour is comparatively high in Kerala, which may also be taken into account while analyzing the employee cost.

Attached herewith is the room capacity details of KTDC. According to that statement the number of rooms available in 29 properties are 860 rooms. If we take the average recommended by the audit we could engage 1462 to 1720 employees. During the period of audit the company was operating 70 units. Number of units having no rooms but restaurant and beer parlours, Boatings, Travel divisions etc., comes to 41 nos. For operating a Beer Parlour we required atleast 15- 18 persons depends up on the volume of sale. In the case of unit like MA Kayamkulam, Kottarakkara, Alleppy etc., we have to engage atleast 35 employees. In units like Mascot Hotel, Bolgatty Palace Hotel, Tea County Munnar, Thanneermukkom, Aranya Nivas and Periyar House Thekkady etc., where the lands are more and the rooms are spread throughout we have to employee more employees. The strength of security persons itself would be more than 15 in each of this property.

In the case of single Hotel the repairs and maintenance of building is entrusted with any agencies and they would taken care of everything. But in our case all our properties have to be maintained by ourself and for that we have an engineering wing having around 35 employees. Having more number of properties we have our own reservation set up for that we have engage atleast 15 persons. The Boating area for each Boat we have to engage 3 -4 persons per boat. In Thekkady alone we have 5 boats for that alone required 20 employees. Being a public sector we have to comply with many formalities of government for that the administrative set up would be comparatively high than the private operator. All these factors have to be taken into account while making a comment on labour engagement.

The audit did not consider all real situation and hence this adverse commend. We are operating in Government sector and admissible government leaves and Holidays are applicable to all employees of KTDC. But in the industry standard comparison this factors might have not considered. If we take all situations in its real sense one could easily say that the staff in KTDC is less. Simple arithmetic would prove that our request for more staff is justifiable.

We request the audit to consider the reason stated above and due recommendation may be given to the Government to engage more number of employees in our corporation to render good and quality service to the customers.

and admissible government leaves and Holidays are [illegible] to all employees of KTDC. But in the industr[illegible] comparison this factors might have not considered [illegible] all situations in its real sense one could easily say that in KTDC is less. Simple arithmetic would prov[illegible] request for more staff is justifiable.

We request the audit to consider the reason stated [illegible] due recommendation may be given to the Gove[illegible] engage more number of employees in our corpo[illegible] render good and quality service to the customers.

2.31 18.

(i) Even though the work order was issued to the co[illegible] July 2007, the site could be handed over to th[illegible] October 2007 since the design of the Hotel Complex [illegible] revised as per the directions of CMDA based on [illegible] rules. We had to revise the entire drawings to be su[illegible] the approval of CMDA. The revisions have [illegible] necessary due to the demands of Chenna[illegible] Associations and based on the discussions he[illegible] Associations at various levels, thereby causing a [illegible] days. When the piling work was commenced by the [illegible] the neighboring Assan Memorial School filed a p[illegible]

Madras High Court for stopping the piling activities alleging that the same was disturbing the activities of school. We had to get an expert opinion from IIT for vacating the stay order from High Court. This has further delayed the works by another 76 days and only during Christmas vacation the piling activities was possible in full swing. Thus there was a delay of 150 days on account of the above two factors, which were beyond our control. The restrictions on movement of heavy vehicles inside the city during day time had also slowed the progress of the work.

