

## CHAPTER 3

### Compliance Audit of the PRIs

#### 3.1 Introduction

During the Financial Year (FY) 2021-22, the extent of Audit coverage of Panchayati Raj Institutions (PRIs) in the State was adversely impacted, in view of the travel restrictions and local lockdowns which had been imposed due to the Covid- 19 pandemic.

During FY 2021-22, Audit of PRIs was conducted, in the two selected districts (Cuttack and Sambalpur), through examination of the records of two Zilla Parishads (ZPs), four Panchayat Samities (PSs) and 20 Gram Panchayats (GPs), in these two districts, as detailed in *Appendix- 3.1*.

The scope of the Audit included examination of utilisation of funds under three categories of grants viz. 14<sup>th</sup> Finance Commission (FC) Grants, grants under the Ama Gaon Ama Bikash (AGAB) scheme and grants under the Swachh Bharat Mission-Gramin (SBM-G) scheme, covering the period from FY 2018-19 to FY 2020-21.

#### 3.2 Utilisation of 14<sup>th</sup> FC Grants received by PRIs

The 14<sup>th</sup> FC (FYs: 2015-20) 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 *i.e.*, 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 Basic Grant had been released to the State Government, for the full five-year period, for onward release to PRIs. The Performance Grant was to be released from FY 2016-17 onwards, subject to the fulfillment of specified performance parameters.

During the period FYs 2015-20, the PR&DW Department released ₹598.82 crore<sup>46</sup>, to the GPs of Cuttack and Sambalpur districts. Audit examined the related records of the 20 GPs selected in these two districts and noticed the following irregularities.

##### 3.2.1 Loss of Performance Grant

Apart from the Basic Grant, the 14<sup>th</sup> FC recommended disbursement of a Performance Grant, on fulfillment of specified conditions, such as submission of audited accounts and increase in own revenue. The Performance Grant was recommended from the year 2016 and the State Government issued a notification in regard to assessment of the performance of the GPs, based upon pre-specified criteria. Based upon the extent of fulfilment of these criteria, the GPs were eligible for 50 to 100 *per cent* of the Performance grant dues.

<sup>46</sup> Cuttack: Basic Grants-2015-16: ₹49.56 crore, 2016-17: ₹67.96 crore, 2017-18: ₹78.72 crore, 2018-19: ₹91.09 crore, 2019-20: ₹123.09 crore; Performance Grant- 2016-17: ₹8.07 crore, 2017-18: ₹9.01 crore, Sambalpur: Basic Grants- 2015-16: ₹20.28 crore, 2016-17: ₹28.07 crore, 2017-18: ₹30.92 crore, 2018-19: ₹35.78 crore, 2019-20: ₹48.35 crore; Performance Grant- 2016-17: ₹5.72 crore, 2017-18: ₹2.20 crore.

Audit noticed that, out of 20 test-checked GPs, 19<sup>47</sup> GPs had lost the Performance Grant, for the financial year FYs 2018-19 and 2019-20, as detailed in **Appendix- 3.2**, since they could not increase their own revenues. The total loss was ₹68.66 lakh<sup>48</sup>, calculated at the minimum of 50 *per cent* of the Performance Grants due for these GPs.

The loss of Performance Grant resulted in decreased availability of funds to these GPs, for providing basic public services, such as solid waste management, street lighting, *etc.*

In reply, the PR&DW Department stated (October 2022) that GPs were trying to increase their own source of revenue, to be eligible for the Performance Grant, since increase of own source of revenue is one of the conditions to avail Performance Grant. The fact, however, remained that GPs were not able to achieve the condition till the closure of the 14<sup>th</sup> FC period and lost the Performance Grants.

### **3.2.2 Suspected Misappropriation of funds**

The instructions issued (October 2015) by PR&DW Department for streamlining the monitoring and supervision of utilisation of 14<sup>th</sup> FC grants by GPs *inter-alia* stipulate that payment is to be made to the executants through RTGS, after completion of works.

