

CHAPTER I

Section A
An Overview of the Functioning of the Panchayati Raj Institutions (PRIs) in the State

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 and Zilla Parishad Act, 1959 was enacted in 1961 and three tier system of PRIs was established in the State. All these Acts were amended in 1993 and 1994 in conformity with the 73rd Constitutional Amendment Act, 1992. It empowered the PRIs to function as institutions of self-government to accelerate economic development and ensure social justice in rural areas.

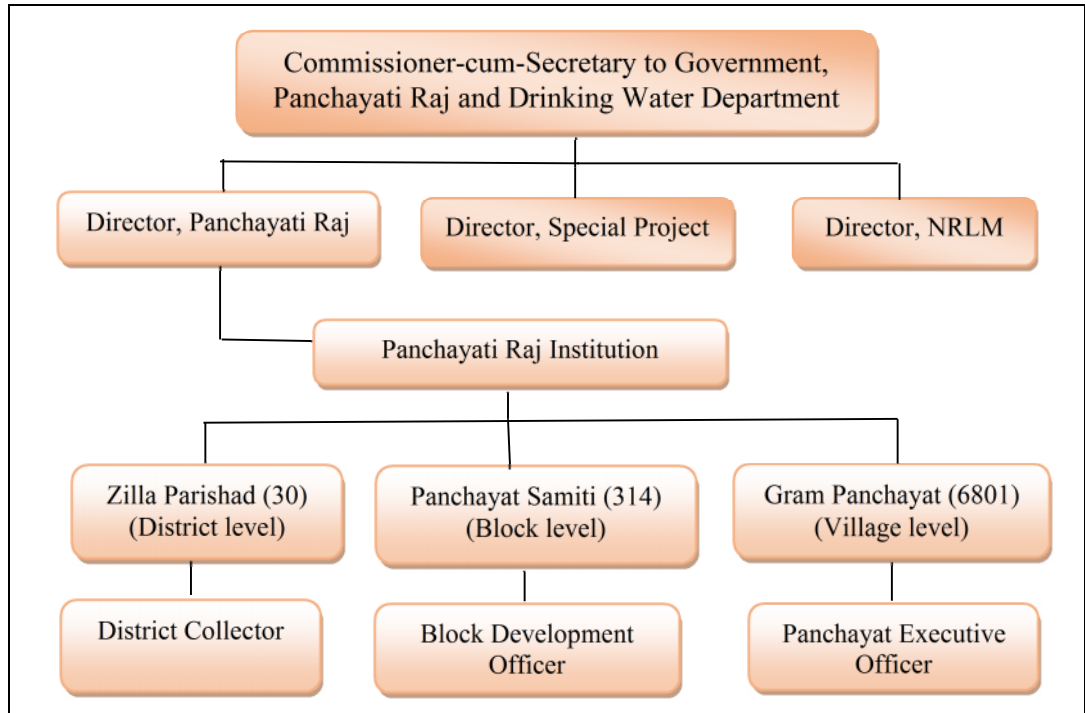
Table 1.1: State profile

Indicator	State statistics	Unit
Area	1,55,707	Square km
Tahsils	317	Number
Villages	51,349	Number
Total population (Census 2011)	419.74	Lakh
Rural population	83	Per cent
Rural sex ratio	989	Per 1,000 male
Density	270	Persons/ Square km.
Male Literacy	81.59	Per cent
Female Literacy	64.01	Per cent
Rural literacy rate	70.22	Per cent
Scheduled Caste population	17.13	Per cent
Scheduled Tribe population	22.85	Per cent
Zilla Parishads	30	Number
Panchayat Samitis	314	Number
Gram Panchayats	6,801	Number
Total villages	61,313	Number

(Source: Census of India 2011)

1.2 Organisational Setup of PRIs

Panchayati Raj Institutions are classified into three tiers, viz. Zilla Parishads, Panchayat Samitis (PS) and Gram Panchayats (GP). The organisational setup of the PRIs is indicated overleaf.



