

CHAPTER 3

SSCA on

**Utilisation of funds received by
PRIs from SFC Grants**

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3.1 Introduction

State Finance Commissions (SFCs) are constituted by the Governor, under Articles 243 (I) and 243 (Y) of the Constitution of India, to recommend devolution of financial resources among the local bodies, and also suggest measures for augmenting their own resources of revenue.

The 4th SFC (2015-20) and the 5th SFC (2020-26), had recommended various measures, needed to improve the financial position of the local bodies.

The funds recommended by the SFCs, were to be released, by the PR&DW Department, to the GPs, PSs, and ZPs, directly into the approved SFC Accounts, in two tranches, with the first instalment to be released in the month of May/ June and the second instalment, in the month of October/ November, during every financial year.

3.2 Funding Arrangements

PRIs received both the 4th and 5th SFC grants under the following three components:

- (i) **Devolution:** To be utilised on priority basis, for local needs, to provide basic service delivery to citizens
- (ii) **Assignment of taxes:** For salary and establishment costs, sitting fees, honorarium, TA and DA to elected PRI representatives/ employees and maintenance and improvement of road infrastructure
- (iii) **Grants-in-Aid (GIA):** To meet the requirement of funds for selected sectors, *e.g.*, all weather connectivity, provision of streetlights, maintenance of capital assets, provision of drinking water *etc.*

Audit test-checked the records of seven ZPs, 21 PSs and 63 GPs, as detailed in *Appendix-2.1*, covering the FYs 2017-18 to 2021-22, and noticed certain deficiencies in utilisation of the funds, as mentioned in succeeding paragraphs.

3.3 Fund Management

During the FYs 2017-22, the State had received ₹ 9,911.47 crore and released ₹ 9,911.47 crore, as detailed in the *Table 3.1*.

Table 3.1: Receipt and release of funds by the State during 2017-22

(₹ in crore)

Financial Year	Receipt	Release
2017-18	1,509.01	1,509.01
2018-19	1,645.25	1,645.25
2019-20	1,762.12	1,762.12
2020-21	2,461.54	2,461.54
2021-22	2,533.55	2,533.55
Total	9,911.47	9,911.47

Source: Information from the PR&DW Department

Table 3.2: Availability of funds and expenditure thereof in the test-checked PSs
(₹ in crore)

Financial Year	Opening Balance	Receipt of SFC Grants	Other receipts ²⁴	Total availability of funds	Expenditure	Closing Balance (percentage of non-utilised funds)
2017-18	28.71	30.70	2.10	61.51	17.09	44.42 (72)
2018-19	44.42	26.55	2.03	73.00	21.18	51.82 (71)
2019-20	51.82	18.84	2.85	73.51	17.88	55.63 (76)
2020-21	55.63	42.88	4.04	102.55	41.92	60.63 (59)
2021-22	60.63	77.76	0.63	139.02	38.62	100.40 (72)

Source: Records of the test-checked PSs

Table 3.3: Availability of funds and expenditure thereof, in the test-checked GPs
(₹ in crore)

Financial Year	Opening Balance	Receipt of SFC Grants	Other receipts ²⁵	Total availability of funds	Expenditure	Closing Balance (percentage of non-utilised funds)
2017-18	9.88	5.95	1.28	17.11	6.60	10.51 (61)
2018-19	10.51	7.20	1.73	19.44	7.41	12.03 (62)
2019-20	12.03	5.63	1.56	19.22	6.72	12.50 (65)
2020-21	12.50	7.88	0.86	21.24	7.99	13.25 (62)
2021-22	13.25	6.40	0.62	20.27	8.89	11.38 (56)

Source: Records of the test-checked GPs

Thus, during the FYs 2017-22, the PSs could not utilise 59 to 76 percent of the available funds and the GPs could not utilise 56 to 65 percent of the available funds. Reasons for the low spending efficiency included delays in the preparation of Gram Panchayat Development Plans (GPDPs) of the GPs, and AAPs of the PSs. As a result, the objective to provide need-based basic services to the rural people, could not be achieved.

