

**Part-A**  
**PANCHAYATI RAJ**  
**INSTITUTIONS**



## CHAPTER I

### Section A An overview of Panchayati Raj Institutions

#### 1.1 Introduction

Panchayati Raj Institutions (PRIs) came into existence in Odisha from 1948 with the enactment of Orissa Gram Panchayat Act 1948. Subsequently, Orissa Panchayat Samiti Act and Zilla Parishad Act were enacted in 1959 and 1991, respectively, setting up three tier PRIs in the State. All these Acts were amended in 1993 and 1994<sup>1</sup> in conformity with the 73<sup>rd</sup> Constitutional Amendment Act 1992, empowering the PRIs to function as institutions of self-government to accelerate economic development and ensure social justice in rural areas.

**Table 1.1: State profile**

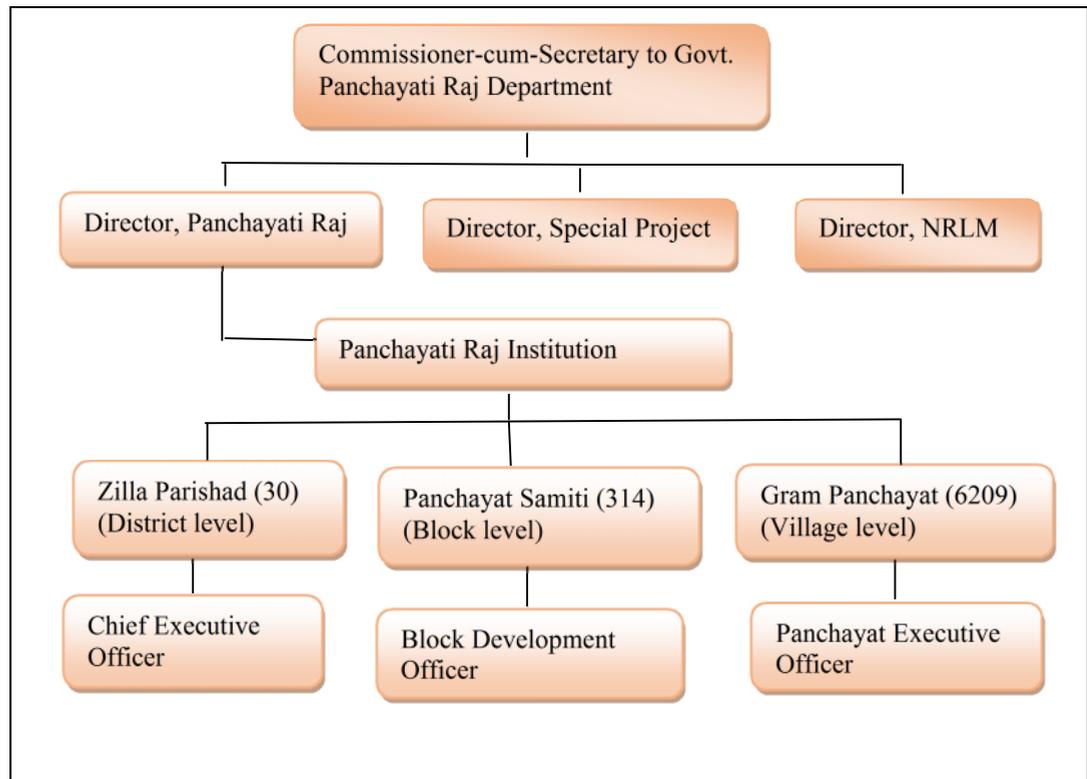
Indicator	State statistics	Unit
Area	155707	Square km.
No. of Tehsils	317	Number
No. of villages	51349	Number
Total population (Census 2011)	419.74	Lakh
Rural population	83	<i>Per cent</i>
Density	270	Persons/Square km.
Male Literacy	81.59	<i>Per cent</i>
Female Literacy	64.01	<i>Per cent</i>
Scheduled Caste population	17.13	<i>Per cent</i>
Scheduled Tribe population	22.85	<i>Per cent</i>

#### 1.2 Organisational Setup of PRIs

Panchayati Raj Institutions are classified into three tiers, viz. Zilla Parishads, Panchayat Samitis and Gram Panchayats. There are 30 Zilla Parishads, 314 Panchayat Samitis and 6209 Gram Panchayats in Odisha.