However, in the Govindpur GP of the Kantapada PS, in Cuttack district, Audit noticed that, for ‘Construction of a meeting hall at Govindpur GP’, with an estimated cost of ₹5 lakh, the then PEO had withdrawn (September 2020) ₹1.50 lakh from the savings bank account maintained for the purpose of 14<sup>th</sup> FC Grants. The amount was shown in the cash book as expenditure on the same date, for the above work, without any details. However, in regard to the 1<sup>st</sup> and 2<sup>nd</sup> running account bills of the work, an amount of ₹4.21 lakh (₹2.83 lakh and ₹1.38 lakh) was paid in October 2020 and May 2021, respectively. No adjustment of the above advance was made in these two bills. The absence of any adjustment of the advance, in subsequent running bills, and the advance being shown as expenditure, without execution of work, was indicative of the possibility of misappropriation of funds.

The PR&DW Department, in reply, stated (October 2022) that steps were being taken to recover the amount from the responsible person, for such misappropriation of Government money.

### **3.2.3 Non-remittance of Government receipts into Government Account**

As per OTC Vol-I, royalty collected should be deposited, within three days of its receipt, with the local Tahasildar. Similarly, any labour cess collected is to be transferred to the Odisha Building & other Construction Worker Welfare Board, within 30 days of its collection.

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<sup>47</sup> All test-checked GPs except Uchapada GP of Tangi-Choudwar PS

<sup>48</sup> Basic Grant: ₹ 12.36 crore (90 *per cent* of total grants), Performance Grant: ₹ 1.3732 crore (10 *per cent* of total grants), Minimum loss of Performance Grant @ 50 *per cent* of ₹ 1.3732 crore: ₹68.66 lakh

Audit, however, noticed that, during FYs 2018-19 to 2020-21, 13<sup>49</sup> out of the 20 test-checked GPs, had collected State Government dues, amounting to ₹ 20.37 lakh (₹13.54 lakh royalty and ₹ 6.83 lakh cess), but had deposited only ₹7.03 lakh (₹6.61 lakh royalty and ₹0.42 lakh labour cess) into the Government Account, leaving a balance of ₹13.34 lakh (₹6.93 lakh royalty and ₹6.41 lakh labour cess) with themselves, as detailed in *Appendix-3.3*.

The PR&DW Department replied (October 2022) that the royalty and labour cess collected would be deposited into Government account, by the concerned authority, shortly.

### **3.2.4 Execution of inadmissible works**

As per Para 7 of the guidelines issued (October 2015) for the implementation of recommendation of 14<sup>th</sup> FC Grants by GoI (i) the Basic Grant was to be utilised for delivery of basic civic services like water supply, sanitation including septic management, sewerage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths, street-lighting, construction of kalyan mandap, shopping complex, cremation grounds and any other basic service within the functions assigned to them under relevant legislations. (ii) the cost of technical and administrative support towards O & M and capital expenditure should not exceed 10% of the allocation to a GP under any circumstances and the expenditure can be incurred only by the local body concerned.

Audit, however, noticed that 10 GPs had spent ₹52.98 lakh, on inadmissible works, such as construction of Government building, Drama Pandal and GP meeting hall, as well as repair of GP Office, GP Godown, booths, *etc.*, as detailed in *Appendix-3.4*.

As these works were not related to the intended basic services and generation of own revenue, they should have been executed from regular budget or any other source, rather than from 14<sup>th</sup> FC Grants. Thus, the expenditure of ₹52.98 lakh, incurred on these works, was inadmissible.

In reply, the PR&DW Department stated (October 2022) that expenditure for construction of GP building had been permitted (November 2015) out of 14<sup>th</sup> FC Grants.

The reply is not acceptable, since the GPs had incurred expenditure on repair of GP building, drama pandal etc, ignoring works related to generation of own revenue, due to which they had lost Performance Grants.

#### ***Recommendations:***

- 1. Efforts may be made to increase the revenue of the GPs, through creation of income generating assets, such as advertising hoardings, construction of commercial buildings, auction of management rights in weekly agricultural markets and fishing rights in local water bodies.***
- 2. Funds under FC Grants may be utilised to increase the coverage and quality of basic services provided to citizens, as also for generation of own revenues, rather than for incurring expenditure on inadmissible items, which should, instead, be met through regular budget allotments.***

<sup>49</sup> Bagalpur, Adaspur, Kantapada, Uradha, Govindapur, Batemura, Baduapali, Bargaon, Parmanpur, Sahaspur, Bisalkinda, Kardola, Talab

### **3.3 Utilisation of Ama Gaon and Ama Bikash Scheme Funds**

The Government of Odisha implemented (September 2018) the scheme ‘Ama Gaon Ama Bikash’ (AGAB), with a view to accelerating local development, by means of small and essential projects of local importance and providing missing links to existing development infrastructure. Projects, which were expected to contribute to the overall development of the community and well-being of the general public, were to be taken up under the scheme.

