

**COMPTROLLER AND AUDITOR GENERAL OF INDIA**

**New Delhi  
08 August 2023**

**CAG's Audit Report on Departmental Trading Units including Supply Chain Management in Khadi and Village Industries Commission Presented in Parliament**

The Compliance Audit Report No. 9 of 2023 of the Comptroller and Auditor General of India on 'Departmental Trading Units including Supply Chain Management in Khadi and Village Industries Commission' was presented in the Parliament here today.

The Khadi and Village Industries Commission (KVIC) was formed by the Government of India (GoI), under an Act of Parliament *viz.*, 'Khadi and Village Industries Commission Act' of 1956 to plan, promote, facilitate, organise and assist in the establishment and development of Khadi and Village Industries in the rural areas in coordination with other agencies engaged in rural development wherever necessary. KVIC is under the administrative control of the Ministry of Micro, Small & Medium Enterprises (MSME). KVIC has three main objectives, which guide its functioning (i) the social objective - providing employment in rural areas; (ii) the economic objective - providing saleable articles; and (iii) the wider objective - creating self-reliance amongst people and building up a strong rural community spirit.

The Departmental Trading Units were established by KVIC for carrying out the production and sales activities of Khadi and Village Industries products. The Departmental Trading Units include the Central Sliver Plants, Departmental Sales Outlets named as Khadi Gramodyog Bhavans and other trading units. KVIC had established 92 Departmental Trading Units over the years. Of these, only 18 Departmental Trading Units were functional as on 31 March 2021 and 74 Departmental Trading Units have become defunct over a period of time.

The Compliance Audit evaluated the operations of 18 functional Departmental Trading Units and Supply Chain Management during the period from 2017-18 to 2020-21. Audit also conducted general scrutiny of 25 defunct Departmental Trading Units to ascertain reasons and impact of closure.

**Significant Audit Findings**

During the period of audit from 2017-18 to 2020-21, KVIC has initiated many well intentioned measures for the improvement of procurement and marketing practices in the Departmental Trading Units. During Audit, it was observed that these initiatives could not meet the desired degree of success as there were many challenges and weakness in implementation. The significant audit findings are given as below:

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### ***Defunct Departmental Trading Units***

In spite of the fact that only less than 20 *per cent* of Departmental Trading Units were able to continue operations, KVIC has not done any analysis to identify the reasons for the Departmental Trading Units becoming defunct. The reason for closure were not available in case of 11 out of 25 Departmental Trading Units. In case of three Departmental Trading Units, the reasons and justifications of closure were not fully convincing and more efforts by KVIC could have prevented their closure. In case of another two Departmental Trading Units, private parties were generating considerable revenue through unauthorised sales of Khadi products indicating scope for revenue generation through these Departmental Trading Units. Though the deficiencies are being identified and corrective action initiated by KVIC, there was delay in disposal of assets, realisation of dues, settlement of accounts and re-deployment of staff of some of the defunct units.

**(Paragraph 3.1, 3.2 & 3.3)**

### ***Procurement and Production by Departmental Trading Units***

KVIC had issued elaborate guidelines from time to time in respect of procurement of products from Khadi Institutions and Village Industries Institutions by the Departmental Trading Units to ensure transparency and salability. Deficiency on the part of Departmental Trading Units to follow the prescribed procurement procedures led to gaps in planning and dilution of objectivity in procurements whereby equal opportunity to all suppliers was not ensured.

Even though KVIC had developed Khadi Institution Management Information System for the khadi sector, containing a module for uploading purchase/sales data of Khadi Gramodyog Bhavans, this data was not compiled into item-wise, supplier-wise information to obtain inputs on procurement plans and analyse market trends.

**(Paragraph 4.1)**

The Khadi Gramodyog Bhavans of KVIC were collecting excess share of production subsidy due (Modified Market Development Assistance) from the Khadi Institutions whose products were being sold through them.

**(Paragraph 4.3.1)**

Delay in implementation of project for refurbishment of Central Sliver Plants under Khadi Reform and Development Programme financed by Asian Development Bank resulted in time and cost overrun, payment of idle wages (₹89 lakh) and production loss (₹11.15 crore per annum).

**(Paragraph 4.4.2.2)**

KVIC management could not ensure through effective monitoring that all Departmental Trading Units and Khadi Institutions got their products tested at the Central Sliver Plants so as to fully utilise the installed capacity and to guarantee the authenticity of khadi fabric.

**(Paragraph 4.4.3)**

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### ***Marketing and Sales by Departmental Trading Units***

During the period 2017-18 to 2020-21, KVIC attempted to implement a number of well-intentioned marketing initiatives, such as, e-commerce, market surveys, development of product catalogue and swatch book, hiring of marketing consultants, implementation of franchisee scheme and creation of Khadi Korners, construction of Khadi Plazas, registration of Khadi Trademarks, etc. These initiatives implemented by KVIC, that could benefit the entire Khadi and Village Industries sector, met with varying degrees of success.

KVIC did not effectively utilise the information garnered by domestic/international market surveys for enhancing the domestic and export sales of Khadi and Village Industry products and also needed to develop comprehensive product catalogue.

**(Paragraph 5.1, 5.1.2 & 5.1.3)**

KVIC had not adequately benefitted from engaging marketing consultants due to not defining the specific tasks to be executed by them and shortfalls in monitoring the deliverables. Schemes for increasing availability and sales such as opening franchises outlets, establishment of “Khadi Korners” in retail chain stores etc., implemented on a limited scale did not get the desired response.

**(Paragraph 5.1.4, 5.1.5 & 5.1.6)**

Khadi plazas could not be established despite funds being allocated. The infrastructure of Khadi Gramodyog Bhavans was not renovated as required.

**(Paragraph 5.1.7 & 5.1.8)**

Even though KVIC had managed to get the trademarks such as “Khadi” registered in order to ensure that only authorised products were sold in the sector, more stringent action was needed to be taken against firms who were using the trademarks illegally.

**(Paragraph 5.1.11)**

The Khadi Gramodyog Bhavans could not achieve sales targets and it was observed that there was delay in preparation and approval of annual budgets and sales targets. The sales planning process was ineffective and proper analysis of market trends was not done.

**(Paragraph 5.2.1.1)**

KVIC was unable to fulfil the demand in respect of wholesale/Government requirements due to lack of suppliers.

**(Paragraph 5.2.1.2)**

### ***Financial Management and Internal Controls in Departmental Trading Units***

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There were deficiencies in the internal control system regarding implementation of prescribed credit policy, confirmation of debtors, reconciliation of bank accounts, conduct of physical verification of assets etc. Internal Audit of Khadi Institutions, Central Sliver Plants and Departmental Trading Units were either not conducted or were deficient in terms of units covered, period of audit and scope of observations. The observations of Internal Audit were not being acted upon or placed before top management.

**(Paragraph 6.1.1, 6.1.2, 6.2.1 & 6.3)**

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