CHAPTER 3

Performance Audit on the Implementation of 73rd Constitutional Amendment Act with focus on Devolution of Functions, Funds and Functionaries

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Executive Summary

The Constitution of India mandates the establishment of Panchayats as institutions of self-government. To address their limited effectiveness and ensure democratic decentralisation, the 73rd CAA conferred constitutional status on the PRIs, providing a clear framework for their empowerment.

Key Findings

Devolution of Functions

- Of the 29 subjects listed in the 11th Schedule, only 21 have been devolved; 08 remain pending.
- Despite government directives (2003), 17 subject - related departments continued independent planning, bypassing the PRIs.
- Activity mapping instructions (2005) were only partially implemented.

Transfer of Assets

- Asset transfer orders were issued only in the FY 2020 i.e. 27 years after the 73rd CAA.
- Although Memoranda of Agreement (MoAs) were signed, procedural lapses led to unreconciled asset records.

Devolution of Funds

- PRIs are heavily dependent on government grants.
- Only GPs are authorised to levy taxes; PSs and ZPs lack fiscal autonomy.
- Productive assets were not transferred, and revenue-generating assets were underutilised or idle.

Devolution of Functionaries

- PRIs lack authority to recruit, and manage their own staff.
- Functionaries from devolved Departments were not transferred to PRIs.
- Staff shortages and inadequate training hindered effective functioning.

Recommendations

- Devolve the remaining eight subjects to PRIs as mandated by the 73rd CAA.
- Ensure ground-level implementation of devolved subjects through regular feedback and guidance.
- Empower all levels of PRIs to levy and collect taxes, tolls, and fees.
- Explore avenues to augment own-source revenue of PRIs, as recommended by Finance Commissions.
- Instruct GPs to document delays, non-utilisation, and auction failures of revenue-generating assets, and report regularly for remedial action.
- Transfer functionaries from relevant Departments to PRIs.
- Empower PRIs to assess staffing needs, recruit, and manage personnel.
- Conduct comprehensive capacity-building programmes for PRI functionaries and elected representatives.

3.1 Introduction

The Directive Principles of State Policy of the Constitution of India lay down that the State shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government. These institutions failed to achieve the status and effectiveness of responsive and viable people's bodies, due to reasons like absence of regular elections, insufficient representation of weaker sections like scheduled castes, scheduled tribes and women, inadequate devolution of powers and lack of financial resources. To address these shortcomings and impart certainty, continuity, and strength to the PRIs, the 73rd CAA was enacted. This amendment introduced Part-IX to the Constitution including Articles 243 and 243-A to 243-O, enshrining certain basic and essential features for the PRIs. Article 243-G of the Constitution, authorises State Legislatures to enact laws endowing the Local Bodies, with powers and authorities, to function as institutions of self-government and to make laws for the devolution of powers and responsibilities upon PRIs. The 11th Schedule of the Constitution contains 29 subjects (***Appendix-3.1***) to be devolved to the PRIs. The CAA also provided for establishment of PRIs, regular elections to PRIs and constitution of a Finance Commission to review their financial position. It also enumerated the powers and responsibilities of PRIs to generate their own revenue, share revenue between State Government and PRIs, and receive funds from the Consolidated Fund of the State, in addition to grants from GoI.

Following the 73rd CAA, the existing Acts related to PRIs, i.e. the Odisha Zilla Parishad Act, 1991, the Odisha Panchayat Samiti Act, 1959 and the Odisha Gram Panchayat Act, 1964 were amended[9] during 1995, 2003 and 2004 to incorporate the provisions of the 73rd CAA. The Government of Odisha (GoO) issued (July 2003) instructions for devolution of powers to the PRIs, in respect of 21 subjects, as detailed in the ***Appendix-3.2.*** To avoid any ambiguity in regard to preparation of plans and schemes on the matters of devolved subjects, GoO also issued instructions (October 2005) to the Departments specifying the duties and responsibilities of the field officers at all three levels of PRIs, by mapping the activities of the devolved subjects. The 73rd CAA laid a robust foundation for empowering PRIs, yet its full implementation remains a work in progress.

3.2 Category wise PRIs in Odisha

The three levels of PRIs were existing in the State prior to the 73rd CAA as the ZPs, PSs and GPs. There are 30 ZPs, 314 PSs and 6,794 GPs in the State.

3.3 Broad framework of functions carried out by PRIs

The major functions carried out by the three tiers of PRIs, as per their respective Acts, are depicted in ***Appendix-3.3.***

3.4 Status of Election of PRIs

Elections for the PRIs were held in 2017 and 2022, as required by the Constitution and relevant Acts.

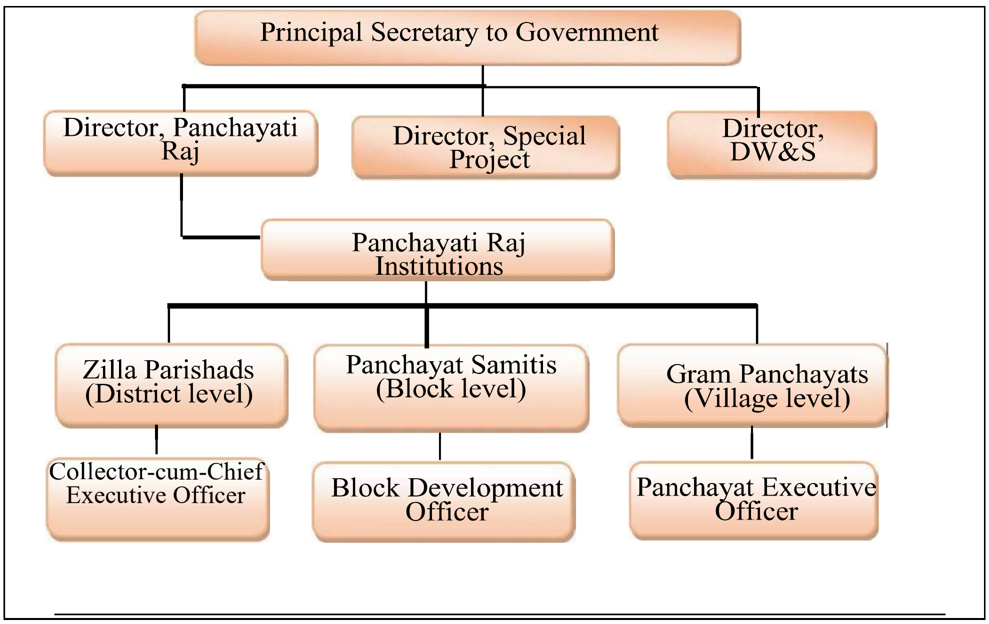
[9] Odisha Gram Panchayat Act, 1964 amended by Odisha Act-3 of 2004 , Odisha Panchayat Samiti Act, 1959 amended by Odisha Act 15 of 2003, Odisha Zilla Parishad Act, 1991 amended by Odisha Act - 21 of 1995