During the FYs 2018-19 to FY 2020-21, 23 PSs, in the two test-checked districts, received funds amounting to ₹115.17 crore, under this scheme, for 5,933 approved projects. Out of these, 761 projects<sup>50</sup> had been taken up for execution, at a cost of ₹15.13 crore, Audit examined the utilisation of funds in four of the test- checked PSs and noticed the following irregularities:

#### **3.3.1 Selection of projects**

As per the Guidelines of the AGAB: (i) the projects were to be suggested by local people, community organisations, public representatives and other stakeholders (ii) thereafter, the GP-wise project list was to be consolidated at the GP, Block and District levels, for onward submission to the PR & DW Department (iii) subsequently, the projects were to be approved by the Chief Minister, in a Video Conference with the general public and public representatives of the concerned Block.

Audit noticed that all the 5,933 projects, of these two districts, had been approved at State level itself, without supporting documentation evidencing consolidation at the GP or Block levels, or being based on the suggestions made by local people or public representatives, *etc.*, GP-wise lists, which were to be prepared for consolidation at the Block and District levels, had not been submitted to the Department.

In the absence of bottom-up inputs, Audit noticed that 102<sup>51</sup> approved projects, with an estimated cost of ₹1.43 crore, could not be taken up, due to reasons such as non-feasibility of project site, insufficient cost estimates for the project, *etc.*, which had not been anticipated prior to approval.

Selection of projects, without the involvement of the beneficiaries or their representatives, in a manner that was not compliant with the AGAB guidelines, resulted in blocking of funds which could have been utilised as per local requirements, as was originally intended under the AGAB Scheme.

In reply, the PR&DW Department stated (October 2022) that the districts have been directed to divert the funds of non-feasible projects, to complete the ongoing projects, available under AGAB schemes, after obtaining Government approval.

The fact, however, remained that the non-feasible projects had been selected without involving the beneficiaries or their representatives, in deviation from the guidelines, which ultimately had the impact of denying the intended benefits to the beneficiaries.

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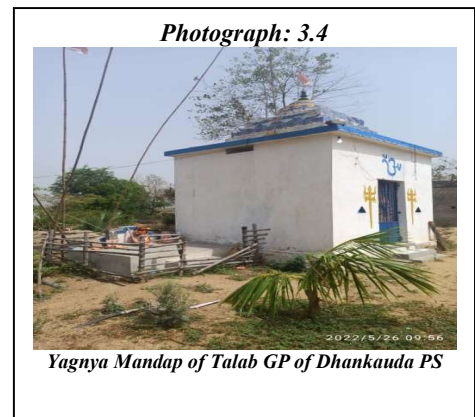
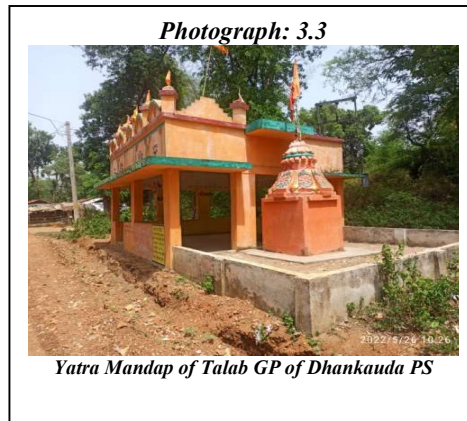
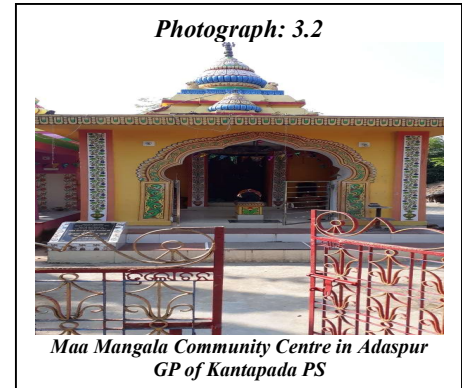
<sup>50</sup> Cuttack-528 projects and Sambalpur-233 projects

<sup>51</sup> Kantapada: 10, Tangi-Choudwar: 80 and Maneswar: 12

### 3.3.2 Execution of inadmissible projects

As per AGAB Guidelines, the projects should be of developmental nature and should create useful community assets for benefit of the community at large.