All the three tiers of PRIs function under the administrative control of the Panchayati Raj and Drinking Water (PR&DW) Department headed by the Commissioner-cum-Secretary. He is assisted by the Director (PR), Director (Special Projects) and the Director, National Rural Livelihood Mission at the State level.

Each of the 30 districts of the State has a Zilla Parishad (ZP). It 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. 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, functioning at the Block level, is managed by an elected body headed by a Chairman. The Chairman is duly elected amongst the elected representatives of the Block. The Block Development Officer (BDO) acts as the executive head of the PS.

At the Gram Panchayat level, the elected members headed by a Sarpanch constitute the GP. The Panchayat Executive Officer (PEO) discharges his/her duties under the supervision of the BDO. He/She is responsible for general superintendence and overall control of the GP.

Election to the PRIs at all tiers was last conducted in February 2017. The setup of Elected Body of the PRIs is as follows: -

ZILLA PARISHAD	PANCHAYAT SAMITI	GRAM PANCHAYAT
PRESIDENT	CHAIRMAN	SARPANCH
ZP MEMBERS	PS MEMBERS	WARD MEMBER

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 transferred 21 subjects of 11 Departments to the PRIs during the year 2005 (*Appendix-1.1*). The State Government provides funds along with grants recommended by the Fourteenth Finance Commission and Fourth State Finance Commission. These are meant for the development of the GPs.

1.4 Staffing pattern of PRIs

The Collector of the district is the Chief Executive Officer of the Zilla Parishad. He exercises such powers and performs such functions as are prescribed. The Project Director, District Rural Development Agency is the *ex-officio* Secretary of the Zilla Parishad. Every block is headed by a Block Development Officer (BDO) who is assisted by one Additional Block Development Officer (ABDO). Similarly, a Gram Panchayat is headed by a Panchayat Executive Officer who is a State Government official. He maintains the records of the proceedings of the meetings of GPs. He also remains custodian of all such records and documents, cash and valuable securities of GP. He also exercises such other powers, discharges such other duties and performs such other functions, as may be prescribed.

The sanctioned strength vis-à-vis men-in-position in PSs and GPs are shown in *Table 1.2*.

Table 1.2: Statement showing sanctioned strength vis-à-vis men-in-position in PSs and GPs

Post	Sanctioned strength	Men-in-position	Vacancies (per cent)
Block Development Officer (BDO)	314	276	38 (12)
Additional Block Development Officer (ABDO)	314	180	134 (43)
Junior Engineer/Gram Panchayat Technical Assistant (GPTA)	2,698	2,308	390 (14)
Panchayat Executive Officer (PEO)	6,801	5,362	1,439 (21)

(Source: Information collected from PR&DW Department)

As can be seen above, there was 43 *per cent* vacancy in the post of ABDO in PSs and 21 *per cent* vacancy in the post of PEOs in GPs. These were administrative posts and the huge vacancies were likely to affect the functioning of the PRIs.

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 at the PRI levels. The Chairman and the Secretary would be from the elected representative. The role and responsibilities of Standing Committees are given in *Appendix-1.2*.

Overall monitoring and review of the development programmes at the State level was conducted by the State Level Vigilance and Monitoring Committee (SLVMC). At District level, it was conducted by the District Vigilance and Monitoring Committee (DVMC). The SLVMC of Odisha had been constituted under the Chairmanship of the Minister, Rural Development, Government of Odisha. It also had three Co-chairmen and 29 members. In case of DVMC, Member of Parliament (Lok Sabha) concerned was the Chairman, with District Collector as Secretary and all district level officers as members. Further, to review the C&AG Reports, District Audit Monitoring Committee was constituted (February 2015) in each district with PD, DRDA as Chairman. Additional Project Director (Finance) was the Member Convener.

Both the Committees were 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 2016-17. In five districts, no meetings were held during 2016-17.

1.6 Fund flow arrangement

The main sources of funds of PRIs in the State were from Government of India (GoI) under various Centrally Sponsored Schemes (CSS). These were i) Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), ii) Pradhan Mantri Awaas Yojana (PMAY), iii) National Rural Livelihood Mission (NRLM), iv) Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA) etc. Also, grants received as per the recommendations of State Finance Commission (SFC) and the Central Finance Commission (CFC) formed part of the sources. Funds were also received under State sponsored schemes like i) Biju Pucca Ghar Yojana (BPGY), ii) Cement Concrete (CC) Road, iii) Biju KBK Yojana and iv) Gopabandhu Grameen Yojana (GGY).