3.5 Organisational Structure for PRIs in Odisha

The administration of the PRIs comes under PR&DW Department. The Principal Secretary heads the Department, assisted by three Directors to oversee administrative matters of the Department and implementation of different schemes in the State. At the district level, the ZP is the first tier of PRIs, headed by the Collector-cum-Chief Executive Officer and assisted by the Chief Development Officer-cum-Executive Officer (CDO-cum-EO), Additional Executive Officer (Administration), Additional Executive Officer (Technical), Additional Executive Officer (Finance), and Deputy Executive Officer (Technical), who are responsible for preparing district plans for various schemes and monitoring their implementation. At block level, the PS is the 2nd tier of PRIs and is headed by the BDO. He is assisted by Additional Block Development Officer (ABDO), Accounts Officer, Gram Panchayat Development Officer (GPDO) and Junior Engineers (JEs). At bottom level, GP is the 3rd tier of PRIs, headed by the Panchayat Executive Officer (PEO), who is assisted by a Gram Rozgar Sevak (GRS)/ Accountant cum Data Entry Operator.

The organisational structure, with regard to the functioning of PRIs in the State, is indicated in the **Chart-3.1** below:

Chart 3.1- Organisational Structure of PRIs



The elected representatives at all three tiers of PRIs are involved in planning, implementing and monitoring of different schemes and programs. At the district level, the ZP is managed by an elected body, headed by a President, who is elected from amongst the elected representatives of the ZP. At block level, the PS is managed by an elected body, headed by a Chairman who is elected from amongst the elected representatives of the PS. At the GP level, the elected members, headed by a Sarpanch, constitute the GP. The structures of elected representatives of the PRIs are indicated in the **Chart-3.2** below.

Chart 3.2- Elected representatives of three tiers of PRIs

Zilla Parishad	• President • Vice - President • ZP Members
Panchayat Samiti	• Chairperson • Vice - Chairperson • PS Members
Gram Panchayat	• Sarpanch • Naib Sarpanch • Ward Members

3.6 Audit Objectives

The objectives of the Performance Audit were to ascertain whether:

- The provisions of the 73rd CAA have adequately been covered in State Legislations and adequate functional devolutions have taken place;
- The PRIs have access to entitled funds and powers to raise their own financial resources commensurate with their functions;
- The PRIs have powers to mobilize and manage functionaries commensurate with their functions.

3.7 Audit Criteria

The audit criteria for the Performance Audit were derived from the following documents:

- 73rd Constitutional Amendment Act;
- The Odisha ZP Act, 1991(as amended);
- The Odisha PS Act, 1959 (as amended);
- The Odisha GP Act, 1964 (as amended);
- The Odisha GP Rules, 2014;
- Recommendations of Central and State Finance Commissions;
- National Capacity Building Framework, 2014;
- GoI Guidelines on manpower;
- Instructions issued by PR&DW Department.

3.8 Audit Scope and Methodology

The Performance Audit covering a period of five years, from FY 2018-19 to FY 2022-23, was conducted between May 2023 and December 2023. Records of PR&DW Department, State Institute for Rural Development (SIRD), 78[10] PRIs along with district level offices of three Departments[11], as detailed in the

10 **ZPs**: 06, **PSs**: 18, **GPs**: 54 selected based on Simple Random Sampling
11 Women and Child Development Department (W&CD), Fisheries and Animal Resources Development Department (F&ARD) and School and Mass Education (S&ME) Department

Appendix-3.4, were reviewed. At the field level, implementation of nine[12] functions, devolved to the PRIs, was examined in detail. In addition, JPI of the assets created by the PRIs was conducted in the presence of the authorised officers of the PRIs. Auditors held an Entry Conference on 28 June 2023 with the Principal Secretary, PR&DW Department to discuss the audit objectives, criteria, scope and methodology of the Performance Audit. The draft report was issued to the PR&DW Department on 12 February 2024 and an Exit Conference was held on 29 October 2024.

Audit Findings

3.9 Devolution of Functions

The State Government amended the existing PRI Acts to grant powers and authorities in line with the 73rd CAA. Out of the 29 listed subjects, 21 were devolved to the PRIs, but only the functions of four subjects were actually transferred to them.

3.9.1 Assessment of State level legislation vis-a-vis 73rd CAA

Article 243-G of the Constitution provides that the Legislature of the State shall endow the Panchayats with powers and authority to function as institutions of self-government.

Audit noticed that since there were existing Acts for the PRIs, the Government amended the Odisha ZP Act, 1991, the Odisha PS Act, 1959 and the Odisha GP Act, 1964, by inserting provisions of CAA, that were not present in the original Acts**.** The provisions in these Acts, corresponding to constitutional provisions of the 73rd CAA, are detailed in the **Table-3.1** below.

Table -3.1 Provisions in the respective Acts of the PRIs in consistence with 73rd CAA

Articles	**Requirement as per 73rd CAA**	**Provisions in respective Acts**
243A	Gram Sabha to exercise powers and perform such functions, at the village level, as provided by law	Section 5 of the Odisha GP Act, 1964
243B	Panchayats shall be constituted at the village, intermediate and district levels	Section 3 of the Odisha ZP Act, 1991, Section 15 of the Odisha PS Act 1959 and Section 7 of the Odisha GP Act, 1964.
243C	Ratio between the population of the Panchayat and seats of the Panchayat throughout the State, Filling up of seats of Panchayats by direct election and Elected Chairperson of a Panchayat at the village level	Section 6 of the Odisha ZP Act, 1991, Section 16 of Odisha PS Act, 1959 and Section 10 (1) of the Odisha GP Act, 1964.

