

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

**Indian Institute of Entrepreneurship, Guwahati**

**7.1 Fraudulent withdrawal of government money**

**A practice of withdrawing excess money over and above the sanctioned amount by altering the figures of passed bills was prevailing in the Indian Institute of Entrepreneurship, Guwahati. A test check of vouchers revealed that Government money of ₹ 24.51 lakh was withdrawn fraudulently during 2005-06 and 2006-07 due to lack of effective internal control mechanism in the Institute.**

Internal control is an integral process that is affected by an entity's management and is designed to address risk and to provide reasonable assurance that in pursuit of the entity's mission, the general objectives are achieved. One of the objectives of internal control is to safeguard resources against loss, misuse and damage.

During the audit (May 2010) of the Indian Institute of Entrepreneurship, Guwahati, it was observed that alteration of figures by tampering original figures in summary sheets/bills for travelling allowances, medical reimbursement, canteen expenditure, programme expenditure etc. was a regular practice. These alterations were not attested by the competent authority. A test check of vouchers for 2005-06 and 2006-07 revealed that an amount of ₹ 24.51 lakh (involving 440 vouchers) was withdrawn in excess of actual expenditure resulting in fraudulent withdrawal of Government money facilitated by weak internal control mechanism in the Institute.

The Institute stated (August 2010) that a Chartered Accountant firm had been appointed for having an independent view on the audit observations. The Chartered Accountant firm confirmed the audit observations in its report. The Institute, further stated (December 2010) that two responsible officials had been placed under suspension and departmental proceedings had been contemplated.

However the reply of the Institute was silent about the action taken to strengthen the internal control mechanism to avoid such lapses in future.

The matter was reported to the Ministry in February 2011; their reply was awaited as of date.

## Khadi and Village Industries Commission

### 7.2 Failure to pursue recovery of loan with interest

**Failure of Khadi and Village Industries Commission to compute surplus funds correctly and pursue recovery of outstanding loan as per terms and conditions resulted in non-recovery of loan of ₹ 2.02 crore along with interest of ₹ 90.89 lakh.**

The Khadi and Village Industries Commission (KVIC), Mumbai provides interest free working capital loans to institutions engaged in development of khadi. According to the terms and conditions governing khadi loans and subsequent instructions issued by Standing Finance Committee surplus working fund with the Institutions should be identified. If surplus working fund is identified with the Institution and the same is held continuously for two years, the surplus fund so held at the end of the second year is treated as overdue and recovery thereof shall be effected along with interest at five *per cent per annum* from the date of ending of the two year period. The availability of surplus fund in each year is computed by KVIC by deducting the working fund from the gross eligibility of that year.

Audit scrutiny revealed (November 2008) that a loan of ₹ 2.02 crore was outstanding from Mumbai Khadi and Village Industries Association, Mumbai, a society registered under the Societies Registration Act 1960, as on March 1998. The examination of Association's balance sheets revealed that it had own fund of ₹ 1.66 crore as on March 1999, ₹ 2.59 crore as on March 2000 and ₹ 3.74 crore as on March 2001. Accordingly, the surplus fund worked out to ₹ 1.41 crore as on March 1999, ₹ 2.71 crore as on March 2000 and ₹ 3.67 crore as on March 2001. Since surplus fund was available in two consecutive years, the Khadi working capital loan became repayable immediately by March 2001. However, while computing the working fund availability of the Association, KVIC did not consider own fund which resulted in non-identification of surplus fund with the Association. Thus, improper computation of working fund resulted in non-recovery of loan of ₹ 2.02 crore along with interest amounting to ₹ 90.89 lakh<sup>1</sup>.

While accepting the audit observation, KVIC stated (December 2008) that the institution was being pursued for recovery. However, it had not intimated any recovery so far.

The matter was reported to the Ministry in July 2010; their reply was awaited as of February 2011.

<sup>1</sup> Interest has been calculated at a rate of five *per cent per annum* for the period from April 2001 to March 2010.