<sup>1</sup> ZP Act 1991 of Orissa was amended in 1993. Orissa GP Act 1948 / 1964 and Orissa Panchayat Samiti Act 1959 were amended in 1994

The organisational setup of the PRIs is indicated below.



All the three tiers of PRIs function under the administrative control of the Panchayati Raj (PR) Department headed by the Commissioner-Cum-Secretary, who is assisted by the Director (PR), Director (Special Projects) and the Director, NRLM at the State level.

Panchayati Raj was introduced in January 1961 in the State, under which three tiers of the system namely Zilla Parishads, Panchayat Samitis and Gram Panchayats have to work in close coordination with each other.

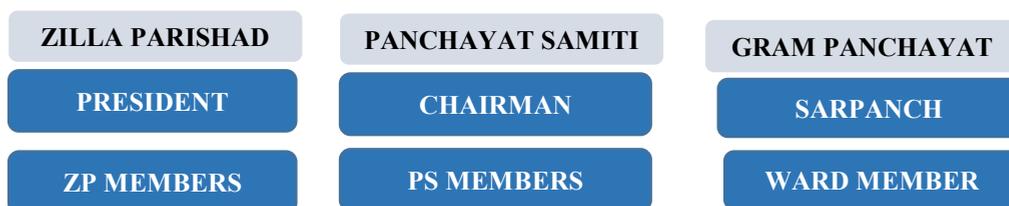
Each of the 30 districts of the State has a Zilla Parishad (ZP). The ZP is managed by an elected body headed by a President, who is elected amongst the elected representatives of the ZP. The District Collector acts as the ex-officio Chief Executive Officer (CEO) of the ZP, while the Project Director of District Rural Development Agency (DRDA) concerned acts as the ex-officio Executive Officer (EO) for discharging day-to-day administrative functions of the ZP.

The Panchayat Samiti (PS), functioning at the Block level, is managed by an elected body headed by a Chairman, duly elected amongst the elected representatives of the Block. The Block Development Officer (BDO) acts as the executive head.

At the Gram Panchayat (GP) level, the elected members headed by a Sarpanch constitute the GP. General superintendence and overall control of the GP is exercised by the Panchayat Executive Officer who discharges his duties under the supervision of the BDO.

Election to the PRIs at all tiers was last conducted in February 2012.

The setup of Elected Body of the PRIs is as follows: -



### 1.3 Functioning of PRIs

Article 243 of the Constitution prescribes devolution of powers, resources and responsibilities to elected local bodies from the State Government. It enjoins upon the State Legislatures to enact laws / amend existing laws devolving/transferring 29 subjects listed in the Eleventh Schedule of the Constitution of India to PRIs. This would also lead to PRIs emerging as platforms for planning and implementation of programmes for economic development and social justice for rural people.

Out of 29 subjects of 19 Departments, State Government has transferred (October 2005) 21 subjects of 11 Departments to the PRIs (*Appendix 1.1*). The Chief Secretary instructed (July 2003) 11 Departments to implement decentralisation of the governance in letter and spirit. The State Government had given enough funds for the development of the village panchayats. Besides, the Fourteenth Finance Commission and Fourth State Finance Commission have recommended maximum grant for the village panchayats. As a result, the Odisha Government received the Incremental Devolution Index Award 2015-16 for providing maximum power to the panchayats.

### 1.4 Staffing pattern of PRIs

There is to be an Executive Officer for every Gram Panchayat who is to maintain the records of the proceedings of the meetings of GPs, remain a custodian of all such records and documents, cash and valuable securities of GP and exercise such other powers, discharge such other duties and perform such other functions as may be prescribed. The Village Level Workers (VLW) and Village Agriculture Workers (VAW) working in a district act as Executive Officers. Against the sanctioned strength of 6234 VLWs, men-in-position were 5476 with vacancy of 758, thereby hampering the functioning of the GPs. As observed in compliance audit of 31 GPs, the utilisation of funds was less than 50 *per cent* in six GPs and less than 70 *per cent* in 23 GPs.

For every block, there is to be a Block Development Officer (BDO) to be appointed by the Government and an Additional Block Development Officer (ABDO) may be appointed by the Government under the administrative control of the BDO. The Samiti, with the approval of the Government, is to determine the number and grade of the employees to be appointed to the services of the Samiti. Against sanctioned strength of 314 each for BDO and ABDO, men-in-position were 311 and 198, with vacancy of 3 and 116, respectively.