[12] (i) Animal Husbandry, Dairying and Poultry (ii) Fisheries (iii) Rural Housing (iv) Drinking Water (v) Poverty Alleviation Programme (vi) Education (vii) Adult and Non-formal Education (viii) Women and Child Development (ix) Maintenance of Community Assets

243 D	Reservation of seats for the Scheduled Castes and the Scheduled Tribes and reservation of one-third of the seats for women, reservation of seats of one-third of the total number of seats for women and to be allotted by rotation, provision of reservation of seat of the Chairpersons for the Scheduled Castes, the Scheduled Tribes and women as made for State Legislature	Section 8 (2) of the Odisha ZP Act, 1991, Section 16 (2) of the Odisha PS Act, 1959 and Section 10 (3) of the Odisha GP Act, 1964
243E	Five years tenure of Panchayat	Section 7(1) of the Odisha ZP Act, 1991, Section 16(4) of the Odisha PS Act, 1959 and Section 17(2) of the Odisha GP Act, 1964
243F	Condition for disqualification of a PRI member similar to seats of Legislature of the State.	Section 33(r)(s) of the Odisha ZP Act, 1991, Section 45(1)(q) (r) of the Odisha PS Act, 1959 and Section 25(1)(r)(s) of the Odisha GP Act, 1964
243G	Empowering the PRIs through legislation to function as institutions of self-government and for the devolution of Powers and responsibilities upon PRIs.	Section 3 (3 (ii)) of the Odisha ZP Act, 1991, Section 20(I) (a(i)(ii)) of the Odisha PS Act, 1959 and Section 44(3) of the Odisha GP Act, 1964
243 H	Authorising the PRIs to levy, collect and appropriate taxes, duties, tolls and fees, assign such taxes, duties, tolls and fees levied and collected by the State Government and provide grants-in-aid from the Consolidated Fund of the State.	Section 83 (1) of the Odisha GP Act, 1964.
243 I	Constitution of Finance Commission at every 5th year to recommend on the distribution of the net proceeds of the taxes, duties, tolls and fees leviable by the State between State and the PRIs, determination of the taxes, duties, tolls and fees assigned to, or appropriated by the PRIs, Grants-in-aid and measures needed to improve	Section 18 of the Odisha ZP Act, 1991 and Section 31(A) of the Odisha PS Act, 1959

	the financial position of the Panchayats.	
243J	Provisions for maintenance of accounts by the Panchayats	Section 16 of the Odisha ZP Act, 1991, Section 30 of the Odisha PS Act, 1959 and Section 100 of the Odisha GP Act, 1964.
243K	The works of the preparation of electoral rolls and the conduct of all elections to the Panchayats shall be vested with State Election Commission.	Section 6 (A) of the Odisha ZP Act, 1991, Section 16 (B) of the Odisha PS Act, 1959 and Section 9 (1) of the Odisha GP Act, 1964
243M	Non-applicability of the provisions of 73rd CAA to the Scheduled Areas and the tribal areas referred in Article 244.	Section 1 of the Odisha ZP Act, 1991

***Source*: Constitution of India and respective Acts of the PRIs**

Audit further noticed that while the provision relating to fiscal powers under Article 243 H was incorporated in the Odisha GP Act, 1964, it was not extended to the legislation governing PSs and ZPs authorizing them to levy, collect and appropriate taxes, *etc.* Similarly, the provisions of Article 243 O, barring the interference of courts in electoral matters were not incorporated in the PRIs legislations of the State.

This indicates that while the State has incorporated several provisions of the 73rd CAA into its PRI legislation, critical gaps remain, particularly in fiscal and electoral autonomy which were enshrined in the Art 243 H and Art 243 O of the CAA.

3.9.2 Status of devolution of functions to PRIs

The 73rd CAA sought to empower the PRIs to perform functions and implement schemes, in relation to 29 subjects specified in 11th schedule of the constitution.

Audit observed that PR&DW Department issued (July 2003[13]) orders devolving powers to the PRIs and provided functionaries to the PRIs for execution of the devolved functions. It also provided that the District, Block and GP level functionaries of the Departments would continue to be employees of their respective Departments but would be accountable to respective level of PRIs. These officials were required to attend the meetings of the respective level of PRIs, prepare plans and place them for discussion and approval in the meetings of respective level of PRIs. Subsequently, Government issued (October 2005) instructions for mapping the activities of the devolved subjects with that to each level of PRI officials, to enforce accountability of departmental field staff. However, Audit observed that:

[13] Government of Odisha, PanchayatiRaj Department Order No.I-PS-2/2003/6886/PS Dated 4 July 2003.

- Out of 29 subjects as enlisted in 11th schedule of the Constitution, Government devolved 21 subjects and the remaining eight[14] subjects were yet to be devolved to the PRIs.
- Even among the 21 subjects, there was partial devolution of the subjects at Sl. No. 2 of the 11th Schedule i.e. 'Land improvement, implementation of land reforms, land consolidation and soil conservation', as only 'soil conservation' function was devolved to the PRIs.
- In all the 78 test checked PRIs, during the FYs 2018-23, out of the 21 subjects devolved, plans and schemes of only four[15] subjects of PR&DW Department were placed for discussion and approval in the meetings of appropriate level of PRIs. For the remaining 17 subjects, audit verified the records of the field offices of three Departments (W&CD, F & ARD, and S&ME) across all test checked districts related to five[16] subjects and observed that these field offices had prepared plans of their own without involving the PRIs.
- As per information received from District Social Welfare Officers (Gajapati, Jagatsinghpur) and Chief District Veterinary Officers (Ganjam, Jajpur and Jagatsinghpur), they had involved the PRIs in selection of scheme related beneficiaries. However, the ZPs denied the fact of their involvement in selection of the beneficiaries.

These facts show that although the Government issued instructions for devolving functions to PRIs, their implementation was inadequate. Even after three decades of the 73rd CAA, functional devolution remained partial and inconsistent. While 21 subjects were formally devolved, only a few were actually implemented, defeating the purpose of the Amendment and preventing PRIs from effectively functioning as institutions of self-government. Reply of the Department was awaited (October 2025).

3.9.3 Improper transfer of assets

On the basis of approval of State Cabinet (March 2020) for transfer of assets to PRIs, PR&DW department signed (March 2020) Memorandum of Agreement (MoA) with F&ARD, S&ME, W&CD and Health and Family Welfare (H&FW) departments. The MoA outlined that details such as availability of rooms, functional toilets, drinking water facilities, all weather connectivity, availability of electricity, *etc.,* were to be indicated, while transferring the assets to the PRIs. Further, PR& DW Department intimated (July 2020) to all Collectors intimating the plan for smooth transfer of the assets which *inter alia* contained that:

- BDO would prepare Department-wise and GP wise inventory of assets to be transferred indicating the level of PRIs for such transfer, with the help of PS/ GP level Officers of the concerned Departments.

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14 (i) Social forestry and farm forestry (ii) Small scale industries including food processing industry(iii) Khadi, village and cottage industry (iv) Fuel and fodder (v) Rural electrification, including distribution of electricity (vi) Technical training and vocational education (vii) Libraries (viii) Cultural activities

15 (i) Rural housing (ii) Drinking water (iii) Poverty alleviation programme (iv) Maintenance of community assets

16 (i) Animal husbandry, dairying and poultry (ii) Fisheries (iii) Education, including primary and secondary schools (iv) Adult and non-formal education (v) Women and Child Development

- The PS level reports would be compiled and consolidated by the Collector, with the assistance of the District Level Officers of the concerned Departments.
- The format for handing over of each asset would indicate details like address of assets, number of rooms, availability of boundary wall, toilet, drinking water, approach road, electricity, *etc.*

As per information furnished (June 2023) by the PR&DW Department, 7,828 High Schools, 43,785 Primary Schools, 2,787 Livestock Aid Centres (LACs), 403 Veterinary Dispensaries (VDs), 904 Primary Health Centres (PHCs), 4,400 Sub-Centres (SCs) and 49,098 Anganwadi Centres (AWCs) were transferred to PRIs. However, audit observed the following deficiencies in transfer of assets.