(ii) M/s. Vishal Infrastructure Ltd had requested to provide hike in rates of steel and cement since the market rates of these construction materials have gone up abnormally during the period. They have also requested for escalation of labour rates and other materials as per the CPWD formulae. The tender was made on the basis of CPWD schedule and the civil work was supposed to be completed within a period of ten months. Even though the CPWD norms usually stipulate escalation clause, it was not provided in our work order. In our earnest desire to complete the work as early as p(i) Even though the work order was issued to the contractor in July 2007, the site could be handed over to them only in October 2007 since the design of the Hotel Complex had to be revised as per the directions of CMDA based on their revised rules. We had to revise the entire drawings to be submitted for the approval of CMDA. The revisions have also become necessary due to the demands of Chennai Malayali Associations and based on the discussions held with the Associations at various levels, thereby causing a delay of 74 days. When the piling work was commenced by the contractor, the neighboring Assan Memorial School filed a petition in the Madras High Court for stopping the piling activities alleging that the same was disturbing the activities of school. We had to get an expert opinion from IIT for vacating the stay order from High Court. This has further delayed the works by another 76 days and only during Christmas vacation the piling activities was possible in full swing. Thus there was a delay of 150 days on account of the above two factors, which were beyond our control. The restrictions on movement of heavy vehicles inside the city during day time had also slowed the progress of the work.

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tender was made on the basis of CPWD schedule and the civil work was supposed to be completed within a period of ten months. Even though the CPWD norms usually stipulate escalation clause, it was not provided in our work order. In our earnest desire to complete the work as early as possible we had fixed a period of 10 months for completion of the civil works. M/s. KITCO had scrutinized the claim submitted by M/s. Vishal Infrastructure Ltd and reported that there was abnormal rise in the price of cement and steel during the period. After detailed evaluation, M/s. KITCO had recommended payment of the variation in price of steel and cement beyond 5% increase from the rate considered at the date of quoting for further civil worksossible we had fixed a period of 10 months for completion of the civil works. M/s. KITCO had scrutinized the claim submitted by M/s. Vishal Infrastructure Ltd and reported that there was abnormal rise in the price of cement and steel during the period. After detailed evaluation, M/s. KITCO had recommended payment of the variation in price of steel and cement beyond 5% increase from the rate considered at the date of quoting for further civil works, calculating the variation based on the wholesale price of steel and cement at Chennai on the date of purchase of these materials. The recommendation of KITCO was placed before the Board and thereafter submitted to the government for approval.

(iii) No amount was paid to the contractor towards price escalation since the by the time the work resumed the price of steel have come down.

(iv) There was delay in the civil works for various reasons which are being looked into by KITCO as per agreement executed with the contractor. Bill settlement will be made by them only after due consideration of such delays etc. KITCO has been advised to do so. Only the interior works in few more floors and finishing works are pending and it is expected that the unit is ready for commercial operations very soon.

(v) The agreement executed by KITCO with the firm carry the clause relating to all transaction including the mobilization advance and its recoveries. All such recoveries will reflect on the bills being paid to the firms. It is to be noted that KITCO is entrusted with the work and they are provided with required funds for getting the work done. In fact the release of funds by KTDC is based on the actual inspection of work at site and also by limiting the release of funds based on the progress. KITCO on behalf of KTDC is supervising measuring and releasing payments as per terms and condition of contract with the contractor. The copy of contract document is also made available to KTDC. Hence any transaction made in this regard will be visible while settling bills and closure of works. Please note that payment being released to the contractor is after deducting the proportionate amount and its interest. Only the balance is being paid to the contractor. The contract with KITCO stipulates to deposit 80% of the amount with them from which they will arrange the work for and on behalf of KTDC as per the agreement with contractor. But in practice we are not releasing fund so. Hence there is savings from interest on that count also. Copies of such documents are also with us and therefore no interest can be siphoned off by KITCO from KTDC. The mobilization interest has also been accounted in the books of KTDC. The agreement executed by KITCO with the contractor enables them to recover interest on mobilization advances, recovery of LD etc which will reflect on the part bills or final bill and since these bill copies are to be forwarded to KTDC, any such recoveries/penalties will be visible in them which means that the total expenditure will be limited to what the contractor deserves until and unless any extension of time of completion had been granted to them on genuine grounds. Even though KTDC has to deposit 80% of the estimated cost with KITCO we had never done so. It was only after frequent requests made by KITCO we used to release amount based on the actual progress of works. To ascertain work in progress, KTDC officials are deputed to inspect, attend review meetings being held at site frequently. This was done in the interest of work and for early completion.