The Collector of the district is the Chief Executive Officer of the Parishad who exercises such powers and perform such functions as are prescribed. The Project Director, District Rural Development Agency is the *ex-officio* Secretary of the Parishad.

Similarly, under technical category at district and block level, against sanctioned strength of 1845 posts, men-in-position were 1767 with 78 vacancies, which resulted in low spending of the grants received for various socio-economic development programmes. As seen in compliance audit of 38 PSs, the percentage of utilisation of different scheme funds was less than 50 in 13 PSs.

### **1.5 Functioning of various Committees**

To execute the functions of PRIs, Standing Committees have been constituted (seven each for ZPs and PSs and five for GPs) with the elected representative as the Chairperson and Secretary as the Chief Executive Officer. The role and responsibilities of Standing Committees are given at *Appendix 1.2*.

Overall monitoring and review of the development programmes at the State and District levels were conducted by the State Level Vigilance and Monitoring Committee (SLVMC) and District Vigilance and Monitoring Committees (DVMC) respectively. The SLVMC of Odisha has been constituted under the Chairmanship of the Minister, Rural Development, Government of Odisha with three Co-chairmen and 29 members. In case of DVMC, Member of Parliament (Lok Sabha) is the Chairman, with District Collector as Secretary and all district level officers as members. Both the Committees are required to meet at least once in every quarter, however, two meetings of SLVMC and 44 meetings of DVMC were held in 25 districts against 120 meetings during 2015-16. In five districts<sup>2</sup>, no meetings were held during 2015-16.

### **1.6 Fund Flow arrangement at PRIs**

The main sources of funds of PRIs in the State were from Government of India (GoI) under various Centrally Sponsored Schemes (CSS), *viz.* Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), Backward Region Grant Fund (BRGF), Indira Awaas Yojana (IAY), Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA) etc. and grants received from State Government as per the recommendations of State Finance Commission and the Central Finance Commission. Funds are also received under State sponsored schemes like *Mo Kudia* (renamed as Biju Pucca Ghara), Cement Concrete (CC) Road, Biju KBK Yojana and Gopabandhu Grameen Yojana (GGY).

The position of funds received by the PRIs under various schemes of GoI and Government of Odisha (GoO) and also grants-in-aid from GoO and the expenditure incurred therefrom is given in *Table 1.1*.

**Table 1.1: Total funds received by PRIs during 2011-16** (*₹ in crore*)

Scheme	2011-12	2012-13	2013-14	2014-15	2015-16
IAY (CSS-75:25)	833.17	1110.60	1257.44	1998.71	2866.26
Mo Kudia (renamed as Biju Pucca Ghara Yojana)	96.04	133.25	273.36	346.92	1219.66

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<sup>2</sup> Gajapati, Ganjam, Koraput, Mayurbhanj and Nuapada

Scheme	2011-12	2012-13	2013-14	2014-15	2015-16
(SS-100 per cent)					
GGY (SS-100 per cent)	251.78	199.10	261.80	248.89	710.26
BRGF (100 per cent SCA)	327.22	396.04	428.56	326.23	72.05
SGSY/NRLM (CSS-75:25)	192.88	124.71	104.56	113.27	194.09
MGNREGS (CSS- 90:10)	1371.18	1321.64	1322.78	1077.38	2060.94
Thirteenth, Fourteenth CFC	570.92	713.10	731.93	804.40	1264.44
RGPSA	0	0	12.56	48.25	33.82
Grant-in-aid (SFC, Cluster House, CC Road)	589.69	729.03	1148.28	860.88	1122.87
<b>Total</b>	<b>4232.88</b>	<b>4727.47</b>	<b>5541.27</b>	<b>5824.93</b>	<b>9544.39</b>

(Source: Annual Report and MIS Reports furnished by PR Department)

Total fund available includes opening balance and interest

(CSS: Centrally Sponsored Scheme, SS: State Scheme, SCA: Special Central Assistance, CFC: Central Finance Commission, SFC: State Finance Commission, CC: Cement Concrete)

**Table 1.2: Budget provision for plan and non-plan sectors for PRIs during the last five years**

(₹ in crore)