The position of funds available¹ with PRIs under various schemes of GoI and Government of Odisha (GoO) including grants-in-aid from GoO is given in ***Chart 1.1 and Table 1.3***.

¹ Total fund available includes opening balance and interest

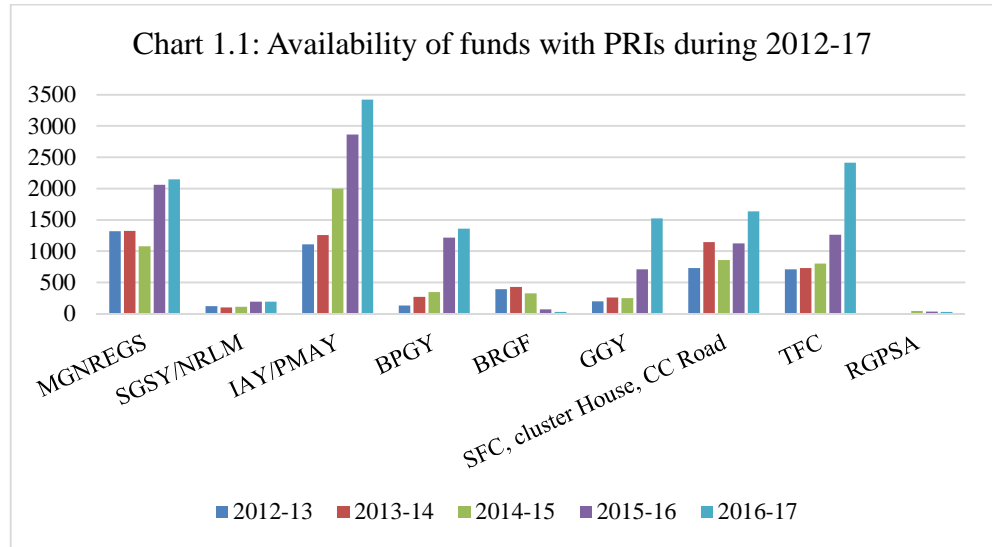


Table 1.3: Availability of funds with PRIs during 2012-17

Scheme	2012-13	2013-14	2014-15	2015-16	2016-17
MGNREGS	1321.64	1322.78	1077.38	2060.94	2149.68
SGSY/NRLM*	124.71	104.56	113.27	194.09	195.93
IAY/PMAY**	1110.60	1257.44	1998.71	2866.26	3420.19
BPGY	133.25	273.36	346.92	1219.66	1360.65
Backward Region Grant Fund (BRGF)	396.04	428.56	326.23	72.05	30.23
GGY	199.10	261.80	248.89	710.26	1521.86
SFC, Cluster House, CC Road	729.03	1148.28	860.88	1122.87	1634.39
Thirteenth, Fourteenth CFC	713.10	731.93	804.40	1264.44	2415.81
RGPSA	0	12.56	48.25	33.82	28.44
Total	4727.47	5541.27	5824.93	9544.39	12757.18

(Source: Annual Report and MIS Reports of PR&DW Department)

* Swarnjayanti Gram Swarozgar Yojana (SGSY) was restructured into National Rural Livelihood Mission in June 2011

** Indira Awaas Yojana (IAY) was restructured into Pradhan Mantri Awaas Yojana (PMAY) from April 2016

As seen from the above table, funds released under GGY had increased by more than 100 per cent. This substantial increase was due to closure of Backward Region Grant Fund (BRGF) scheme and coverage of all the 30 districts under GGY. Details of expenditure incurred are given in Table 1.4.