Now we have completed the work and the hotel operation started. On completing the work there was some dispute with KITCO and the Contractor about pending payment. That dispute lead to arbitration process and the Arbitration award was in favour to KTDC. Now the contractor has moved to the civil court against the Arbitration award.

b) Construction of Marina House at Bolgatty

KITCO had invited tenders for construction of Marina House at Bolgatty, which were opened on 31/08/2007. The tender was invited even before getting formal approval from the government in good faith in our earnest desire to complete the work within the shortest possible period anticipating early government approval. Out of two tenders received, based on KITCO's recommendation and after negotiations, we have placed the matter before the Board of Directors in the meeting held on 06/11/2007. Vide Board Resolution No.5310 dated 06/11/2007, it was resolved to award the work to L1; but only after getting formal approval of the government according sanction to KTDC for undertaking the Marina Project in Bolgatty Palace premises. Government approval was received in G.O. (MS) No 81/2008/TSM dated 10/02/2008 and the work was awarded to L1 in February 2008. Thus the delay between the tender opening and government sanction had exceeded the validity of tender offer for three months.

The contractor, even though had accepted the work order placed, did not proceed with execution of agreement and security deposit and requested for hike in price due to delay in placing work order. By the time there was steep increase in the price of steel and cement. KITCO therefore recommended cancelling the order by forfeiting the EMD of Rs.50,000/-.

It may please be noted that unless security deposit is remitted and agreement executed, it is not possible to penalize the contractor. Only the EMD amount can be forfeited, especially when the firm period of the tender had already been over.

The maximum EMD that can be collected as per the tender was only Rs.50,000/- as per stipulated rules. Only when the agreement is being executed, the security deposit amounting to 2.5% of the contract value as per rules can be collected as stated. In this case, the agreement was not executed by the firm since the firm period of tender offer was over and therefore the security deposit could not be released by KITCO.

c) It is to be noted that the Engineering wing in KTDC is not a full fledged wing. Except for 3 Senior Officers, the required site supervising staff such as Assistant Engineer, Overseers etc are very limited. Only temporary hands through the Employment Exchange, that also limited to a period of 1 year is made available. Fresh hands find it difficult to cope up with major projects and cannot work independently by the time they become accustomed to work, they will complete 1 year and fresh hands are to be engaged again after relieving them. More over the Accounting section in the Engineering wing is also working with temporary Accountants & part time Divisional Accountant.

So if all major works had to be taken up by the Engineering wing, the staff strength including the Engineers, Accountants and Clerks will have to be considerably increased. Even with the limited staff, we are facing difficulty in getting works done including the maintenance works during the past few years.

KTDC cannot maintain such a huge establishment under engineering wing as the quantum of works varies considerably from time to time. Dealing huge projects with temporary hands would be very dangerous especially at work site as well as accounting. It may also be noted that during the period under review, several new works and large scale repairs and renovations were taken up. Only the new works were entrusted to M/s. KITCO and all other repairs and maintenance were carried out by the Engineering wing. These works were also substantial. Even in case of new works, a lot of planning and co-ordination efforts are done by senior engineering staff. It was therefore decided that such works can be entrusted with KITCO which also a public sector company is doing engineering works mainly, with Government Departments such as Department of Tourism etc. Also there is a standard rate fixed by the Government in engaging them in G.O. (P) No.408/2007/Fin dated 07-09-2007. They have sufficient qualified manpower and can execute works for and on behalf of KTDC. The cost benefit analysis for huge projects utilizing the Engineering staff of KTDC therefore does not have any relevance as it is not advisable to take-up major projects with the support of temporary and inexperienced site supervising staff and accounting staff.