While accepting the observation, Government stated (October 2023) that due to the constraints like shortage of manpower at GP level & delays in selection of sites, finalization of projects, approval in Gram Sabha, uploading in GPDP, the utilisation was slow. However, the GPs and PSs were taking steps for timely utilisation of Grants.

3.3.1 Non-adjustment of outstanding advances

Rule 41 of the OPSAP Rules, 2002, prohibits sanction of the second advance, until the first advance has been accounted for. Further, the Finance Department instructed (March 2002) that advances lying unadjusted beyond one year, are to be treated as loss to the Government account and necessary disciplinary action thereon, is to be initiated, to make good of such loss to the Government Account, by way of recovery/adjustment.

²⁴ Interest and funds received back from the executing agencies

²⁵ Interest and funds received back from the executing agencies

Audit noticed that, in two²⁶ out of the 21 test-checked PSs and in two²⁷ out of the 63 test-checked GPs, the second and subsequent advances had been paid before adjustment of previous advances. Further, neither had any Advance Registers been maintained, nor had any reviews been undertaken, for keeping watch on the recovery of these advances. Thus, outstanding advances, of ₹ 32.04 lakh, were pending against various government officials, as of March 2022. These advances had been disbursed during the FYs 2015-20, for various purposes, as detailed in *Appendix-3.1*. Non-adjustment of advances over the years, may lead to misappropriation of funds.

Accepting the observation, Government stated (October 2023) that the BDOs had been instructed to review the outstanding advances on regular basis and adjust the outstanding advances.

3.3.2 Mismatch between the opening and closing balances of Cash Books

As per the OPSAP, Rules, 2002, BDOs are to personally satisfy themselves that the closing balances (CBs) of the transactions of the previous day have been correctly carried forward as opening balances (OBs) on the days of the transactions. Similarly, as per the Odisha Gram Panchayat (OGP) Rules, 2014, at the closure of the day of transactions, the analysis of the CB is to be clearly indicated in the Cash Book and signed by the PEO and Sarpanch of the GP.

Audit, however, noticed that, in two²⁸ units, against the overall CB of ₹ 3.26 crore, in subsequent transactions, the OB had been carried forward as ₹ 1.35 crore, resulting in the OB being shown at a value reduced by ₹ 1.91 crore, as detailed in *Appendix-3.2*. This happened, due to non-exercise of adequate checks by the BDO and PEO concerned. Less exhibition of funds could indicate misappropriation of government funds, which needed investigation.

Accepting the observation, Government stated (October 2023) that the concerned PRIs would be sensitized to rectify the mistakes in the opening balances and closing balances of the cashbooks.

3.3.3 Non-accountal of interest

As per Rule 37 (ii) of the Orissa Treasury Code (OTC) Vol.1, all monetary transactions should be entered in the Cash Books, as soon as they occur.

Audit, however, noticed that, out of the test-checked PSs and GPs, five PSs and three GPs, had accounted for an amount of only ₹ 1.05 crore, out of the total interest of ₹ 1.44 crore, accrued on bank accounts, during the FYs 2017-22, in the respective Cash books, as of March 2022, as detailed in *Appendix-3.3*. Due to this, ₹ 0.40 crore had remained outside the purview of the books of accounts and the Cash Book balances had been understated to that extent.

Accepting the observation, Government stated (October 2023) that the concerned PRIs would be intimated to update the Cash book in a timely manner by reflecting the interest accrued in the bank account.

²⁶ Beguniapada PS of the Ganjam district and Kashipur PS of the Rayagada district

²⁷ Sibapadar GP of Muniguda PS and Sadanandapur GP of Basta PS

²⁸ Keonjhar Sadar PS and Podapadi GP of Kashipur PS

3.3.4 Non-deposit of Government revenue

As per Rule 6 (1) of the OTC Vol-I, all money, received by Government servants, on account of the revenues of the State, is to be paid, in full, into the treasury, or into the bank, and is to be included in the Public Account of the State, within three working days.

