CHAPTER 1

Introduction to the Local Government of the State and its Audit

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1.1 Introduction

The institutions of Local Governance in Odisha came into existence with the enactment of Odisha Gram Panchayat Act, 1948. Subsequently, the Odisha Municipal Act, 1950, the Odisha Panchayat Samiti Act, 1959, the Odisha Zilla Parishad Act, 1991, the Odisha Municipal Corporation Act, 2003, further institutionalised the framework for Rural and Urban Local Governments in the State. With enactment of the 73rd and 74th Constitutional Amendment Act (CAA), 1992, the Local Bodies were provided with clear mandate for democratic decentralisation and creation of institutional framework for local self-government. In the State, the existing Acts - namely, the Odisha Gram Panchayat Act, 1964, the Odisha Panchayat Samiti Act, 1959, the Odisha Zilla Parishad Act, 1991, and the Odisha Municipal Act, 1950 - were amended to incorporate the provisions of the CAA that were not present in the original legislation, thereby bringing them into conformity with constitutional requirements as discussed in Chapter-3 at **Paragraph 3.9.1**.

In Odisha, for rural areas, the Panchayati Raj Institutions (PRIs) are the units of governance and are classified into three categories, *viz*. District level: Zilla Parishads (ZPs), Block level: Panchayat Samitis (PSs) and Village level: Gram Panchayats (GPs). These PRIs function under the Odisha Gram Panchayat Act, 1964, the Odisha Panchayat Samiti Act, 1959 and the Odisha Zilla Parishad Act, 1991.

Similarly, for urban areas, the Urban Local Bodies (ULBs) are the units of governance and classified into three categories, *viz*. Municipal Corporations (MCs), Municipalities and Notified Area Councils (NACs). These ULBs function as per the Odisha Municipal Act, 1950 and the Odisha Municipal Corporation Act, 2003.

There are 30 ZPs, 314 PSs, 6794 GPs, 05 Municipal Corporations, 47 Municipalities and 63 NACs in the State, as detailed in the **Table 1.1** below.

Table No- 1.1 District wise details of Local Bodies

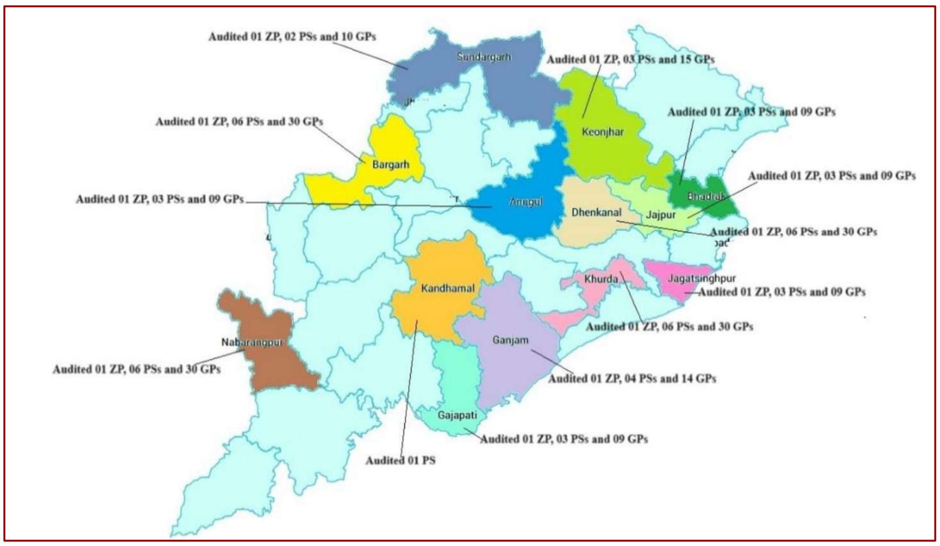
Districts	PRIs				ULBs				Total LBs
	ZP	PS	GP	Total	MC	Municipality	NAC	Total	
Angul	01	08	225	234	0	2	1	3	237
Balangir	01	14	317	332	0	2	3	5	337
Balasore	01	12	356	369	0	3	2	5	374
Baragarh	01	12	253	266	0	1	4	5	271
Bhadrak	01	07	218	226	0	2	2	4	230
Boudh	01	03	69	73	0	0	1	1	74
Cuttack	01	14	373	388	1	1	2	4	392
Deogarh	01	03	70	74	0	1	0	1	75
Dhenkanal	01	08	212	221	0	1	3	4	225
Gajapati	01	07	149	157	0	1	1	2	159
Ganjam	01	22	503	526	1	1	16	18	544
Jagatsinghpur	01	08	198	207	0	2	0	2	209
Jajpur	01	10	311	322	0	2	0	2	324
Jharsuguda	01	05	78	84	0	3	0	3	87
Kalahandi	01	13	310	324	0	1	3	4	328
Kandhamal	01	12	171	184	0	1	2	3	187