KITCO on their part as PMC are forwarding regularly all the copies of part bills based on instructions given by us and it are being maintained in our custody. They also provide KTDC with weekly progress reports and minutes of meeting being held from time to time

On implementation :

Promotion Policy Rules 2010 w.e.f. 22/06/2010, a number of posts had fallen vacant. Hence some of the employees became eligible for two promotions, as the policy is in the implementation stage, the above promotions were inevitable. So the Management was forced to give more than one promotions to some of the employees as a special case as one time exception.

9 2.32

In this regard we request the audit to refer our earlier reply in this regard.

We return the property back on 01/11/2012. The operation of the unit was for the Government and not for making any commercial gain to us. While entrusting us the operation of the unit it was certain that this unit has to be returned at the shortest. As we are sure of returning the property at any time, spending money to suit the property to our standard was not prudential. We have a good property at munnar and share our market strength to a private property is not justifiable and hence we did not carry out aggressive marketing for that property.

The above observation may kindly be noted and the audit observation dropped.

KTDC started its operation with 5 properties. Gradually it increased and during the period of audit it was 70 nos. When the number of units and room capacity increased there was no increase in staff commensurate with the work load. That has adversely affected the quality of the service rendered. Till 1981 the Board has the power to create the post the maximum of the scale of pay upto Rs.1600/-. But government did not allow us to alter this clause in the Articles of Association of the Company. The consequence was that when the pay revision implemented from time to time the powers of the Board eroded and even for the appointment of a peon the Company has to obtain prior sanction from government. Getting Government approval would take from two years to 5 years. In such a situation the company has no other option but to resort to other form of labour engagement. Engaging of trainees has its limitation. So we resorted to engage essential labours through cleaning contract. The intention behind is not to incur additional expenditure to the company, on the contrary to save/ reduce the cost of labour to the organization. If we go through the cleaning contract arrangement there is no direct master servant relationship. Moreover we are entrusting the work and not hiring the workmen to carry out the work. This route has helped us from many litigation for the

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regularization of the service of casual works. It may kindly be noted that all those engagement was with definite object in mind that is to save the corporation and not to make any additional commitment. We request the audit that the decision of the management has to be appreciated in this matter and not go for blaming.

The good intention behind the engagement may be appreciated first and advise us through which channel we have to go for to meet our labour requirements. As the engagement was with the good intention and also for saving cost to the corporation the audit observation be dropped.

We are taking every effort to ensure participation of maximum number of Directors in the Board meeting by giving notice of the meeting and agenda notes at least ten days before the meeting and follow-up over phone , SMS and in person.

Despite this participation from the official Directors were on the lower side especially from the Finance Department. Now the position has improved.

All Directors are appointed by the government The observation regarding appointment of Directors having professional qualification and industry knowledge have to be decided by the Government by considering its merits and demerits.

2.35 The observation that system deficiencies had not been brought out for corrective action by the internal audit in their reports will be brought to the attention of all internal auditors of the corporation. A copy of the internal audit scope of work is enclosed herewith for reference.

Regarding Debtors – we would be taking aggressive steps to realize the pending dues as early as possible.

Now we have a Vigilance officer and he is di
duties very effectively.

The Engineering wing is maintaining separate
details of grant amount utilised and other related
available which are reported to the Department
We have noted the audit observation and will t
steps to maintain a separate register also f
showing the details suggested by audit.

We will take necessary steps for maintaining the
registers as suggested by the audit.

For all major common items such as cutlery, co
toiletries etc., centralized purchase system is b
and purchases are being made annually inviting
from the Commercial Department m
Government have also exempted KTDC from
of the Stores Purchase Manual.

Now all the major units are computerized and
process of computerizing all other units also,
pave way for generating correct operational
departments.

We have been following the methods generally
in the industry for the past several years. The au
is noted and we will take necessary corrective

required.

This has been brought to the notice of the Accountants of the units and necessary training will also be given. There is adequate provision in the software, but the problem is mainly due to reconciliation of the old balance at the time of change over to computerized system.

Necessary instructions will be issued on this matter and will also be brought in the training classes.