Audit noticed that, during the FYs 2017-22, out of the test-checked PSs and GPs, nine PSs and 38 GPs had received ₹ 1.33²⁹ crore, from work bills, on account of royalty, labour welfare cess, TDS (Tax Deducted at Source) & VAT (Value Added Tax) and they had retained the amount, in bank accounts, without depositing it with the appropriate authorities, as detailed in **Appendix-3.4**.

Accepting the observation, Government stated (October 2023) that the defaulting PRIs would be instructed to deposit the Government revenue with the appropriate authorities.

3.3.5 Inadmissible expenditure out of SFC Grants

As per PR&DW Department Guidelines (issued *vide* letter No. 18530 dated 02.07.2015), devolved funds are to be utilised to meet infrastructural gaps and the welfare needs of the community, to provide need-based services to people.

Audit noticed that, out of the test-checked PRIs, six PSs and one GP had utilised an amount of ₹ 1.09 crore, as detailed in **Table 3.4**, out of SFC funds, on office stationery, installation of CCTV camera, purchase of computers and photocopier, inverter, air conditioners, construction of ‘Mo Sarkar’³⁰ room *etc.*

Table 3.4: Inadmissible expenditure out of the SFC grants

Sl. No.	District	Block	Unit	Expenditure incurred (₹ in lakh)
1	Ganjam	Beguniapada	Beguniapada, PS	3.49
2	Ganjam	Rangeilunda	Rangeilunda, PS	14.71
3	Ganjam	Rangeilunda	Golanthara GP	0.91
4	Rayagada	Bissamcuttack	Bissamcuttack, PS	50.02
5	Rayagada	Banspal	Banspal, PS	0.65
6	Keonjhar	Keonjhar Sadar	Keonjhar Sadar, PS	11.30
7	Rayagada	Muniguda	Muniguda, PS	27.68
Total				108.76

Source: Records of the concerned PSs and GP

Such inadmissible expenditure had deprived people of availing of need-based services, as intended in the SFC guidelines.

Accepting the observation, Government stated (October 2023) that the PSs concerned would not incur expenditure on inadmissible items, in future.

Recommendation:

7. Responsibility may be fixed for non-adjustment of outstanding advances, non-deposit of government revenue and execution of inadmissible projects.

²⁹ Royalty: ₹ 84.55 lakh, Labour Cess: ₹ 36.45 lakh, VAT: ₹ 9.61 lakh and IT: ₹ 2.52 lakh

³⁰ ‘Mo Sarkar’ is an initiative of the Odisha Government, to inject professionalism and a sustained behavioural change in public offices and functionaries, through a random feedback mechanism that directly connects the Government with the citizens.

3.4 Execution of Works

3.4.1 Irregularities in the purchase of construction material

The PR&DW Department instructed (*vide* letter No.17434 of September 2017 and 13220 of July 2018) that the departmental officers, in charge of execution of work, are required to furnish bills, in support of procurement of material from authorised supplier(s) having valid GST Registration Numbers. The material and labour costs of the project are required to be transmitted to the bank accounts of the suppliers and labourers concerned and, in no case, the work bill amounts to be credited to the personal accounts of the Government servants in charge of the works.

Audit test-checked 445 works, with an estimated cost of ₹ 13.25 crore, in 37 GPs³¹ and 13 PSs³², which had been completed during 2017-22, by utilising an amount of ₹ 12.72 crore and noticed the following irregularities:

- Material like cement and stone products, had been procured at a cost of ₹ 3.19 crore, through cash payment
- Material like cement and stone products, had been procured at a cost of ₹ 1.06 crore, through hand receipts, obtained from unregistered dealers
- Material like cement and stone products, had been procured at a cost of ₹ 39.81 lakh, from dealers having no valid GST registration numbers
- Material like cement and stone products, had been procured at a cost of ₹ 22.39 lakh, from dealers having GST registration numbers but they did not deal in these construction materials, as verified from the GST web portal.

The above irregularities in procurement were not only violation of instruction of PR&DW Department mentioned above but also resulted in loss of revenue to the Government in terms of GST and hence action may be initiated against those responsible for such irregularities.

