

**CHAPTER VII : MINISTRY OF MICRO, SMALL AND MEDIUM  
ENTERPRISES**

**7 Khadi and Village Industries Commission**

**7.1 Avoidable payment of interest**

**Failure of the Khadi and Village Industries Commission to assess fund requirements and improper retention of unutilized loan amount resulted in avoidable interest payment of Rs. 30.03 lakh indicating deficient internal control system in fund management.**

The Khadi and Village Industries Commission (KVIC), Mumbai sanctions house building advances (HBA) to its employees out of interest bearing loans obtained for this purpose from the Central Government<sup>18</sup>.

Audit observed that KVIC, without ascertaining the actual quantum of funds required for disbursement as HBA to its employees, received (2004-05) a loan of Rs. 1.01 crore from the Government, against which the actual payout was only Rs. 20.94 lakh during the year. In 2005-06, it again sought a loan of Rs. 1.01 crore for the same purpose which was received in March 2006. HBA disbursements were Rs. 7.93 lakh, Rs. 4.55 lakh and Rs. 3.83 lakh during 2005-06, 2006-07<sup>19</sup> and 2008-09 respectively. Hence out of the total loan of Rs. 2.02 crore an amount of Rs. 1.65 crore remained unutilized at the end of 2008-09. Instead of surrendering the unutilized loan to the Government, KVIC kept it in current account till May 2006 and thereafter invested Rs. 1.50 crore in short term deposits at interest rates ranging from 5.25 to 10.75 *per cent per annum* as against the interest of 11.08 *per cent* payable to the Government. KVIC earned Rs. 35.38 lakh as interest during May 2006 to March 2009 whereas it paid Rs. 65.41 lakh as interest to the Central Government up to March 2009.

Thus, failure of KVIC to assess its requirements and improper retention of the unutilized loan amount resulted in avoidable interest payment of Rs. 30.03 lakh. Besides, it indicated deficient internal control regarding fund management.

KVIC accepted the audit observation and replied (June 2009) that in future loans for HBA would not be sought unless there was demand. The Ministry stated (September 2009) that KVIC had been advised to avoid unnecessary

<sup>18</sup> Ministry of Micro, Small and Medium Enterprises

<sup>19</sup> No HBA was disbursed in 2007-08

retention of loans in future through more accurate budgeting exercise and review at regular intervals. KVIC also reported refund of the entire unutilized balance of Rs. 1.69 crore under the HBA account to the Ministry in September 2009.

## 7.2 Loss of interest

**Failure to obtain refund of surplus premium with LIC, by the Khadi and Village Industries Commission resulted in loss of interest of Rs. 21.49 lakh.**

The Khadi and Village Industries Commission (KVIC), in collaboration with Life Insurance Corporation of India (LIC), launched (August 2003) a Group Life Insurance Scheme viz. “Khadi Karigar Janashree Bima Yojana” for the benefit of the Khadi artisans at an annual premium to be shared by the Khadi institution where the artisans were employed, the KVIC, artisan and Social Security Fund of the Government of India. The premium was reduced to Rs. 50 per member from the policy year 2005-06 due to favourable claims experience. In the meanwhile the KVIC had remitted (August 2005) Rs. Two crore to LIC as premium for 2005-06 resulting in excess payment of Rs. 1.74 crore. LIC paid interest at the rate of five *per cent per annum* on the said amount.

Audit scrutiny (June 2008) revealed that the KVIC did not seek refund from LIC and earned interest amounting to Rs. 33.75 lakh from August 2005 to March 2009 at five *per cent*. Had the KVIC sought refund of the excess paid amount, it could have invested in term deposits with nationalized banks carrying interest rates ranging from 6.5 to 8.75 *per cent* and earned interest amounting to Rs. 55.24 lakh for the period. Thus, failure of the KVIC to get the refund resulted in loss of interest of Rs. 21.49 lakh.

On being pointed out by Audit, the KVIC requested (June 2009) LIC to refund Rs. 42 lakh at the first instance. The KVIC had not obtained any refund as of December 2009.

The matter was reported to the Ministry in January 2010; their reply was awaited as of February 2010.