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We have taken serious note of all the recommendat[illegible] by the Audit. We have already discussed all observa[illegible] audit in our head office division head meeting and [illegible] taking earnest efforts to avoid the adverse [illegible] would be implementing various positive sugg[illegible] forwarded by the Audit.

We are very thankful to the audit for the lapses [illegible] pointed out. We request the audit that our expl[illegible] clarification submitted above may kindly be accep[illegible] observation dropped.

Annexure 7

Statement showing loss of concession in Electricity Charges in KTDC Hotels & Resorts Limited

(Referred to in paragraph 2.13)

(Amount in ₹)

Name of Property	Particulars of Electricity Charges (from 2006-07 to 2010-11)	Paid at Commercial Tariff	Payable at Industrial Tariff	Concession eligible
Tea County, Munnar	Total Demand Charges	1801116	1392109	409007
	Total Energy Charges	6038578	5672265	366313
	Total Electricity Charges	7839694	7064374	775320
WaterScapes, Kumarakom	Total Demand Charges	3241212	2495436	745776
	Total Energy Charges	7314378	6250009	1064369
	Total Electricity Charges	10555590	8745445	1810145
			Total Eligible Concession	2585465

Annexure 8

Statement showing bookings through various modes in major premium properties in KTDC Hotels & Resorts Limited

(Referred to in paragraph 2.16)

Sl. No.	Modes of Bookings	2007-08		2008-09		2009-10		2010-11		Total	
		Room Nights	Share (Per cent)	Room Nights	Share (Per cent)	Room Nights	Share (Per cent)	Room Nights	Share (Per cent)	Room Nights	Share (Per cent)
1	DIRECT	20384	41.16	14680	31.23	13211	28.67	13927	28.74	62202	32.55
2	SEGMENT I	9341	18.86	12132	25.81	11626	25.23	12542	25.88	45641	23.89
3	SEGMENT II	2416	4.88	2737	5.82	2634	5.72	3377	6.97	11164	5.84
4	SEGMENT III	3696	7.46	1579	3.36	2151	4.67	2601	5.37	10027	5.25
5	AGENT OTHERS	4989	10.07	5282	11.24	3182	6.90	3568	7.36	17021	8.91
6	KTDC	3884	7.84	5857	12.46	7363	15.98	7036	14.52	24140	12.63
7	CORPORATE	1131	2.28	2487	5.29	2846	6.18	1617	3.34	8081	4.23
8	DEPT. OF TOURISM	128	0.26	191	0.41	83	0.18	229	0.47	631	0.33
9	TIC[15]	116	0.23	46	0.10	6	0.01	0	0.00	168	0.09
10	GOVT DEPT.	195	0.39	569	1.21	573	1.24	412	0.85	1749	0.92
11	OTHERS	3257	6.57	1444	3.07	2408	5.23	3153	6.51	10262	5.37
		49537	100.00	47004	100.00	46083	100.00	48462	100.00	191086	100.00

[15] Tourist Information Centres

Annexure 9
Statement showing summarised performance of Intersight Tours & Travels and Jai Maruthy Holidays in KTDC Hotels & Resorts Limited
(Referred to in paragraph 2.16)

(Amount in ₹)