Accepting the observation, Government stated (October 2023) that the PSs and the GPs concerned would follow due procedures in procurement of construction material.

3.4.2 Irregular payment of wages

The Labour and ESI Department, Government of Odisha, revised (April 2018, October 2018, November 2019, October 2020 and November 2021) the minimum rates of wages, for different categories of labourers from time to time.

Audit noticed, in five out of 21 test-checked PSs and in 10 test-checked GPs of these five PSs, that 49 works had been executed by utilising an amount of ₹ 97.50 lakh, with wage payments of ₹ 28.07 lakh, during 2017-22. However, as per the minimum wage rates prescribed, the labourers were entitled for

³¹ GPs: Banspal, Karangadihi, Uperaigoda, Badanai, Bhuinpur, Rajia, Bhetiapada, Chancharaguda, Durgi, Podapadi, Talajhiri, Tikiri, Kumudabali, Patraguda, Sibapadar, Dihapadhal, Sanakodanda, Dura, Randha, Pukali, Gangarajpur, Pottangi, Laxmipur, Burja, Toyaput, Dasmantapur, Parja Bedapadar, Chanabada, Gopna, K. Balang, Pattmunda, Ankelbira, Kuchedega, Sumura, Markona, Kanchapada and Bari

³² PSs: Banspal, Champua, Bissamcuttack, Kashipur, Muniguda, Beguniapada, Rangeilunda, Pottangi, Laxmipur, Dasmantapur, Koira, Hemgiri and Rajgangpur

payment of wages of ₹ 29.92 lakh. Thus, there had been less payment of wages of ₹ 1.85 lakh, as detailed in **Appendix-3.5**.



Accepting the observation, Government stated (October 2023) that the PSs and the GPs concerned would follow due procedure in payment of wages.

3.4.3 Wasteful expenditure on completed assets

As per Section 4 (m) of the Odisha Fiscal Responsibility & Budget Management Act, 2005, government resources are to be used in ways that give the best value for money, and also public assets are put to best possible use. Further, the PR&DW Department has instructed (June 2015) that Gram Sabhas may be convened for fixing monthly rents of government assets, like market complex, big tanks *etc.*, created out of the Central and the State funds, with the approval of the concerned GPs. In case of unauthorised occupation of those assets, one month's notice was to be issued, to evict the unauthorised occupants, otherwise, action as deemed proper, was to be taken.

Audit noticed that, during the FYs 2017-20, 12 GPs³³ had constructed assets, like *kalyan mandaps*³⁴, community centres, market complexes (shops) and PEO quarters, by utilising an amount of ₹ 1.05 crore.

After completion of these assets, neither had the Gram Sabhas been convened for fixation of monthly rents in respect of the market complexes (shops), nor had the quarters been allotted to the appropriate authorities, for utilisation. Thus, despite utilisation of ₹ 1.05 crore, these assets were lying idle, without generating own revenue.

<i>Photograph No. – 3.1</i>	<i>Photograph No.- 3.2</i>
	
<p><i>Idle Market Complex of the Kanchapada GP under the Simulia PS</i></p>	<p><i>Idle PEO quarter at Bhetiapada GP of Bissamcuttack PS</i></p>

Accepting the observation, Government stated (October 2023) that steps would be taken by the PRIs concerned to make the best use of the completed assets.

Further, during JPI of the market complex of one GP (Sadanandapur GP of Basta PS), it was observed that all the three shops had been encroached upon and were being utilised commercially, without paying any rent to the GP. No steps had been taken by the GP, for eviction of the unauthorised occupants, as of November 2022. In reply, the PEO, Sadanandapur, stated (December 2022)

³³ Bhetiapada and Durgi of Bissamcuttack PS, Kumudabali of Muniguda PS, Palaspanga of Keonjhar Sadar PS, Mardakote of Beguniapada PS, Panposh of Rajgangapur PS, Dudhojori of Sukinda PS, Trijanga of Danagadi PS, Kumari of Dharmasala PS, Sadanandapur of Basta PS, Kanchapada and Bari of Simulia PS

³⁴ *Kalyan Mandap* is a venue for organizing social functions

that steps for allotment of shops would soon be taken. However, no reply was furnished in regard to unauthorised occupation.