However, the BDOs of three<sup>52</sup> PSs took up works in the name of ‘Community Centre’, ‘Yagnya Mandap’, etc. Test-check of records and Joint Physical Inspection of 71 works revealed that, in 33 cases, as detailed in **Appendix-3.5**, the concerned BDOs had executed construction works on religious structures (as depicted in the photographs), incurring expenditure of ₹62.64 lakh.



Construction of religious structures, in the name of Community Centers, was not in compliance with the AGAB guidelines and resulted in failure to extend the intended benefits to the community at large, under the Scheme.

The PR&DW Department replied (October 2022) that the constructions near religious institutions had been taken up for common cause and common benefit of people.

The reply is not acceptable, since Audit noticed construction work within the religious institutions, in the name of community centres.

### 3.3.3 Unfruitful expenditure on incomplete projects

Audit noticed that three BDOs (Tangi-Choudwar, Kantapada and Dhankauda) had taken up 22<sup>53</sup> projects, with an estimated cost of ₹ 44.80 lakh, between FY 2018-19 and FY 2020-21, as detailed in **Appendix-3.6**. The dates of

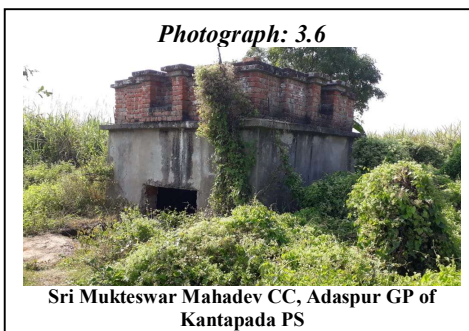
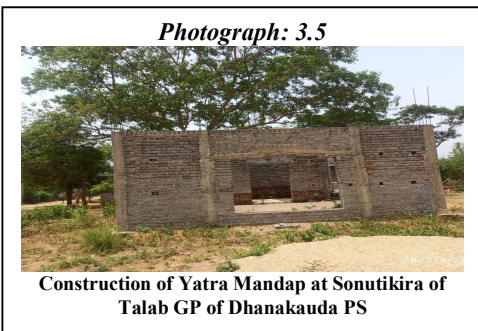
<sup>52</sup> Kantapada, Tangi-Choudwar and Dhankauda

<sup>53</sup> Kantapada PS: 11 projects, Tangi-Choudwar: 4 projects and Dhankauda PS: 7 projects



completion of these works had been recorded as being between January 2019 and March 2021, on payment of final bills for the whole estimated cost.

Audit conducted (January and May 2022) JPI of these projects and noticed that the actual status of these projects was 'incomplete' (as depicted in the photographs), even though the entire project cost of ₹44.80 lakh had been utilised. Thus, these assets could not be utilised by the public, resulting in unfruitful expenditure of ₹44.80 lakh. Reasons for non-completion of these works were not found available on records.



In reply, the PR&DW Department stated (October 2022) that the districts had been advised (January 2021) to divert the funds of non-feasible projects, to complete the ongoing projects, out of the available funds under the AGAB.

The fact, however, remained that, despite the utilisation of funds, the projects could not provide the intended benefits, in terms of utilisation of assets.

### **3.3.4 Execution of works without administrative approval**

Rule 75 (C) of the Odisha Panchayat Samiti Accounting Procedure Rules, 2002, stipulates that administrative approval shall be accorded for each project, before execution.

During the FYs 2018-19 to 2020-21, 68<sup>54</sup> works were executed by two<sup>55</sup> BDOs, at a cost of ₹1.50 crore, without the administrative approval of projects having been obtained, as detailed in **Appendix-3.7**.

Accepting the fact, the PR&DW Department stated (October 2022) that the concerned BDOs had been instructed to take *post-facto* administrative approval, for the executed projects.