- No test checked BDOs (except Chikiti) could furnish any records, regarding preparation of inventory of the assets.
- Without PS level reports, five test checked districts had prepared consolidated reports involving the district level officers but in Jagatsinghpur district, consolidation was made without involving even district level officers.
- The asset handover reports, in prescribed format, with details of the assets, as mentioned in the MoA, were not available in 14 out of 18 test-checked PSs. Four PSs (Balikuda, Chikiti, Raghunathpur and Sanakhemundi) had prepared the report of assets, in prescribed format.

Due to above deficiencies in transfer of assets, Audit noticed discrepancies in four PSs where the number of assets (1,698[17]) shown as transferred by ZPs did not match the figures (1,846[18]) reported by PS, as detailed in **Table-3.2** below.

Table 3.2: Discrepancies in transfer of assets between ZPs and PSs

PS	No of assets transferred							
	AWC		LAC/VD		CHC/PHC/SC		School	
	ZP	PS	ZP	PS	ZP	PS	ZP	PS
Barchana	344	166	25	26	12	38	308	257
Bari	251	251	15	15	29	30	177	209
Korei	35	246	12	16	0	29	148	251
Chikiti	186	151	16	18	21	23	119	120
Total	**816**	**814**	**68**	**75**	**62**	**120**	**752**	**837**

Source: information furnished by ZPs and PSs

Thus, inadequate documentation and procedural lapses in asset transfer have led to discrepancies and reduced operational efficiency of PRIs.

The CDO-cum-EO of the ZPs and BDOs of PSs confirmed the facts and assured that asset inventories would be prepared and records would be maintained in accordance with departmental instructions.

3.9.4 No mechanism to monitor the implementation of the devolution

The PR&DW Department issued (July 2003) orders devolving powers to the PRIs which provided that the District, Block and GP level functionaries of the Departments of devolved functions would continue to be employees of these Departments but would be accountable to the PRIs. They were to attend the meetings of the respective level of PRIs, prepare plans for the schemes and place for discussion and approval in the meeting of the PRIs. Further, to enforce

[17] AWCs: 816, LACs/VDs: 68, CHCs/PHsC/SCs: 62 and Schools: 752
[18] AWCs: 814, LACs/VDs: 75, CHCs/PHsC/SCs: 120 and Schools: 837

accountability of field level officials of these Departments, Government issued (October 2005) instructions mapping the activities of the devolved functions with that to each level of PRIs.

However, Audit did not find any records on monitoring activities, both at Department level and filed level, to ensure the status of devolution of functions as planned in 2003 and 2005. This absence of monitoring mechanism has resulted in ineffective enforcement of devolution measures, limiting the PRIs' ability to function independently. This includes non-approval of plans of the Departments of the devolved function by the PRIs, non-involvement of the PRIs in selection of beneficiaries, deficiencies in transfer of assets to the PRIs, as discussed in previous paragraphs.

No reply was furnished by the Department (October 2025).

Recommendations

1. ***The State Government may consider devolving the functions relating to the remaining eight subjects listed in the 11th Schedule of the Constitution to the PRIs, in alignment with the provisions of the 73rd CAA.***
2. ***Government may ensure the effective ground level implementation of the devolved subjects by instituting a mechanism for regular monitoring of their implementation, including collection of regular feed-back from the PRIs and field level offices; and also by issuing guidance notes for addressing practical issues faced by these offices.***

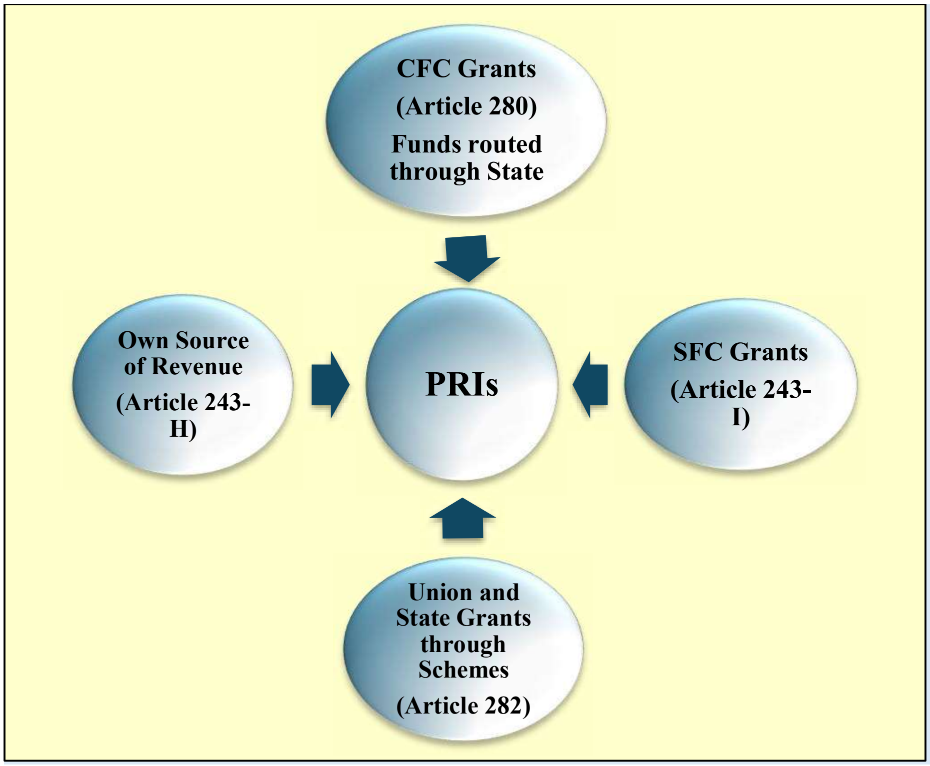
3.10 Devolution of Funds

The PRIs were largely dependent on Government grants in absence of their power to levy and collect taxes, non-transfer of productive assets and non- utilisation of available revenue generating assets.