Table 1.4: Total expenditure by PRIs during the last five years

Scheme	2012-13	2013-14	2014-15	2015-16	2016-17
IAY	941.26	946.94	825.96	1981.65	1315.58
BPGY	79.83	147.84	193.54	828.22	554.62
GGY	163.46	238.46	189.26	192.57	1126.22
BRGF	273.09	271.13	266.93	47.60	13.90
SGSY/NRLM	74.49	50.97	67.82	124.02	160.99
MGNREGS	1,177.47	1,289.13	1,073.07	2,046.67	2,146.47
Thirteenth, Fourteenth CFC	440.32	500.49	536.49	364.44	1,044.44
RGPSA	0	0.85	14.42	15.39	10.39
SFCs, Cluster House, CC Road	472.19	1011.20	697.21	425.66	786.61
Total	3,622.11	4,457.01	3,864.7	6,026.22	7,159.22

(Source: MIS Reports furnished by PR&DW Department)

As seen from **Tables 1.3** and **1.4**, the availability of funds during 2016-17 had increased by 34 *per cent* over that of 2015-16, whereas expenditure had increased only by 18 *per cent*.

Budget provision for plan and non-plan sectors for PRIs during the last five years is shown in Charts 1.2, 1.3 and Table 1.5.

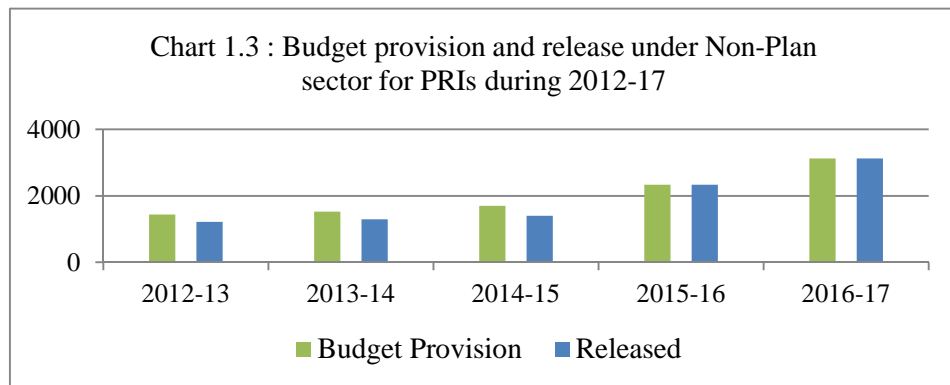
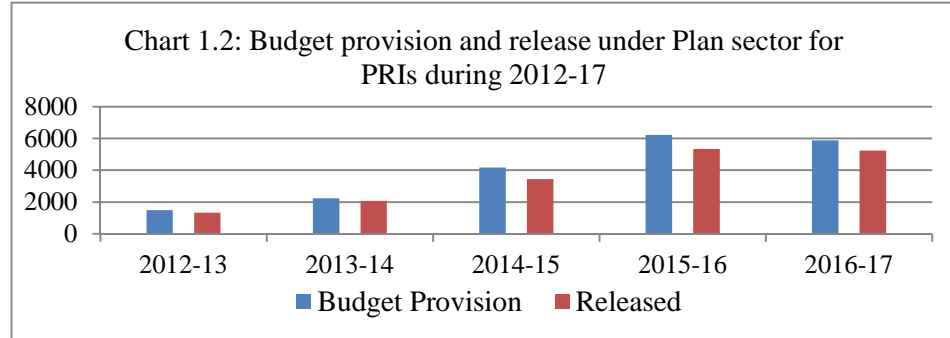


Table 1.5: Budget provision for plan and non-plan sectors for PRIs during the last five years

Year	Plan		Non Plan	
	Budget Provision	Release (<i>per cent</i>)	Budget Provision	Release (<i>per cent</i>)
2012-13	1,501.04	1,320.63 (88)	1,438.21	1,216.77 (85)
2013-14	2,245.45	2,082.51 (93)	1,525.67	1,296.12 (85)
2014-15	4,175.75	3,441.58 (82)	1,703.30	1,401.37 (82)
2015-16	6,217.69	5,329.51 (86)	2,338.90	2,334.85(99.8)
2016-17	5,883.70	5,242.48 (89)	3,127.18	3,123.24 (100)

(Source: MIS Reports furnished by PR&DW Department)

As seen from the Charts 1.2 and 1.3 and Table 1.5, release of funds under both plan and non-plan heads was 82 *per cent* during 2014-15. During 2015-16 and 2016-17, funds released under plan head were 86 and 89 *per cent* respectively while release under non-plan head was 99.8 *per cent* and 100 *per cent* respectively.

