CHAPTER VIII : MINISTRY OF INDUSTRY

Khadi and Village Industries Commission

8.1 Blocking of fund due to excess stocking of cotton

With cash credit facility of Rs 28.84 crore from banks, Khadi and Village Industries Commission procured huge quantities of cotton worth Rs 18.63 crore which were not lifted by indenting institutions and the commission did not impose any penalty.

Cotton Directorate under Khadi and Village Industries Commission (KVIC) procures cotton during the cotton season and supplies the same to its various implementing khadi institutions. The procurement of cotton is to be made only after assessing the actual requirement. As per the guidelines issued by the KVIC the indentee institutions are required to lift the cotton within a period of 12 months from the date of purchase failing which KVIC has the right to dispose off the cotton so stocked to other needy institutions or sell in the open market. The defaulter institutions are liable to pay incidental expenses on account of such sale/transfer and also penal interest at the rate of 24 *per cent per annum* on the value of cotton not lifted.

A scrutiny of accounts of the KVIC revealed that huge quantity of cotton worth Rs 18.63 crore procured during 1993-94 to 1996-97 was lying in different godowns without being lifted by institutions. For procurement of cotton, the KVIC availed cash credit facility from banks to the extent of Rs 28.84 crore on which interest paid to the banks was Rs 2.15 crore at the end of January 1999.

Though the institutions failed to lift cotton within the stipulated period, KVIC did not take any timely action to dispose off the cotton stocked in accordance with their own norms.

No action was taken to impose penal interest on defaulter institutions

A test check of cases revealed that stocks procured in 1990-91 and 1994-95 valued at Rs 111.81 lakh and not lifted by indentee institutions were diverted to other needy institutions in 1994, 1998 and 1999 respectively i.e., after a delay of more than two years. Though the indentee institutions failed to lift the cotton in time, no action was taken to impose penal interest of 24 *per cent* on defaulter institutions.

On this being pointed out in audit in August 1997, KVIC attributed nonlifting of cotton stock in January 1998 by the indenting institutions to their financial problems. As regards non recovery of penal interest KVIC agreed in

November 1998 with the audit observation and stated that the same would be charged hence forth.

Ministry in their reply in September 1999 stated that KVIC has now streamlined the procedure and adopted net indenting system which is now being followed from 1998-99 onwards. The reply relates to corrective action for future procurement. Stocks worth Rs 11.72 crore for the period from 1995-96 to 1997-98 still await clearance.

Thus, procurement of cotton without assessing the credibility and financial background of the institutions resulted in blocking of funds to the tune of Rs 18.63 crore besides causing avoidable payment of huge interest amount of Rs 2.15 crore to the bank due to careless purchase management. The reasons for the continuation of the scheme in the context of free availability of cotton in the market were not clear.

8.2 Irregular creation of post/ad-hoc promotion

Khadi and Village Industries Commission created 88 posts and filled the same when there was ban on recruitment. Though Ministry subsequently instructed Khadi and Village Industries Commission to abolish the same, no action was taken to abolish the unauthorised created posts violating Government instructions.

In its order of October 1991, Ministry of Industry imposed ban on creation of various categories of posts (including cases under process) in KVIC. Rule 7A of KVIC Rules stipulated that, appointment of any official whose basic pay is above Rs 4500 should be subject to prior approval of the Government.

KVIC created and filled 88 posts during ban period

KVIC created and filled up 88 posts in various cadres of which 50 posts which included five posts where the basic pay exceeded Rs 4500 on ad-hoc promotion and 38 posts by direct appointment during the period 1991-93. The creation of above posts was in violation of the instructions from the Government.

KVIC did not take any step to abolish the posts despite Government orders

Ministry in January 1997 informed that since the creation of these posts being without proper authority and not in consistence with the recommendations of the Integrated Finance Wing relating to substantial reduction in the staff strength of the Commission, KVIC was directed to abolish these posts. The justification given by the KVIC for creating and continuing the above 88 posts was also turned down by the Ministry in its letter of February 1995 to the KVIC instructing them to abolish these posts created without proper authority.

Scrutiny of records maintained by the KVIC revealed that even after a lapse of over six years from the date of such unauthorised appointments and five years from the date of issue of clear instructions by the Government for taking necessary action by the KVIC for abolition of the unauthorised created posts, no concrete step was initiated by them to set right the mistake. The unauthorised expenditure on salary etc, in respect of 37 posts for the period 1991-98 approximately worked out to Rs 85 lakh. Such details in respect of the remaining 51 posts were awaited from the Commission (March 1999).

Ministry in August 1999 endorsed KVIC's reply wherein KVIC stated that the matter was referred to Ministry time and again which was still pending with Ministry. However, Ministry while forwarding KVIC's reply did not offer any comments on the same.

8.3 Non safeguarding of funds

Khadi and Village Industries Commission sanctioned and released a total amount of Rs 44.96 lakh to one of its directly aided institutions without insisting on mortgage deed and utilisation certificate.