The reply is not tenable, as, without eviction of the unauthorised occupants, allotment is not possible. Thus failure on the part of GPs to utilise the assets resulted not only in wasteful expenditure but also blocked the money which could have been utilised for other productive purposes, action may be initiated against the officials responsible for such irregularities.

3.4.4 Irregularities in the installation of street lights

As per the instructions (July 2015) of the PR&DW Department, street lights, in villages, were to be installed based on the proposals received from the field functionaries. A Technical Committee, under the Chairmanship of the Collector, was to be formed, with the Executive Engineer (EE) of the Zone; AE/JE of the General Electrical Division; Project Director, DRDA; District Panchayat Officer (DPO); and two BDOs, to scrutinize the plan, programme and installation of street lights in the selected villages. The selection of street lights, with due recommendation of the BDO and countersign of the DPO, was to be submitted, through the Collector, to Government, for approval. Further, as per PR&DW Department resolution (July 2018), the departmental officer in charge of the work, is to furnish voucher/bill in support of procurement of material, from authorised supplier(s) having valid GST registration number/(s).

Audit noticed, in five³⁵ test-checked GPs and one³⁶ PS (of Keonjhar and Rayagada Districts), that 19³⁷ streetlight projects, with an estimated cost of ₹ 34.21 lakh, had been taken up for execution, during the FYs 2018-22, and had been completed by utilising an amount of ₹ 34.21 lakh, as of March 2022. Audit test-checked all 19 projects and noticed the following irregularities:

- No technical committees were constituted, at the district level, to scrutinize the plan, for installation of streetlights.
- Before taking up the projects, the PEOs had not conducted any technical surveys, assessing the requirement of streetlights. Further, the specifications of the streetlights had not been identified, in terms of quantity, type *etc.*, keeping in view the specific needs of the concerned GPs. Further, neither had any estimates been prepared by authorised technical authorities, nor had the projects been administratively approved and technically sanctioned by the competent authorities. As such, the actual requirements for projects and their technical viability had not been assessed before their execution.
- Further, in all 19 projects, the selected firms neither had offered any warranty for the equipment used, nor had the GPs executed any contracts for its maintenance. Due to non-coverage by warranty, Audit noticed a number of defunct streetlights, during JPI.

While accepting the observation, Government stated (October 2023) that as there was lack of technical persons at GP level, the GPs were not able to meet

³⁵ Champua PS: Badanai and Rajia; Muniguda PS: Sibapadar; Kashipur PS: Talajhiri and Tikiri

³⁶ Muniguda PS

³⁷ Three electrical projects and 16 solar streetlight projects

all the technical specifications while installing streetlight. The reply was not tenable, since, the required district level technical committees to provide guidance for installation of streetlight, were not constituted.

3.4.5 Results of joint physical inspection of streetlights

In five³⁸ out of the 63 test-checked GPs and one (Muniguda) out of the 21 test-checked PSs, for ascertaining the status and functionality of the seven streetlight projects, JPI of 38 solar streetlight points and 18 electric streetlight points, was conducted (between September and December 2022) by Audit, in the presence of the representatives of the BDOs. In this regard, it was noticed that:

- Out of 38 solar streetlight points, 34 were functional, two were non-functional and two were missing.
- Out of 18 electric streetlight points, eight light points were functional, nine were non-functional, and one had been missing.

- Each of the electric streetlight points had been fitted to the existing low transmission (LT) line, without obtaining prior permission of the Power Distribution Company (DISCOM). Thus, unauthorised power supply was being provided to the streetlights, from the existing LT lines. No electric meters had been installed for recording the



quantity of power consumed and no monthly tariff was being paid by the GPs, to the DISCOM.

- The local public, present at the site of inspection stated that no maintenance work had been undertaken, either by the executants or by the GPs.

Accepting the observation, Government stated (October 2023) that the GPs concerned would take steps for repair of defunct light points.