Kendrapara	01	09	249	259	0	2	0	2	261
Keonjhar	01	13	297	311	0	4	1	5	316
Khordha	01	10	190	201	1	2	2	5	206
Koraput	01	14	240	255	0	3	1	4	259
Malkanagiri	01	07	111	119	0	1	1	2	121
Mayurbhanj	01	26	404	431	0	2	2	4	435
Nabarangpur	01	10	189	200	0	2	0	2	202
Nayagarh	01	08	194	203	0	0	5	5	208
Nuapada	01	05	131	137	0	0	3	3	140
Puri	01	11	268	280	0	1	3	4	284
Rayagada	01	11	182	194	0	2	1	3	197
Sambalpur	01	09	138	148	1	0	2	3	151
Subarnpur	01	06	109	116	0	1	2	3	119
Sundargarh	01	17	279	297	1	3	0	4	301
Total	**30**	**314**	**6794**	**7138**	**05**	**47**	**63**	**115**	**7253**

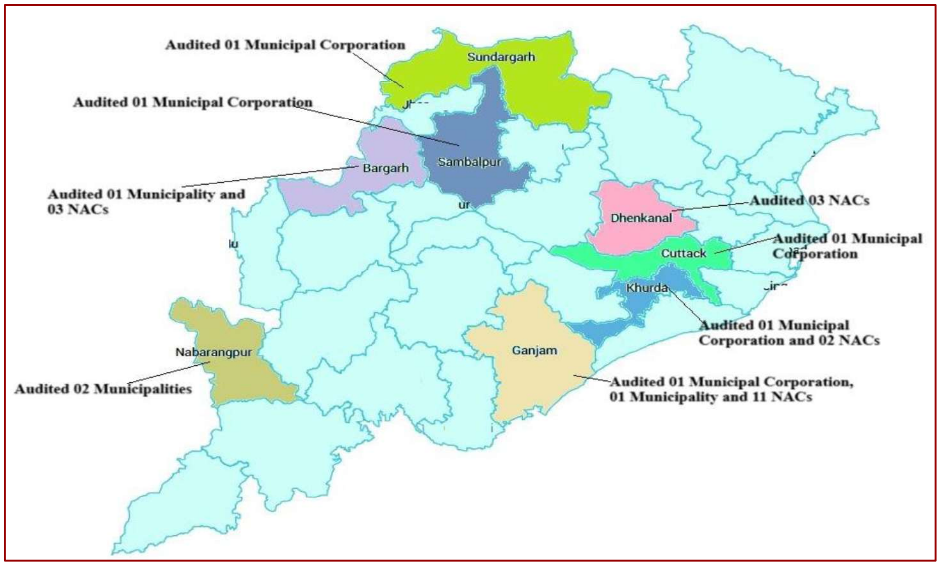
***Source**: Local Government Directory of Ministry of Panchayati Raj*

In this Report, one Performance Audit on PRIs and Function-based Service Delivery Audit with District Centric approach of both PRIs and ULBs have been included covering observations from 12 ZPs, 49 PSs, 204 GPs, 05 Municipal Corporations, 04 Municipalities and 19 NACs, as detailed in ***Appendix-1.1*** and shown in attached **Map 1.1 and 1.2.**

Map 1.1: Details of PRIs covered under Audit



Map 1.2: Details of ULBs covered under Audit



1.2 Fund flow

The main sources of funds of the PRIs and ULBs are from grants received as per the recommendations of the Central Finance Commissions (CFCs) and State Finance Commissions (SFCs) along with funds received for the implementation of various Central and State schemes. Further, these Local Governments have their own sources of revenue as per their respective Acts.