Year	Plan		Non Plan	
	Budget Provision	Release (per cent)	Budget Provision	Release (per cent)
2011-12	1088.45	991.40(91)	1340.82	1222.45(91)
2012-13	1501.04	1320.63(88)	1438.21	1216.77(85)
2013-14	2245.45	2082.51(93)	1525.67	1296.12(85)
2014-15	4175.75	3441.58(82)	1703.30	1401.37(82)
2015-16	6217.69	5330.50(86)	2338.87	2334.83(99.8)

(Source: MIS Reports furnished by PR Department)

**Table 1.3: Total expenditure by PRIs during the last five years**

(₹ in crore)

Scheme	2011-12	2012-13	2013-14	2014-15	2015-16
IAY (CSS-75:25)	634.67	941.26	946.94	825.96	1981.65
Mo Kudia (renamed as Biju Pucca Ghara Yojana) (SS-100 per cent)	63.06	79.83	147.84	193.54	828.22
GGY (SS-100 per cent)	207.88	163.46	238.46	189.26	192.57
BRGF (100 per cent SCA)	224.98	273.09	271.13	266.93	47.60
SGSY/NRLM (CSS-75:25)	171.35	74.49	50.97	67.82	124.02
MGNREGS (CSS- 90:10)	1032.56	1177.47	1289.13	1073.07	2046.67
Thirteenth, Fourteenth CFC	288.72	440.32	500.49	536.49	364.44
RGPSA	0	0	0.85	14.42	15.39
Grant-in-aid (SFCs, Cluster House, CC Road)	279.23	472.19	1011.20	697.21	425.66
<b>Total</b>	<b>2902.45</b>	<b>3622.11</b>	<b>4457.01</b>	<b>3864.7</b>	<b>6026.22</b>

(Source: MIS Reports furnished by PR Department)

As seen from above tables, receipt as well as expenditure during 2015-16 has increased by 64 per cent and 56 per cent, respectively, as compared to that of 2014-15.

### 1.7 Recommendations of the State Finance Commissions (SFCs)

The Second SFC had recommended ₹ 2143.22 crore to the PRIs towards devolution, compensation and assignment, grant-in-aid and salary for the period 2005-10, against which ₹ 984.36 crore (45 per cent) only was released by the State Government from its own Tax Revenue. Similarly, Third SFC had recommended ₹ 6787.18 crore for PRIs for the period 2010-15, against which ₹ 3120.14 crore (56 per cent) was released by the State Government.

The Third SFC reiterated many of the recommendations made by the second SFC as those were either not implemented or partially implemented. Besides, it also has made other recommendations, most of which have not been implemented till date of audit.

The Fourth SFC, through its recommendation, had endeavored to assist and advise the State Government to develop the lowest tiers of democratic institution as responsible local government. Some of the recommendations related to the measures to strengthen resource base of the Local Bodies to help them evolve into responsible units of Local Self Governance. Recommendations have been grouped into four broad heads:

1. Institutional and structural strengthening;
2. Resource generation and legal hurdles thereof;
3. General issues; and
4. Fund transfer.

Total resource transfer (from State resources) to PRIs recommended by the Fourth SFC for the period 2015-20 is given in **Table 1.4**.

**Table 1.4: Resource transfer recommended by the SFC**

*(₹ in crore)*

Distribution mechanism	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
Devolution	493.77	493.77	493.77	493.77	493.77	2468.85
Assignment of Taxes	438.31	539.60	620.16	672.84	730.79	3001.70
Grant-in-aid	290.05	368.43	455.12	539.20	581.72	2234.52
<b>Total</b>	<b>1222.13</b>	<b>1401.8</b>	<b>1569.05</b>	<b>1705.81</b>	<b>1806.28</b>	<b>7705.07</b>

*(Source: Report of the 4<sup>th</sup> SFC)*

However, State Government has released ₹ 1235.46 crore towards SFC award during the year 2015-16.