1.7 Recommendations of the State Finance Commissions (SFCs)

Third SFC had recommended ₹ 6,787.18 crore for PRIs for the period 2010-15. Against this, ₹ 3,120.14 crore (56 *per cent*) was released by the State Government. The Fourth SFC 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 were related to the measures to

strengthen resource base of the Local Bodies. This would help them to evolve into responsible units of Local Self Governance. Recommendations were grouped into following 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 1.6**.

Table 1.6: Resource transfer recommended by the SFC

(₹ in crore)						
Distribution mechanism	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Devolution	493.77	493.77	493.77	493.77	493.77	2,468.85
Assignment of Taxes	438.31	539.60	620.16	672.84	730.79	3,001.70
Grant-in-aid	290.05	368.43	455.12	539.20	581.72	2,234.52
Total	1,222.13	1,401.80	1,569.05	1,705.81	1,806.28	7,705.07

(Source: Report of the 4th SFC)

State Government had released ₹ 1,395.18 crore towards SFC award to the PRIs during the year 2016-17.

1.8 Recommendations of the Central Finance Commission (CFC)

The 14th Finance Commission had recommended a Basic Grant and a Performance Grant to Rural Local Bodies. These grants were intended to be used for providing basic civic services. These included water supply, sanitation, sewerage management, solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths, street lighting and burial and cremation grounds.

The States were given access to basic grants for five years. However, the performance grants were to be released from 2016-17 based on fulfilling certain performance parameters. Year-wise allocation of grant to Odisha as recommended by the 14th Finance Commission is given in **Table 1.7**.

Table 1.7: Recommendation of 14th Finance Commission

(₹ in crore)							
Sl. No.	Subject	2015-16	2016-17	2017-18	2018-19	2019-20	Total
1	Basic Grant	955.52	1,323.09	1,528.71	1,768.44	2,389.54	7,965.28
2	Performance Grant	0	173.55	196.40	223.04	292.05	885.03
	Total	955.52	1,496.64	1,725.11	1,991.48	2,681.59	8,850.31

(Source: Fourteenth Finance Commission Report)

As per the recommendation, ₹ 1,496.64 crore was received by the State Government towards CFC award during the year 2016-17.

1.9 Audit mandate

1.9.1 Primary Auditor

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 and functions under the Orissa Local Fund Audit Act, 1948. The DLFA conducts audit of PRIs of all 30 districts of the State through 26 District Audit Offices. The status of audit of PRIs by DLFA as of March 2017 is given in **Table 1.8**.

Table 1.8: The status of audit of PRIs by DLFA as of March 2017

Year	Total number of PRIs planned for audit			Total number of PRIs audited			Shortfall (percentage)		
	GP	PS	ZP	GP	PS	ZP	GP	PS	ZP
2014-15	6,234	314	30	4,647	314	29	1,587 (25)	0	1
2015-16	5,977	314	30	5,427	311	30	550 (9)	3 (1)	Nil
2016-17	4,606	314	30	4,429	314	28	177 (4)	0	2

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

The Government/DLFA had engaged (September 2010) the Institute of Public Auditors of India (IPAI) for audit of the accounts of GPs. The objective was to reduce the arrears in audit of GPs. The IPAI audited accounts of 2,177 GPs during 2016-17 on behalf of DLFA.

1.9.2 Audit by Comptroller and Auditor General of India

On recommendation of the 13th Finance Commission, the State Government 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 notified (July 2011) the parameters of the TGS in the Official Gazette. Under TGS arrangement, 167 LFA staff were imparted training during 2016-17 covering i) topics on Works Audit, ii) Audit of PRIs and ULBs and iii) vetting and writing of Draft Inspection Report with special reference to GP Audit. State Government is yet to form a Committee in line with Public Accounts Committee for discussion of Audit Reports on Local Bodies.