During the period 2018-23, PRIs received total funds of ₹71,749.10 crore, which included ₹9,812.98 crore from Central Finance Commission grants, ₹11,162.38 crore from State Finance Commission grants, ₹50,519.11 crore under various schemes[1], and ₹254.63 crore from own revenues. Against this, PRIs incurred an expenditure of ₹67,741.12 crore during the same period, indicating utilisation of about 94 *per cent* of the total funds received.

Similarly, ULBs received total funds of ₹19,775.34 crore during 2018-23, comprising ₹3,604.60 crore from Central Finance Commission grants, ₹6,346.00 crore from State Finance Commission grants, ₹8,110.11 crore under various schemes[2], and ₹1,714.63 crore from own revenue sources. However, despite repeated requests (August 2025 and September 2025), the Department did not furnish the expenditure status of funds received by ULBs for the period 2018-23. This data gap limits the audit's ability to provide a complete comparative analysis of resource utilisation across PRIs and ULBs. The scope limitation does not, however, affect the audit findings in subsequent chapters, which are based on test-checked ULB records examined directly by audit.

1.3 Brief overview of devolution

The 73rd CAA added the 11th Schedule to the Constitution, comprising 29 functions to be devolved by the State Governments to the elected Local Governments in rural areas. The main objective was to enable the PRIs to function as platforms for planning and implementation of programmes for the economic development of, and social justice for, the rural *population*. As of

1 MGNREGS, PMAY-G, NRLM, SBM-G, AGAB and BASUDHA

2 PMAY (U), AMRUT, SBM, SWM, BASUDHA, SUJAL, MUKTA, JAGA Mission and GARIMA

March 2023, out of the 29 functions, the State Government had transferred 21[3] functions.

Similarly, the 74th CAA added 12th Schedule to the Constitution, comprising 18 functions to be devolved by the State Governments to the elected Urban Local Governments. As of March 2023, out of the 18 functions, the State Government had transferred 17[4] functions, as per the Municipal Corporation Act, 2003.

1.4 Important activities carried out by Local Governments

Local Governments in Odisha are constitutionally mandated under the 73rd and 74th Constitutional Amendment Acts to undertake functions relating to economic development and social justice as devolved by the State Government. As detailed in Para 1.3, the State has devolved 21 out of 29 functions to PRIs and 17 out of 18 functions to ULBs as of March 2023. These functions are implemented through centrally sponsored and state-funded schemes. Key schemes for PRIs include MGNREGS, PMAY-G, NRLM, SBM-G, Ama Gaon Ama Bikas, and BASUDHA, while ULBs implement PMAY-U, AMRUT, SBM-U, SWM, BASUDHA, SUJAL, MUKTA, JAGA Mission, and GARIMA, among others, to provide services related to employment, housing, drinking water, sanitation, and social security.

1.5 Audit Mandate Methodology

1.5.1 Audit Mandate for Audit by C&AG of India

On recommendations of the 13th FC, the State Government entrusted (July 2011) the Comptroller and Auditor General of India (CAG), with the right to conduct test-check of the accounts of all the three tiers of PRIs and all categories of ULBs in the State and to comment on and supplement the report of the Directorate of Local Fund Audit, under Section 20 (1) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971. In addition, the CAG may undertake the audit of the PRIs and ULBs under Section14 of the above Act where these Local Governments are financed by grants or loans from the Consolidated Funds of India or Odisha.