### 1.8 Recommendations of the Central Finance Commission (CFC)

The devolution of funds to PRIs as per recommendations of the Thirteenth Finance Commission and allocations for PRIs for the award period are shown in **Table 1.5** below:

**Table 1.5: Recommendations of Thirteenth FC and allocation for PRIs**

*(₹ in crore)*

Sl. No.	Subject	2010-11	2011-12	2012-13	2013-14	2014-15	Total
1	General Area Basic Grant	241.29	279.78	326.99	387.43	458.71	1694.20
2	General Performance Grant	0.00	95.66	224.41	264.70	312.23	897.00
3	Special Area Grant	19.39	--	--	--	--	19.39
<b>Total</b>		<b>260.68</b>	<b>375.44</b>	<b>551.40</b>	<b>652.13</b>	<b>770.94</b>	<b>2610.59</b>

*(Source: Panchayati Raj Department letter No. 22895 dated 6 August 2010)*

However, out of ₹ 1694.20 crore, ₹ 1299.90 crore<sup>3</sup> was released to the PRIs towards General Area Basic Grant, Special Area Basic Grant and share from Forfeited Performance Grant for the period from 2012-13 to 2014-15.

The Thirteenth Finance Commission had recommended allotment of Performance Grant of ₹ 897 crore for the period 2011-15. The State was eligible to draw its allocations, if it complied with nine conditions prescribed at paragraph 10.161 of Thirteenth Finance Commission Report.

Out of nine conditions, State Government has complied with four conditions and five conditions have not been complied with. Hence, the State Government could not avail of the Performance Grant of ₹ 897 crore as of March 2015. However, ₹ 68.83 crore has been received towards Forfeited Performance Grant as of March 2015.

**Table 1.6: Recommendation of Fourteenth Finance Commission**

(₹ in crore)

Sl. No.	Subject	2015-16	2016-17	2017-18	2018-19	2019-20	Total
1	Basic Grant	955.52	1323.09	1528.71	1768.44	2389.54	7965.28
2	Performance Grant	0	173.55	196.40	223.04	292.05	885.03
<b>Total</b>		<b>955.52</b>	<b>1496.64</b>	<b>1725.11</b>	<b>1991.48</b>	<b>2681.59</b>	<b>8850.31</b>

(Source: Fourteenth Finance Commission Report)

As per recommendation, ₹ 955.52 crore was received by the State Government towards Central Finance Commission award during the year 2015-16.

## 1.9 Audit mandate

### 1.9.1 Primary Auditor

As per Rule 149 of the Regulations on Audit and Accounts, the Director, Local Fund Audit (DLFA) is the primary Auditor of PRIs in the State. It is a directorate under the Finance Department of the State. The DLFA conducts audit of PRIs of all 30 districts of the State through 26 District Audit Offices. The position of audit of PRIs by DLFA as on March 2016 is given in Table below.

**Table 1.7: The position of audit of PRIs by DLFA as on March 2016**

Year	Total number of PRIs planned for audit			Total number of PRIs audited			Shortfall (Figures given in the bracket indicate percentage)		
	GP	PS	ZP	GP	PS	ZP	GP	PS	ZP
2013-14	6234	314	30	4384	294	30	1850 (30)	20 (6)	Nil
2014-15	6234	314	30	4647	314	29	1587 (25)	0	1
2015-16	5977	314	30	5427	311	30	550 (9)	3(1)	Nil

(Source: Information furnished by Director, Local Fund Audit, Odisha)

Government/ DLFA had engaged (September 2010) the Institute of Public Auditors of India (IPAI) for audit of the accounts of GPs in order to reduce the arrears in audit of GPs. The IPAI audited accounts of 2319 GPs during 2015-16 on behalf of DLFA.

<sup>3</sup> General Area Basic Grant: ₹ 1172.90 crore + Special Area Basic Grant: ₹ 58.17 crore + Share from forfeited Performance grant: ₹ 68.83 crore

### **1.9.2 Audit by Comptroller and Auditor General of India**

On the recommendation of the Thirteenth Finance Commission, the State Government had entrusted (April 2011) the Comptroller and Auditor General of India (CAG) with audit of all the three tiers of Panchayati Raj Institutions (PRIs) of the State under Section 20(1) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971. Besides, the CAG was also requested to provide Technical Guidance and Support (TGS) to the State Audit Agency viz., Local Fund Audit (LFA) for audit of Local Bodies. The Government had notified (July 2011) the parameters of the TGS agreed to, in the Official Gazette. Under TGS arrangement, 310 LFA staff were imparted training during 2015-16 covering topics on audit of schemes implemented in PRIs and ULBs, Accounting system in ULBs and audit methodology.