Rule 8 of KVIC Loan Rules, stipulated that loans are to be utilised within one year for the purpose for which they are sanctioned and if unutilised they are to be refunded with interest. At the end of each year, borrowers are required to satisfy KVIC that the funds have been utilised for the purpose for which they were sanctioned. Further, Rule 9 of KVIC Loan Rules, provided that a loan could be granted to the borrower on mortgaging immovable property and/or pledging and/or hypothecating movable properties as security for the loan applied for. As per the terms and conditions for sanction and disbursement of loan, the concerned State/industry Director has to effectively monitor the programme and periodically report on the performance of the institution under its jurisdiction for successful implementation of programme.

Unauthorised diversion of funds by loanee.

In paragraph 16 of the Report of the Comptroller and Auditor General of India for the year ended March, 1997 a comment was made on indiscriminate release of loan without ensuring mortgage of immovable property. The irregularity *inter-alia* persisted in the following cases also wherein KVIC sanctioned and released a total amount of Rs 44.96 lakh to one of its directly aided institutions at Varanasi without insisting on mortgage deed and utilisation certificate, on the pretext of implementation of various Khadi and Village Industries programmes. But the actual position revealed the non implementation of the programme owing to unauthorised diversion of fund or other reasons attributable to the loanee as mentioned in the remarks column of table below :

Table 8.3 : Diversion of loan for other purposes

Sl. No.	Name of the programme	Amount (Rs.in lakh)	Period of release	Nature of loan	Remarks
1.	Ayurvedic Medicinal Programme	7.06	March 1992 to December 1992	Capital expenditure loan	The funds disbursed for the purpose of Ayurvedic medicine were unauthorisedly diverted for purchase of computer, printer, generator etc, which were not related to Ayurvedic medicinal industry. The Regional Office Varanasi had gone out of its way in releasing funds in haste.
2.	Beekeeping	37.90	September 1995 to March 1996	Capital expenditure loan and capital working loan	No technical reports were available either with the Regional Office or the Beekeeping Directorate about setting up of the unit. Therefore, the release of the entire working capital loan of Rs 22 lakh in anticipation of SFC (V.I) approval and its *post facto* approval by them without waiting for a report from the Regional office was injudicious and without applying elementary check.

A scrutiny of record note of discussion held in February 1998 revealed that action for recovery of all the funds would be initiated if the institution failed to produce books of accounts and related records to the inspecting team from the Directorate of Inspection as reported by them in the past. Further report was awaited by them (January 1999).

Thus, continuous release of funds for various programmes without taking steps to safeguard the funds and without monitoring the programmes resulted in indiscriminate/irregular release of funds in violation of rules and criteria laid down. Recovery of loan was also doubtful.

Ministry stated in May 1999 that the recovery action under section 19-B of KVIC Act would be initiated for non-implementation of KVIC programme. It further stated that the institution had created equitable mortgage for property worth Rs 8.91 lakh for Beekeeping programme. The reply of the Ministry was not acceptable because for Ayurvedic programme no security was obtained against release of Rs 7 lakh and for Beekeeping as against release of Rs 37.90 lakh only Rs 8.91 lakh security was obtained.

8.4 Irregular release of export incentive claim

Lack of adequate controls within the Export Directorate of Khadi and Village Industries Commission led to release of export incentive claim of Rs 36.51 lakh without taking cognizance of outstanding loan and interest.

Under the export incentive scheme instituted by the KVIC in April 1995 an export incentive can be provided at a specified rate on the value of direct export made by KVIC institutions in order to encourage them to boost their exports. KVIC made disbursements by way of export incentive amounting to Rs 21.51 lakh in March and August 1997 and subsequently of another Rs 15 lakh in December 1998 to Hand Made Paper and Board Industry, Sanganer, Rajasthan.

Release of export incentive despite outstanding bank loan

Unintended and unauthorised financial aid

Audit scrutiny of payments relating to export incentive claim disclosed that Hand Made Paper and Board Industry, Sanganaer, Rajasthan had a total outstanding of Rs 80 lakh in March 1997, Rs 65.71 lakh in March 1998 and Rs 60 lakh in March 1999. While the said unit was heavily in debt KVIC continued to release export incentive claims and in doing so it is evident that the claims of the units were not duly vetted by the Director (Finance) and other officers. This also testifies to the lack of co-ordination between the marketing and finance wings. Further, in October 1998 it was specifically stipulated that in case of institutions which have outstanding loan instalments and interest, disbursement of incentives should only be made after effecting recovery of the same. Inspite of this clear instruction it was observed that an additional amount by way of incentive of Rs 15 lakh was paid to Hand Made Paper and Board Industry, Sanganer, Rajasthan in December 1998. Such releases of export incentive claim without compliance of the conditions prescribed resulted in unintended and unauthorised financial aid to the directly aided institutions.

Ministry in September 1999 endorsed KVIC reply wherein KVIC stated that the condition regarding the adjustment of overdue loan and interest was laid down only in October 1998 whereas an amount of Rs 21.51 lakh was released before the operation of this order.

The reply of the Ministry is not tenable in view of the fact that even the March 1997 order clearly require proper examination of claims by Directorate of Export and its vetting by Director (Finance) before approval by Deputy Chief Executive Officer (Marketing) and this was lacking. Granting and additional incentive of Rs 15 lakh in December 1998 without having adjusted overdue loan and interest is violative of KVIC's own directions.