1.5.2 Technical Guidance and Support to the State Audit Agency

The CAG has also been entrusted with providing Technical Guidance and Support (TGS) to the State Audit Agency, viz. Directorate of Local Fund Audit (DLFA), for audit of Local Governments. The State Government notified (July

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[3] (1) Agriculture, including Agricultural extension (2) Land improvement, implementation of land reforms, land consolidation and soil conservation (3) Animal husbandry, dairying and poultry (4) Minor irrigation, water management and watershed development (5) Fisheries (6) Minor Forest Produce (7) Rural Housing (8)Drinking Water (9) Roads, culverts, bridges, ferries, waterways and other means of communication (10) Non-conventional energy sources (11) Poverty alleviation programme (12) Primary Education (13) Adult and non-formal education (14) Markets and fairs (15) Health and sanitation, including hospitals, primary health centres and dispensaries (16) Family welfare (17) Women and Child Development (18) Social Welfare, including welfare of the handicapped and mentally retarded (19) Welfare of weaker sections, in particular of the SC and ST (20) Public Distribution System (21) Maintenance of community assets

[4] (1) Urban planning, including town planning (2) Regulation of land-use and construction of buildings (3) Planning for economic and social development (4) Roads and bridges (5) Water supply- domestic, industrial and commercial (6) Public health sanitation, conservancy and sewerage water maintenance (7) Urban forestry, protection of environment and promotion of ecological aspects (8) Safeguarding the interest of weaker sections of the society including the handicapped and mentally retarded (9) Slum improvement and upgradation (10) Urban poverty alleviation (11) Provision of urban amenities and facilities- parks, gardens and play grounds (12) Promotion of cultural, educational and aesthetic aspects (13) Burials and burial grounds, cremations, cremation grounds and electric crematoriums (14) Cattle Pounds, prevention of cruelty to animals (15) Vital statistics, including registration of births and deaths (16) Public amenities, including street lighting, parking lots, bus stops and public conveniences (17) Regulation of slaughterhouses and tanneries

2011) the parameters of the TGS in the Official Gazette. Under the TGS framework, this office had prepared 15[5] Annual Technical Inspection Reports (ATIRs) from 2005-06 to 2014-15, which were sent to the State Government. The ATIR for the year ended March 2015 was presented in the State Legislature. However, there is no institutional mechanism such as Public Accounts Committee for discussion of ATIR.

1.5.3 Primary Audit Institutions of the Local Governments

The DLFA, is the Primary Auditor of Local Government Institutions in the State. It is a Directorate under the Finance Department of the State and functions under the Odisha Local Fund Audit Act, 1948. The DLFA conducts audit of Local Governments of all 30 districts of the State, through 26 District Audit Offices. The status of audit of the PRIs and ULBs by DLFA has been discussed in ***Chapter 2 and Chapter 6***, respectively. The DLFA prepares its Annual Report and submits it to the Government to be laid before the State Legislature. The Annual Report for the year ending March 2023 was laid in the State Legislature on 20th August 2024.

1.5.4 Function-based Service Delivery Audit with District Centric approach

The Audit Report for Local Bodies is focused primarily on the assessment of the quality of the Service Delivery by the Local Governments with reference to the functions devolved to them, and to assess to what extent these services have impacted the citizens at the grassroot level under their jurisdiction.

This has been attempted by generally adopting a function-based service delivery audit with district centric approach, where the Service Delivery has been assessed horizontally and vertically across all tiers of the Local Governments in a District to arrive at a comprehensive conclusion vis-à-vis the sample units of Local Governments chosen for audit. Other issues of importance, noticed by Audit across Local Governments, have also been reported.

Over and above these, large Municipal Corporations, not covered under function-based service delivery audit with district centric approach, have also been audited as stand-alone entities with reference to their functions, efficiency and compliance issues, wherever applicable.

1.5.5 Status of CAG's Audit Report

The last CAG Audit Report on Local Bodies for the year ended March 2022 was placed in the State Legislature on 07 December 2024. No separate committee on the line of Public Accounts Committee (PAC), has been formed in the State for discussion of the CAG's Audit Reports on Local Bodies. Of the four Local Bodies Audit Reports for the years ended March 2016, 2017, 2021 and 2022, which have been laid in the State Legislature, the PAC has commenced its discussion on the report for year ended March 2017.

[5] Combined ATIR of PRIs and ULBs: 2, PRIs:7, ULBs: 6