The Constitution of India and subsequent 73rd CAA provides for fiscal decentralization for effective implementation of roles and responsibilities by the PRIs. Accordingly, Article 280 (3) of the Constitution mandated the CFC to recommend measures to augment the Consolidated Fund of the State to supplement the resources of the PRIs. Similarly, the SFC is constituted under Article 243 (I) to make recommendations with regard to distribution of finances between the States and Local Bodies. Article 243H empowers the PRIs to levy, collect and appropriate taxes, duties, tolls, and fees. Further, Article 282 of the Constitution provides that the Union and the States may make any grants for any public purpose through various schemes.

These sources of funds to the PRIs are illustrated in the **Chart 3.3** below:

Chart 3.3: Constitutional provisions for sources of funds of PRIs



Source: provisions of the Constitution

3.10.1 Availability of funds for the PRIs

The availability of funds received by the PRIs from different FCs and from own source of revenue, for the FYs 2018-19 to 2022-23, is depicted in **Table.3.3 and Chart-3.4** below. Further details of CFC and SFC grants are detailed in ***Appendix-3.5***.

Table. 3.3: Availability of funds at PRIs from FCs grants and own source

(₹ in crore)

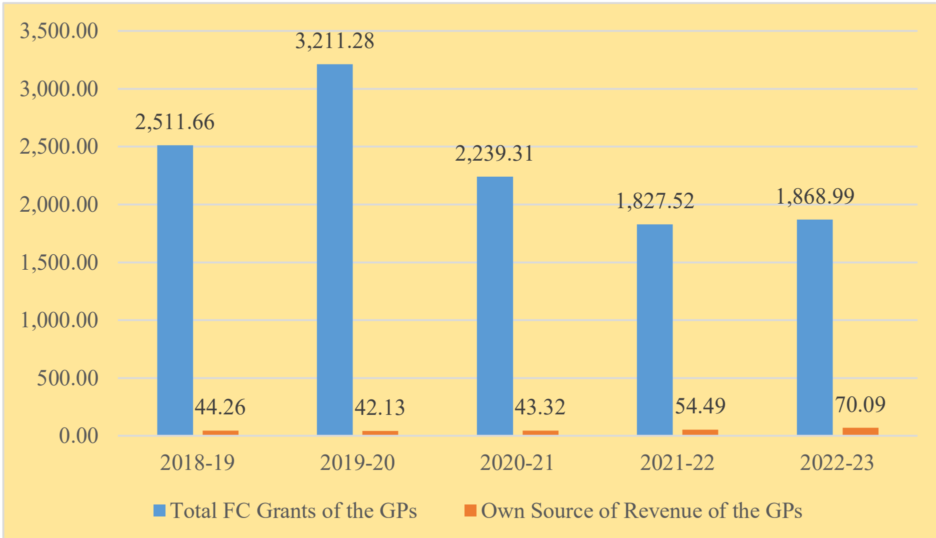
Year	Grants received from CFCs & SFCs			Own revenue of only GPs[19]	% of own revenue to FCs grant
	ZP	PS	GP		
2018-19	349.50	170.27	2,511.66	44.26	1.76
2019-20	371.72	178.94	3,211.28	42.13	1.31
2020-21	408.09	1,394.79	2,239.31	43.32	1.93
2021-22	328.54	1,284.15	1,827.52	54.49	2.98
2022-23	408.38	1,303.98	1,868.99	70.09	3.75
Total	**1,866.23**	**4,332.13**	**11,658.76**	**254.29**	

Source: information collected from PR&DW Department

It may be noted that own revenue data presented in the table pertains only to Gram Panchayats, as Panchayat Samitis and Zilla Parishads were not empowered to levy and collect taxes (as discussed in **Para 3.10.3**).

[19] Auction of tanks and ferry ghats, Rents from kalyan mandaps and market complexes, Trade license on minor forest produce, *etc.*

Chart 3.4: Availability of funds of GPs from FCs grants and own source
(₹ in crore)



<u>Source</u>: information collected from PR&DW Department

The own sources revenue of the GPs contributed between 1.31 to 3.75 *per cent* of total grants received during the FYs 2018-19 to 2022-23. Thus, nearly all the assets of the GPs were either created from any scheme funds or from the grants received from the FCs. This highlights the heavy reliance of GPs on government grants, with minimal contribution from their own revenue sources.

The Department stated (June 2023) that the GPs were trying to increase their own source of revenue out of various income generating assets.

3.10.2 Delay in constitution of SFC

Article 243-I of the Constitution provides for constitution of SFC within one year of the commencement of 73rd CAA, 1992 and thereafter, expiry of every fifth year, to review the financial position of the Panchayats. The SFCs are required to review the financial position of Panchayats and make recommendations on the principles to govern the distribution between the State and the Panchayats, the net proceeds of the taxes, duties, tolls and fees leviable by the State, the determination of the taxes, duties, tolls and fees to be assigned to the Panchayats, the grants-in-aid to the Panchayats from the Consolidated Fund of the State and the measures needed to improve the financial position of the Panchayats.

Audit noticed that there was delay in formation of the 1st SFC by 1,312 days from the stipulated date of constitution, i.e., April 1993. Further, 2nd, 3rd and 4th SFCs were also constituted with delays ranging from 52 to 561 days, in relation to the constitution of previous SFCs. Further, the reports were accepted with delays ranging from 143 to 681 days, as detailed in the ***Table- 3.4*** below.

Table 3.4: Delay in constitution of SFC and acceptance of recommendations

SFC	Due date of constitution	Actually constituted	Delay in days w.r.t last SFC	Date of submission	Date of acceptance	Delay in days	Period covered
1st	19.04.1993	21.11.1996	1312	30.12.1998	01.06.1999	153	1998-99 to 2004-05
2nd	21.11.2001	05.06.2003	561	29.09.2004	11.08.2006	681	2005-06 to 2009-10
3rd	05.06.2008	10.09.2008	97	30.01.2010	17.02.2011	383	2010-11 to 2014-15
4th	10.09.2013	31.10.2013	52	26.09.2014	16.02.2015	143	2015-16 to 2019-20
5th	20.10.2018	05.05.2018	--	02.08.2019	17.02.2020	199	2020-21 to 2025-26

***Source**: information collected from SFC reports*

Due to delays in constitution and acceptance of SFC reports, the State has fallen behind the intended SFC cycle. As of 2023, Odisha remains under 5th SFC regime whereas it was to be under 6th SFC regime considering the due date of constitution of 1st SFC was 19.4.93. Delays in constituting and implementing SFC recommendations have disrupted the intended fiscal planning cycle, affecting timely fund devolution.

No reply has been received from the Department (October 2025).

3.10.3 No power of the PSs and ZPs to levy and collect tax

The 73rd CAA incorporated Article 243H in the Constitution, which mandated the State Governments to authorize all three level of PRIs to levy, collect and appropriate taxes, duties, tolls, and fees apart from receiving grants-in-aid from the State.