3.4.6 Non-imposition of liquidated damages

The PR&DW Department decided (February 2019) to execute the LED streetlighting system, in one village of each GP, on a Turn-Key³⁹ basis. For this purpose, the executants were selected at the State level, on tender basis, and the CDO-cum-EOs of the ZPs were instructed (February 2019) to execute agreements with the concerned executants and commence work. As per these agreements, in case of failure of the contract or to complete the work within six months from the date of issue of work order, liquidated damages, at the rate of

³⁸ Bhetiapada, Bhuinpur, Kumudabali, Sibapadar and Talajhari

³⁹ A turn-key project is designed, developed by the agency/contractor and is handed over to an owner, when it becomes ready to operate

0.5 per cent (of the total cost of incomplete portion of work) of each week of delay or part thereof, limited to a maximum of 10 per cent of the cost of incomplete portion of works would be levied.

In two out of the seven test-checked districts (Keonjhar and Balasore), 657 villages had been selected for installation of streetlight systems, at an estimated cost of ₹ 8.78 crore.

In Keonjhar district, the contract was signed (March 2019) between the DRDA, Keonjhar and M/s Akhandalmani Electricals Construction, Cuttack, for completion of work by 6 September 2019. The Agency could not complete the work within the stipulated date. In Balasore district, the contract was signed (February 2021) between the DRDA, Balasore and M/s S. K. Engineers India Pvt. Ltd, Bhubaneswar, for completion by 8 July 2021, which was also incomplete, as of December 2022.

Audit noticed that streetlight systems, in 249 villages (Keonjhar: 69 and Balasore: 180), with an overall contract value of ₹ 3.23 crore, had not been completed, as of March 2022. As the delays from the schedule/extended date of completion were 38 weeks to 134 weeks, as of March 2022, maximum 10 percent of liquidated damages, amounting to ₹32.32 lakh, were to be imposed and recovered from these agencies. The ZPs had, however, neither imposed nor recovered any liquidated damages, for delay in completion of works, for which action may be initiated against the officials responsible for such irregularities.

Accepting the observation, the Government stated (October 2023) that suitable action would be taken by the ZPs concerned against the defaulting executants.

Recommendation:

8. Responsibility may be fixed for irregular purchase of construction material, wasteful expenditure on unutilised assets and non-recovery of liquidated damage for delayed completion of work.

3.5 Monitoring and supervision

3.5.1 Non-conduct of social Audits

As per SFC Guidelines, issued by the PR&DW Department, social audits were to be encouraged at the grassroots level and were to be conducted by convening the Palli Sabha⁴⁰.

Audit noticed that, during the FYs 2017-22, in none of the test-checked PSs and GPs, had social audits been conducted for projects executed from SFC grants. Thus, the objective of ensuring public accountability, in implementation, had not been achieved. This had also resulted in absence of people's participation in the monitoring process.

While accepting the observation, Government stated (October 2023) that the social audit of projects executed out of SFC grant had commenced from FY 2022-23.

⁴⁰ 'Palli Sabha comprises of all the electorates of a revenue village or a ward. It is the assembly of the people in the village, who are more than 18 years of age and have their names enrolled in the voter list of the Panchayat.

3.5.2 Absence of surprise inspections

As per SFC guidelines, the BDOs and DPOs were required to conduct surprise visits, for at least 10 *per cent* of the works, and overall supervision was to be made by the CDOs of the ZPs, in their surprise visits to the GPs.

Audit noticed that no documentary evidence was available relating to the sites inspected and quantum of visits, if any, undertaken by the supervisory authorities, at the PS and GP levels. Moreover, no inspection reports were available, in support of the inspections undertaken. In the absence of the requisite information, Audit concluded that no inspections had been conducted.

In reply, Government stated (October 2023) that the BDOs were conducting supervision and physical verification of projects executed at GPs. The reply is not acceptable as related records like assets verified, deficiencies noticed during inspection, action taken to rectify the defects, were not produced to audit.

Recommendation:

9. The monitoring mechanism may be strengthened, for timely completion of projects and for ensuring effective utilisation of available resources.