<sup>54</sup> Cuttack district-Kantapada PS: 47 and Sambalpur district-Dhankauda PS-21

<sup>55</sup> Dhanakauda and Kantapada

**Recommendations:**

3. *Selection of feasible projects may be carried out, with inputs received from citizens and their representative groups and with consolidation across the GP, Block and State levels.*
4. *Projects which can potentially benefit the community at large, may be prioritised and inadmissible projects may not be taken up.*
5. *Projects may be completed in a timely manner, with periodic inspections being carried out, with a view to ensuring that intended benefits are achieved.*

**3.4 Implementation of Swachh Bharat Mission-Gramin**

SBM-G was launched (October 2014) by GoI to accelerate efforts towards achieving universal sanitation coverage and put focus on safe sanitation. It aimed to improve the levels of cleanliness in rural areas through solid and liquid waste management (SLWM) activities and making GPs Open Defecation Free (ODF), clean and sanitised, by 2 October 2019.

During the FY 2018-19 to FY 2020-21, the ZPs of the two selected districts received ₹313.05 crore and utilised ₹311.00 crore, under the scheme, leaving a balance of ₹2.05 crore at the district level, as detailed in Table 3.1.

**Table 3.1: Year-wise receipt and utilisation of funds**

						(₹ in crore)
Year	Opening Balance	Central Share	State Share	Total	Expenditure	Closing Balance
2018-19	2.05	96.85	64.57	163.47	161.42	2.05
2019-20	2.05	70.12	46.74	118.91	116.86	2.05
2020-21	2.05	18.41	14.31	34.77	32.72	2.05
Total	2.05	185.38	125.62	313.05	311.00	2.05

Audit test-checked the utilisation of funds and noticed the following deficiencies.

**3.4.1 Absence of five-year Project Implementation Plan and Annual Implementation Plans**

As per Para 5.1.1 of the revised guidelines (October 2017) for SBM-G, a project proposal was to be prepared by the district, incorporating GP-wise details. These details were to be scrutinised and consolidated, by the State Government, into a State Plan. The State Plan was to provide details of the IEC, BCC, triggering exercise, capacity building, implementation, financial support and monitoring activities planned for each district, consolidated for all GPs. Further, the State Plan was to include a five-year Project Implementation Plan (PIP), along with five individual Annual Implementation Plans (AIP). The State PIPs, prepared by States on a perspective basis, until then, were to be revised, based on the baseline data and revised norms of SBM-G.

Audit observed (December 2021/April 2022) that the five-year PIP and the five independent AIPs had not been prepared, for implementation of SBM(G), in the Cuttack and Sambalpur districts. Reasons for non-preparation of Plans, as provided in the SBM(G) Guidelines, were not found available on records.

The AIPs and five-year PIPs were critical internal controls, which were intended to provide clarity on the exact sequence and scope of works to be undertaken. Lack of these critical documents significantly increased the risk of non-attainment of scheme objectives.

In reply, the PR&DW Department stated (October 2022) that: (i) the eligible beneficiaries, identified in the base line survey, in all the villages of these two districts, constituted the five-year action plan, up to 2019 and (ii) the PIP and AIP, available at the State level, is prepared in consultation with the districts.

The reply is not tenable, as no project proposals, incorporating GP-wise details for IEC, Capacity building, implementation, monitoring activities, *etc.*, planned for each district, for the State Plan, were found available, during audit, in the sampled districts.

### **3.4.2 Non-preparation of District Swachhta Plans**

Para 5.1.2 of the SBM-G, guidelines stipulated that each district was to undertake a strategic planning exercise, to make the district Open Defecation Free, in a time-bound manner. All districts were required to develop a 'District Swachhta Plan' (DSP), for the rest of the Mission period, against which progress would be monitored. The plan and arrangements for important tasks, such as demand generation, choice of technology, construction supervision, geo-tagging of toilets, conversion of insanitary to sanitary toilets, making defunct toilets functional, verification of ODF declared villages, *etc.*, were to be indicated in the District Swachhta Plan.

Audit observed (December 2021/April 2022) that the District Water and Sanitation Missions, of Cuttack and Sambalpur, had not prepared any DSPs, for the period from FY 2017-18 to FY 2019-20. Reasons for the non-preparation of the DSPs, as provided for under the SBM (G) Guidelines, were not found available on records.

Absence of the DSPs was likely to have contributed to inadequate supervision of toilet construction; non-utilisation of Individual House Hold Latrines (IHHLs), due to non-availability of water; and partial construction of toilets, as mentioned in the subsequent paragraph, which further resulted in continuance of open defecation in rural areas.

In reply, the PR&DW Department stated (October 2022) that DSPs had been prepared by the districts and shared with the State. The State AIP was accordingly prepared, for the remaining period of implementation.