Audit noticed that under Section 83 of the GP Act, 1964 of Odisha, the GPs are competent to levy and collect certain taxes, rates and fees, subject to the provisions of the Act and the rules made thereunder. Thus, while GPs are vested with statutory taxing powers, the exercise of such powers remain subject to the ceilings, conditions and procedures prescribed by the rules made thereunder by the State Government.

However, no such enabling provisions existed, in the respective Acts for the PSs and the ZPs to levy or collect any form of tax or fee. Thus, the ZPs and PSs were fully dependent on the grants from the Government for their functioning.

The absence of taxing powers for PSs and ZPs limits their financial independence and undermines the spirit of decentralisation as envisaged under 73rd CAA.

No reply was received from the Department (October 2025).

3.10.4 Resource augmentation as per recommendation of Finance Commission

As per 14th CFC, profession tax could be one of the important sources of revenue for Local Bodies, if they are allowed to levy and collect under the State legislations. Further, betterment tax i.e. linked to the improvement in the property under schemes carried out by the Local Bodies, is to be reviewed by the State to prepare a clear framework of rules for levy of such tax.

Audit noticed that the Government had neither empowered the Local Bodies to levy and collect professional tax, nor had it prepared any framework of rules for levy of betterment tax. This indicated lack of initiative by State Government to enhance the own sources of revenue of the PRIs to make them financially viable.

In reply, the PR&DW Department stated (September 2023) that Section 83 of OGP Act, 1964 empowers Local Body to impose tax and collect user fees from the concerned beneficiaries. The reply, however, was silent on empowering the PRIs for augmentation of their revenue through professional tax and betterment tax.

3.10.5 Non-transfer of productive assets to PRIs

For empowering the PRIs through devolution of powers, the PR&DW Department issued (July 2020) instruction to all Collectors for transfer of assets of F&ARD, S&ME, W&CD and H&FW Departments to the respective Panchayats. Further, the 14^{th} CFC had also recommended that State Governments should assign productive local assets to the Panchayats so that they can obtain revenues by leasing or renting these assets.

As per information furnished to Audit, in six test checked districts, 34 revenue generating assets like tanks, fishponds were retained by the respective District Fisheries Officers (DFOs) without handing over the same to the concerned GPs. During the FYs 2018-23, these DFOs had received ₹ 2.07 crore, as revenue, by leasing these assets, as detailed in the **Table-3.5** below.

Table.3.5: Revenue generated from productive assets during 2018-23

District	PS	Number of assets	Revenue received (₹ in lakh)
Angul	Angul	2	12.85
	Palalahada	1	2.08
Bhadrak	Bonth	1	1.78
Gajapati	Paralakhemundi	1	45.91
Ganjam	Digapahandi	1	101.48
	Chhatrapur	1	11.40
Jagatsinghpur	Jagatsinghpur	1	15.43
	Raghunathpur	1	2.29
	Tirtol	1	3.52
	Naugaon	1	2.36
Jajpur	Barchana	23	7.55
Total		**34**	**206.65**

***Source*- information furnished by the DFOs**

Had the assets been transferred as per Government instructions, the concerned PRIs could have generated an additional ₹ 2.07 crore in own source revenue over five years – thereby improving their financial viability.

The concerned ZPs replied (between July and November 2023) that action would be taken for transfer of assets with potential source of revenues from other Departments.

No reply has been received from the Department (October 2025).

3.10.6 Loss of Performance Grant

The 14^{th} CFC recommended Basic Grant and Performance Grant to GPs. The GPs were eligible for Performance Grants, from the second year of the plan period i.e. 2016-17, on fulfilment of specified conditions, such as submission of audited accounts and increase in own source of revenue.

The 14th CFC had allocated ₹515.09 crore as Performance Grant for the FYs 2018-19 and 2019-20. Audit observed that the State had not received any funds towards Performance Grants during these FYs due to non-fulfilment of the required conditions. Thus, there was a loss of grant for the GPs, which affected the ability of the GPs to support and strengthen their primary functions to provide basic citizen-centric service delivery, *viz.* providing drinking water, ensuring sanitation, enhancing livelihood support, etc.

In reply, the Department stated (June 2023) that due to inclusion of additional conditions, i.e. uploading of open defecation free status and immunization status of children, the Central Government did not release the Performance Grant.

The reply was not tenable since the initial condition to be eligible for receiving Performance Grant, i.e., increase in own revenue by the GPs, was also not fulfilled as own source of revenue decreased from ₹ 44.26 crore (FY 2018-19) to ₹ 42.13 crore (FY 2019-20), indicating non-compliance even with the original performance parameters.

3.10.7 Creation of assets for generation of own revenue

The 5th SFC recommended (August 2019) creation of income generating capital assets for augmentation of own sources of revenue by the GPs, to strengthen their financial strength. Audit, however, noticed the following deficiencies in creation of capital assets for augmentation of own sources of revenue.

(a) Delay in creation of revenue generating assets

Audit observed that during FYs 2020–23, a total of 366 income-generating projects, including market complexes, *kalyan mandaps* and *rural hats* were sanctioned across 18 test-checked PSs at an estimated cost of ₹33.38 crore. While 140 of these projects could not be taken up for execution due to issues such as land problem, local problems, shortage of technical staff, inaccessible area, *etc*. Audit scrutiny of the remaining 226 projects where execution had commenced revealed that, 134 projects remained incomplete despite lapse of more than one year from the stipulated date of completion after incurring expenditure of ₹10.01 crore, as detailed in ***Appendix-3.6.***

The reasons for non-completion of these assets were not available at the PS level. However, this delay in completion of these projects by the BDOs, prevented the PRIs from delivering the intended civic services to the people and resulted in the lost opportunity to augment their own sources of revenue as the intended purpose of these assets was revenue generation. Moreover, the continued delay increases the risk of cost escalation and future financial burden on PRIs.

Photograph No.: 3.1	***Photograph No.: 3.2***
	
Incomplete kalyan mandap at Ramchandrapur GP, Bhandari Pokhari PS since April 2020	***Incomplete kalyan mandap at Achyuta Basanta GP, Barachana PS since Oct 2021***

(b) Idle income generating assets

During JPIs (between July and November 2023) by Audit, it was observed that in 14 GPs of 10 PSs, 14 income generating assets like market complexes, *kalyan mandapas, etc.,* were completed between September 2019 and February 2023, with an expenditure of ₹1.41 crore, as detailed in ***Appendix-3.7.*** However, these assets were kept idle, without putting them to use for their intended purposes i.e providing marketing facilities to the people, space for conducting social functions and also for the generation of revenue for PRIs. As a result, the rural people were not only deprived of availing services from these assets, but also the GPs lost their opportunity to earn potential revenue, despite expenditure of ₹1.41 crore. No specific reasons were available with the GPs, regarding non-utilisation of these assets.