### **1.10 Reporting arrangement**

#### **1.10.1 Audit Report of Primary Auditor**

Director, Local Fund Audit is the Primary Auditor and authorised to conduct annual audit of financial accounts of the PRIs. As per recommendations of the Thirteenth Finance Commission and provisions of OLFA (Amendment) Rules, 2015, the DLFA shall prepare and submit to the State Government not later than 30<sup>th</sup> September of each year a consolidated report for the previous year, to be laid before the State Legislature. Annual Report for 2014-15 has been laid in the Odisha Legislative Assembly on 7 December 2015.

#### **1.10.2 Annual Technical Inspection Report (ATIR) on PRIs**

Annual Technical Inspection Report for the year ended March 2015 has been laid in Odisha Legislative Assembly on 27 September 2016.

### **1.11 Response to audit observations**

As on 31 March 2016, 14,480 paragraphs relating to 3295 Inspection Reports (IRs) issued by the Office of the Accountant General (G&SSA), Odisha to different PRIs remained unsettled for want of required compliances. However, 703 paragraphs and 51 IRs were settled through Triangular Committee Meetings during 2014-15. The Office of the Accountant General (G&SSA), Odisha issued nine Annual Technical Inspection Reports (ATIRs) on PRIs relating to the years 2005-06 to 2014-15, wherein major audit findings on the transactions of PRIs of the State were reported. Even after convening meetings with the Commissioner-cum-Secretary of the Department and making number of correspondences with Chief Secretary to Government of Odisha, submission of compliance by the Government to the paragraphs of these nine ATIRs is poor.

## Section B

### Accountability Mechanism and Financial Reporting issues

#### 1.12 *Vigilance Mechanism*

##### (i) *Social Audit*

It was observed during Compliance Audit that PS<sup>4</sup>s had not conducted Social Audit under different schemes.

##### (ii) *Lokayukta*

Even though President accorded his approval to the Odisha Lokayukta Bill in January 2015, the State Government is yet to appoint a Lokayukta. As per the rule, the State Government should have issued a gazette notification to execute the new Lokayukta Act. However, no action has yet been taken by the government to execute the law till date.

##### (iii) *Grievance redressal*

In respect of 38 PSs audited during 2015-16, it was observed that out of total 4997<sup>5</sup> grievances received in 28 PSs, 4310 grievances were pending for redressal. As replied by the BDOs, the pendency was due to delay in receipt of inquiry report.

#### 1.13 *Pending submission of Utilisation Certificates (UCs)*

It was observed that 26 PSs out of 38 PSs audited during 2015-16, had not submitted UCs amounting to ₹ 596.98 crore against expenditure of ₹ 1022.33 crore. Similarly, 25 Grama Panchayats had not submitted UCs for ₹ 3.08 crore against expenditure of ₹ 3.38 crore incurred during 2015-16.

#### 1.14 *Outstanding advance*

It was observed from the trial balance and cash books in compliance audit that in 34 PSs, ₹ 43.31 crore was unadjusted. Due to non-maintenance of Advance Register by the PSs, details such as date of payment, purpose and person to whom paid, could not be ascertained in audit. Similarly, in 20 GPs, ₹19.79 lakh was lying unadjusted.

#### 1.15 *Non-reconciliation of balances as per Cash Book and Bank Pass Book*

During Compliance Audit of 38 PSs during 2015-16, discrepancies between balances in Cash Book and Bank Pass Books were found in 36 PSs due to non-reconciliation.

#### 1.16 *Maintenance of Accounts by PRIs*

- Accounts of PSs are prepared by the respective PS and Chartered Accountants are engaged for maintenance of GP Accounts. Accounts of

<sup>4</sup> Baliana, Sanakhemundi, Suruda, Barkote, Lephripada, Hemgiri, Kantapada, Reamal and Subdega

<sup>5</sup> Directly from beneficiaries- 3363, through District Collector- 1149 and from the Department- 485

PRIs are certified by the Director, Local Fund Audit as per Rule 20 (h) of the Orissa Local Fund Audit Rules, 1951.

- Out of 5987 Accounts of PRIs, 5197 Accounts were certified by the Director, Local Fund Audit during 2015-16.
- PSs had adopted (April 2014) PRIA Soft software developed by NIC on Model Accounting System for maintenance of their accounts.