The reply is not acceptable, since the sampled districts could not produce the DSPs, in support of preparation of the same at the district level.

### **3.4.3 Status of IHHLs**

In the two test-checked districts (Cuttack and Sambalpur), 4.04 lakh IHHLs had been constructed, as at the end of FY 2019-20. Audit conducted JPI of 576 IHHLs in 20 test-checked GPs of these two districts and noticed the following deficiencies:

- Para 6.4.1 of the SBM (G) guidelines stipulate that IHHLs are required to meet the minimum design specifications, to ensure sustainability. Accordingly, the Odisha Water and Sanitation Mission (OWSM)



instructed (April 2018) all Collectors to adopt Twin Pit Water Seal Technology, while constructing IHHLs. The estimated cost of assistance for each IHHL (which included provision of twin pits) was ₹12,000.

During JPI, it was seen that, out of the 576 IHHLs inspected, 508 IHHLs had been constructed by Self Help Groups (SHGs). Out of these 508 IHHLs, only 10 IHHL had twin pits, 441 IHHLs had single pit and 57 IHHLs had no pits at all, despite the fact that the SHGs had been paid the full amount for their construction. Thus, despite payment of assistance, in full, to these SHGs, Audit was unable to derive assurance on the sustainability of these IHHLs, for future use.

In reply, the PR&DW Department stated (October 2022) that instructions has already been given (February 2021) to the implementing agency for conversion of single pit to twin pit and assured to convert all single pit and no pit toilets to twin pit.

The reply is not acceptable, since audit could not find the implementation of the instructions issued (February 2021) during JPI.

**Photograph: 3.9**



**IHHL of Sashi Kumbhar, Sahaspur GP, Maneswar PS**

**Photograph: 3.10**



**IHHL of Sri Bama Bhoi of Bagalpur GP of Kantapa PS**

**Photograph: 3.11**



**IHHL of Prasna Sebhral Talab GP of Dhankauda PS**

**Photograph: 3.12**



**IHHL of Degu Bag, Pandiapali, Bisalkhinda GP Dhankauda PS**

**Photograph: 3.13**



**IHHL of Mayadhar Behera and Gobardhan Behera of Adaspur GP of Kantapada PS**

**Photograph: 3.14**



**IHHL of Shanti Purty of Karanji GP of Tangichoudwar PS**

- In 562 IHHLs (98 *per cent*), there was no water connection. Out of these, 200 beneficiaries stated that they were using the IHHLs by manually carrying water from nearby wells/tube wells. The remaining 362 beneficiaries were not using the IHHL for the intended purpose and were, instead, using them for storing firewood, straw, *etc.*, as shown in the photographs, resulting in wasteful expenditure of ₹43.08 lakh<sup>56</sup>.

As a result of these deficiencies and the absence of enabling infrastructure (such as piped water connections for the IHHLs), the basic purpose of the SBM (G) Scheme, *i.e.*, ensuring functional toilets, could not be achieved. In these circumstances, Audit was unable to derive assurance on the status of ODF, as reported by the PRIs.

In reply, the Government stated (October 2022) that due to heavy rain, the beneficiaries might have kept the firewood and other materials inside the IHHLs. Government further stated that, in order to ensure regular use of constructed toilets, all ODF villages would be covered under PWS schemes, *i.e.* the Jal Jivan Mission and BASUDHA, *etc.*

The reply is not acceptable, since 73 *per cent* (419<sup>57</sup> out of 576) IHHLs were not being used by the beneficiaries of sampled Blocks, due to non-availability of water and non-construction of pits of IHHLs, as confirmed during the JPI.

***Recommendations:***

- 6. Prescribed Annual Plans, District Swachhta Plans and five-year Project Implementation Plan, may be prepared, in compliance with SBM (G) Scheme guidelines.***
- 7. Prescribed design specifications for IHHL, in the SBM (G) Scheme guidelines and executive instructions, may be followed in entirety, to ensure sustainability of the IHHLs, for future use.***
- 8. Enabling infrastructure, for provision of piped water supply for the IHHLs, may be ensured, through convergence with other Schemes, such as Ama Gaon Ama Bikash.***

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<sup>56</sup> 359 IHHLs X ₹12000

<sup>57</sup> Non-availability of water in 362 IHHLs and no pit in 57 IHHLs