Photograph No.: 3.3

Un-allotted Market Complex at Brahmanbil GP, Chhendipada PS completed since January 2021

In reply, the BDOs of the concerned PSs stated (between July and November 2023) that steps would be taken for utilisation of revenue generating assets through auction process by the GPs.

However, the facts remained that, the inability to put such revenue-generating assets to use, not only results in the loss of potential income, but also indicates underutilisation of public funds, defeating the purpose of strengthening PRI finances as envisaged by the 5th SFC.

(c) Non-auction of ponds

As per Rule 48 of Odisha GP Rules, 2014, the Sarpanch shall initiate the process for leasing of the income generating assets. Audit noticed in 54 test checked GPs that out of 522 ponds, 323 ponds were leased. Out of balance 199 ponds that were not leased, Audit conducted (between July and November 2023) JPI of 38 such ponds, as detailed in **Appendix-3.8** and found that 24 ponds were in good condition, fit for lease, as shown in the photographs.

Photograph No.: 3.4	***Photograph No.: 3.5***
	
Ranibandha of Rampa GP, Chikiti PS	***Saharsahi Gadia of Kacharasahi GP, Korei PS***

There was nothing on record to show that these GPs had attempted to auction these assets or attempted for any other use.

Thus, despite availability of income generating assets, lack of initiative at the GP level, resulted in loss of opportunity to increase their own sources of revenue.

(d) Non- recovery of rent from the market complex

In nine out of 54 test checked GPs, 159 shops were allotted to different persons with a monthly rent ranging from ₹70 to ₹750. However, an amount of ₹18.39 lakh remained un-recovered from the allottees of these shops since 2018, as detailed in ***Appendix-3.9.***

On this being pointed out, five PSs (Talcher, Bhadrak Sadar, Bhandaripokhari, Kasinagar and Mohana) stated that instructions would be issued to the concerned GPs for collection of outstanding rent. However, two PSs, i.e Erasama and Raghunathpur did not furnish any specific reply.

Thus, delayed execution of revenue generating assets, idling of completed assets, non-auction of ponds and non-realisation of shop rents, led to the underutilisation of income-generating potential at the grassroots level. As a result, the very objective of augmentation of own sources of revenue by the GPs to enable them to function as local self-government, as envisioned in the 73rd CAA and reiterated in the 5th SFC recommendations, remained largely unfulfilled.

No reply has been received from the Department (October 2025).

Recommendations:

3. ***All levels of PRIs may be empowered to levy and collect taxes, tolls, etc.,* with *provision for uniform ceilings or model rates to ensure equity across the State while allowing limited flexibility to address local conditions*.**

4. ***As recommended by the FCs, Government may explore all available opportunities to augment the own source of revenue of the PRIs.***

> ***5. The GPs may be instructed to ensure documentation of the reasons for delay in completion of assets, non-utilisation of completed assets and lack of response to the auction of any revenue generating assets and report the same to the higher authorities for remedial action.***

3.11 Devolution of Functionaries

> Non-transfer of functionaries to PRIs relating to devolved functions, absence of power to recruit and control the functionaries, led to shortage of staff at their level, affecting independent functioning of the PRIs as a unit of self-government. Further, lack of training of the PRI representatives and functionaries to upgrade their skill, affected the functioning of the PRIs.

3.11.1 Non-transfer of functionaries from the Departments to PRIs in respect of devolved functions

As per the 5th SFC recommendation, the transfer of functionaries to the control of PRIs is essential for enabling the Local Bodies to discharge their assigned functions smoothly and meaningfully.

Audit noticed that functionaries of the Departments related to 17[20] devolved functions were not exclusively transferred to the control of PRIs. Rather, Government intimated (July 2003) that the District, Block and GP level functionaries of the Departments would continue to be employees of their respective Departments and would be accountable to the PRIs. They were to attend the meetings of the PRIs, prepare plans, schemes and place the same for discussion and approval in the meeting of respective level of PRIs.

This indicated that despite devolution of functions, the absence of transfer of functionaries to the control of PRIs represents a structural gap that undermines the effectiveness of functional devolution and limits PRI autonomy.

Reply of the Government was awaited (October 2025).

3.11.2 Absence of power of PRIs to recruit the functionaries

The 2nd Administrative Reforms Commission appointed by GoI recommended (October 2007) that the Panchayats should have powers to recruit personnel and to regulate their service conditions on the basis of laws and standards laid down by the State Government.

Audit observed that as per Odisha GP rules, 2014, GPs had limited power to recruit supporting functionaries such as Tax collectors, Scavengers, Peons and they have to take approval of the District Panchayat officer for such recruitment. However, the respective Acts or Rules related to the PSs and ZPs do not provide for any powers to recruit their required staff, and hence, for any recruitment of the functionaries, these PRIs were dependent on the State Government.

The Department stated (June 2023) that, the GPs had the power to appoint their functionaries and also confirmed that no decision had been taken to regulate the service conditions of personnel at the PRI level. The reply was not tenable, as GPs were empowered to appoint only limited supporting staff and not all

[20] Except four functions related to PR&DW Department out of 21 functions devolved

functionaries required for discharging their mandated functions.

Thus, absence of adequate recruitment powers, curtails the functional autonomy of PRIs, to function as full-fledged institutions of self-government.

3.11.3 Limited Control over PRI functionaries

For independent and smooth functioning of the PRIs without day-to-day intervention of the State Government, the functionaries of the PRIs are to be under control of the PRIs. Further, Para 5.9 of the 5th SFC provides that the transfer of functionaries to the control of PRIs is essential for enabling the Local Bodies to discharge the assigned functions smoothly and meaningfully.

Audit noticed that the PRIs were provided with only limited control over their functionaries, as the powers of transfer, promotion, initiating disciplinary action, imposing penalties, had not been delegated to them. Rather these powers were continued to be exercised by various level of State Government functionaries, as detailed in the **Table 3.6** below.

Table 3.6: Level of controls of PRI functionaries

Level of PRI	Designation	Authorities responsible for:			
		Transfer	**Leave**	**Minor Penalty**	**Major Penalty**
GP	PEO	CEO	BDO	CEO	CEO
PS	BDO	State Govt.	CEO	State Govt.	State Govt.
	Group B Staff	State Govt.	BDO	CEO	State Govt.
ZP	CEO	State Govt.	State Govt.	State Govt.	State Govt.
	CDO-cum-EO	State Govt.	State Govt.	State Govt.	State Govt.
	Group B Staff	State Govt.	CDO-cum-EO	CEO	State Govt.

<u>Source</u>: information collected from test checked ZPs

In the absence of adequate administrative control over the matters such as transfer, leave, promotion and disciplinary action, PRIs remained dependent on the State Government for management of their functionaries, which diluted the concept of self governance as envisaged under 73rd CAA.