1.10 Reporting Arrangement

1.10.1 Audit Report of Primary Auditor

As per recommendations of the 13th Finance Commission and provisions of OLFA (Amendment) Rules, 2015, DLFA shall prepare and submit to the State Government not later than 30th September of each year a consolidated report for the previous year, to be laid before the State legislature. Audit report for the year 2015-16 was laid before the Odisha legislative Assembly on 15 December 2016.

1.10.2 CAG's Report on Local Bodies

The Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2016 was laid in Odisha Legislative Assembly on 16 September 2017.

1.10.3 Response to Audit Observations

During 2016-17, 997 paragraphs and 101 IRs were settled through Triangular Committee Meetings. As on 31 March 2017, 16,591 paragraphs relating to 3505 Inspection Reports (IRs) remained unsettled.

The Office of the Accountant General (G&SSA), Odisha issued ten Annual Technical Inspection Reports (ATIRs) on PRIs relating to the years 2005-06 to 2014-15. A CAG Report on Local Bodies for the year ended March 2016 was prepared during 2016-17, which was placed in Legislative Assembly on 16

September 2017. In response to reports issued, PR Department had issued guidelines to avoid common audit objections. It had also constituted (February 2015) District Audit Monitoring Committee to review the compliances to the Audit Reports.

Section B
Accountability Mechanism and Financial Reporting issues

1.11 Accountability Mechanism

(i) Ombudsman

Ombudsman is an Institution formed under Section 27 of MGNREGA consisting of one to three persons. It functions as an independent grievance redressal body at district level to hear the complaints relating to implementation of MGNREG Act and schemes made under the Act. It directs the appropriate authority for redressal, disciplinary and punitive action against erring officials and dispenses justice to MGNREGS worker. The Tenure of Ombudsman is two years and is extendable upto one year. During 2016-17, 23 Ombudsman were appointed and four Ombudsman were provisionally selected for appointment. They were for redressal of grievances and disposal of complaints relating to MGNREG Act.

(ii) Lokayukta

The President accorded his approval to the Odisha Lokayukta Bill in January 2015. However, 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) Social Audit

State has constituted an independent Social Audit Unit (SAU) in the name of Odisha Society for Social Audit Accountability and Transparency. SAU is functioning with one Director and six Social Audit Experts. At district level, District Resource Persons and at block level, Block Resource Persons were appointed. Village Resource Persons had not been engaged as of March 2017. Social Audit was being conducted at GP level twice a year for MGNREGS works.

1.12 Pending submission of Utilisation Certificate (UC)

It was observed that 26 out of 40 PSs audited during 2016-17, had not submitted UCs amounting to ₹ 335.47 crore against total expenditure of ₹ 441.64 crore. Similarly, 189 GPs had not submitted UCs for ₹ 23.98 crore against expenditure of ₹ 24.21 crore incurred during 2016-17.

1.13 Outstanding Advances

It was observed in compliance audit that in 38 PSs, ₹ 35.73 crore of advances remained unadjusted. The details of such advances viz. date of payment, purpose of payment could not be ascertained in audit due to non-maintenance of Advance Registers by the PSs.

1.14 Non-reconciliation of balances as per the Cash Book

During Compliance Audit of 40 PSs during 2016-17, discrepancies between balances in Cash Book and Bank Pass Books were found in 32 PSs due to non-reconciliation.

1.15 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 PRIs are certified by the Director, Local Fund Audit as per Rule 20 (h) of the Orissa Local Fund Audit Rules, 1951.
- Out of 4,963 Accounts of PRIs planned for audit, 4,783 Accounts were certified by the Director, Local Fund Audit during 2016-17.
- Government had implemented (April 2014) Panchayati Raj Institutions Accounting Software (PRIASoft) developed by NIC on Model Accounting System for maintenance of accounts of PRIs. However, only 26 out of 30 ZPs, 303 out of 314 PSs and 4,779 out of 6,801 GPs have uploaded their vouchers in the PRIASoft.