Particulars	Tea County, Munnar	Aranya Nivas, Thekady	Lake Palace Thekady	Bolgatty, Kochi	Mascot, TVM	Samudra, Kovalam	Waterscapes, Kumarakom	Total
Overall Revenue - A	144312314	67336699	12930149	54558139	131466997	88534412	73460251	572598962
Overall Room Nights - B	46976	20383	1246	23103	37049	35464	26865	191086
Overall ARR - C	3072.04	3303.57	10377.33	2361.52	3548.46	2496.46	2734.42	
Intersight-Revenue - D	18116947	3471696	340992	4062659	864771	9551734	11088375	47497174
Intersight-Room Nights - E	6727	1632	36	2369	398	5367	5605	22134
Intersight ARR - F	2693.17	2127.26	9472.00	1714.93	2172.79	1779.72	1978.30	
JaiMaruthy-Revenue - G	9998356	2732738	229419	1693079	233118	3933656	7635138	26455504
JaiMaruthy-Room Nights - H	3914	1469	21	988	111	2117	3998	12618
JaiMaruthy ARR - I	2554.51	1860.27	10924.71	1713.64	2100.16	1858.13	1909.74	
Combined (Int+Jai) Revenue - J = D + G	28115303	6204434	570411	5755738	1097889	13485390	18723513	73952678
% to Overall Revenue	19.48	9.21	4.41	10.55	0.84	15.23	25.49	
Combined (Int+Jai) Room Nights - K = E + H	10641	3101	57	3357	509	7484	9603	34752
% to Overall Room Nights	22.65	15.21	4.57	14.53	1.37	21.10	35.75	
Combined (Int+Jai) ARR - L = J / K	2642.17	2000.78	10007.21	1714.55	2156.95	1801.90	1949.76	
Revenue: Others - M = A – J	116197011	61132265	12359738	48802401	130369108	75049022	54736738	498646284
Room Nights: Others - N = B - K	36335	17282	1189	19746	36540	27980	17262	156334
ARR: Others - O = M / N	3197.94	3537.34	10395.07	2471.51	3567.85	2682.24	3170.94	
ARR Difference - P = O - L	555.77	1536.55	387.86	756.96	1410.89	880.34	1221.18	
Discount / Revenue Foregone - Q = K x P	5913935.89	4764849.31	22108.00	2541115.88	718144.83	6588488.03	11727008.13	32275641.28

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Annexure 10
Statement showing capital expenditure of Tamarind Easy Hotels of KTDC Hotels & Resorts Limited
(Referred to in paragraph 2.24)

(Amount [illegible]

Name of the Unit	2007-08	2008-09	2009-10	2010-11	Total
TEH Guruvayoor	569369	720059	51897	10197	135[illegible]
Kalady	1491169	53335			154[illegible]
Mannarghat	89390	278145		16250	38[illegible]
Kondatty	1427158	364671	230135		202[illegible]
Nilambur	1676647	2816147	1076270	700000	626[illegible]
Thirunelli		844932	711811	35000	159[illegible]
Parassinikadavu		280017	995758	340793	161[illegible]
Kannur		3108884	1890731		490[illegible]
Peerumedu		38210	487966	409215	93[illegible]
Alleppy	159120	1025280	2022338	465613	367[illegible]
Thrissur		200640	2968748	11026275	[illegible]
Changanassery		239476	659368	249108	114[illegible]
Kollam		8430756	1831968	20710	10283[illegible]
Total	**5412853**	**18400552**	**12926990**	**13273161**	**500135[illegible]**

Annexure 11
Statement showing revenue from boat operations (share of each centre is expressed as percentage) in KTDC Hotels & Resorts Limited
(Referred to in paragraph 2.27)

(₹ in crore)

Location	2006-07	2007-08	2008-09	2009-10	2010-11
Total Turnover of Company	56.56	59.34	63.86	65.93	74.26
Income from boating					
Veli	0.55 (17.19)	0.48 (15.38)	0.56 (14.18)	0.56 (20.59)	0.58 (20.71)
Kochi	0.18 (5.63)	0.11 (3.53)	0.11 (2.78)	0.12 (4.41)	0.05 (1.79)
Thekkady	2.18 (68.13)	2.31 (74.04)	3.05 (77.22)	1.93 (70.96)	2.09 (74.64)
Kumarakom	0.18 (5.63)	0.13 (4.17)	0.12 (3.04)	0.04 (1.47)	0.08 (2.86)
Malampuzha	0.11 (3.44)	0.09 (2.88)	0.11 (2.78)	0.07 (2.57)	0.00 (0)
Total	3.20	3.12	3.95	2.72	2.80
Percentage of revenue from boating	5.66	5.26	6.19	4.13	3.77

Note: Figures in bracket represent percentage

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