In reply, the CDO-cum-EOs of the test checked ZPs admitted (July-November 2023) the above fact.

No reply has been received from the Department (October 2025).

3.11.4 Shortage of functionaries

Adequate and qualified manpower is an essential requirement for empowerment of the PRIs and is also required to cater to the needs of the rural population. The MoPR recommended (October 2009) to provide a minimum core staff to the GPs, i.e., Panchayat Development Officer/ Secretary, Technical Assistant and Accountant commensurate with the nature and magnitude of their responsibilities. Further, it also suggested providing scheme specific staff like Gram Rozagar Sevak (GRS) for all GPs. GoI also decided (September 2010) that the States are at their discretion to assess and recruit functionaries for the PRIs as per the needs based on population, geographical areas, and functions devolved, *etc.*

Audit however, observed the following shortage of functionaries at PRI levels as on March 2023:

- In the 18 test checked PSs having 490 GPs, only 125 Junior Engineers (JEs) were posted, as detailed in ***Annexure-3.10.*** Thus, one JE had to cover technical works of three to six GPs.
- Similarly, there were 292 PEOs against the requirement of 490 PEOs, with 147 PEOs were in charge of two GPs each, 31 PEOs were in charge of three GPs each and seven PEOs were in charge of more than three GPs each, as detailed in ***Appendix-3.11.***
- Further, for 490 GPs, there were 325 GRSs in place, with 127 GRSs were in charge of two GPs each, 18 GRSs were in charge of three GPs each and one GRS was in charge of more than three GPs, as detailed in ***Appendix-3.12.***

The above indicates that the minimum core staffing pattern recommended by MoPR had not been achieved in the test-checked PRIs.

The reply of Government was awaited (October 2025).

3.11.5 Capacity Building of functionaries of PRIs

Since elected representatives and PRI functionaries need to understand their roles and need to have the skills to perform their roles effectively, capacity building and training is a very important aspect of strengthening Panchayats.

To undertake capacity building activities of PRI functionaries and elected representatives, MoPR provides funds under Rastriya Gram Swaraj Abhiyan (RGSA). The SIRD is the Apex Training Institute at State level that imparts training and capacity building for strengthening the PRIs. Audit noticed the following deficiencies in conducting training of PRI functionaries and elected representatives.

3.11.5.1 Deficient training to elected representatives

The "Framework for implementation of RGSA" provides for basic orientation training for the PRI elected representatives, within six months and refresher training, within two years of their election.

However, there was a shortfall in capacity building of the elected representatives as detailed below.

- After 2017 PRI election, 1.02 lakh PRI representatives were to receive basic orientation training. Out of that, 0.73 lakh were imparted this training during the FYs 2017 to 2020 and 0.29 lakh were not trained.
- In six test checked ZPs, out of 25,322 PRI representatives elected during 2017, 19,056 representatives were given basic orientation training. The remaining, 6,306 PRI members were not provided basic training.
- After 2022 PRI election, there were 1.02 lakh PRI representatives, and all were imparted basic orientation training within a period of 13 months of their election.
- No refresher trainings were provided to any PRI representatives elected during the years 2017 and 2022.

Thus, the shortfall in basic orientation training and absence of refresher training deprived elected representatives of orientation on aspects of Panchayat functioning such as Panchayat management, financial Management and resource mobilisation, etc., and denied them the opportunities to reinforce knowledge and address emerging challenges through refresher training.

On this being pointed out in Audit, SIRD replied that due to non- availability of District Panchayat Resource Centres (DPRCs) in all 30 districts, reluctance of ward members to move to nearest Block/ District headquarters and due to COVID pandemic, 100 *per cent* induction training could not be achieved. It also stated that it had not organized any refresher training.

The reply on non-availability of DPRC building was not tenable since funds of ₹ 40 crore were made available since 2014-15 for construction of DPRC, which was not done**.**

3.11.5.2 Inadequate training to PRI functionaries

The National Capacity Building Framework, 2014 issued by MoPR, provides for training of functionaries of GP, who perform the day-to-day functions.

The training programmes conducted for the GP functionaries during the FYs 2018-23, are detailed in ***Table 3.7*** below.

Table .3.7: Status of training to GP functionaries

District	No. GP functionaries during 2018-23	Topics on which training conducted			
		MGNREGS	Financial Management	Generation of own revenue	PFMS
Angul	288 to 322	171	160	132	284
Bhadrak	255 to 284	00	129	00	60
Gajapati	190 to 224	00	51	00	114
Ganjam	726 to 747	00	240	00	45
Jajpur	387 to 427	00	339	00	00
Jagatsinghpur	254 to 299	00	125	00	00
	2,100 to 2,303	**171 (8 *per cent*)**	**1,044 (50 *per cent*)**	**132 (6 *per cent*)**	**503 (24 *per cent*)**

***Source**: information collected from test checked GPs*

As observed, out of 2,100 to 2,303 functionaries in the six test checked districts, training on financial management was provided in all the test checked districts and it was imparted to 50 *per cent* of the minimum functionaries available. However, training on MGNREGS and generation of own sources of revenue, a core responsibility of GPs, were conducted only in one out of six test checked districts. Even for PFMS, which is critical for fund management and online reporting, only 24 *per cent* of functionaries were covered.

Thus, despite the relevance of these subjects to the day to day functions of GP functionaries, the majority of functionaries in the test checked districts did not receive training in these areas as envisaged under the framework.

No reply has been received from the Department (October 2025).

3.11.5.3 Under-utilisation of grants for Capacity Building Programmes

Funds available under RGSA during FYs 2018-19 to 2022-23, expenditure incurred towards conducting various capacity building programmes, by the SIRD, are given in the ***Table 3.8*** below.

Table 3.8: Availability and expenditure of funds

(₹ in crore)

Year	*Total funds available*	*Expenditure incurred*	*Percentage of expenditure*
2018-19	26.53	19.99	75
2019-20	23.95	19.42	81
2020-21	16.92	4.24	25
2021-22	50.92	18.16	36
2022-23	58.68	24.68	42

***Source**: information furnished by SIRD*

Audit observed that during the FYs 2018-23, the percentage of utilisation of funds on various capacity building activities ranged from 25 to 81 *per cent* of the available funds.

Non-utilisation of funds to the optimum, resulted in shortfall in number of training to the PRI representatives and functionaries.

The SIRD replied (December 2023) that there was no scope for conducting training programme during 2020-21 and 2021-22 due to COVID pandemic. The reply is only partially acceptable, as although pandemic-related restrictions could explain low utilisation in 2020-21 and 2021-22, the continued low utilisation in 2022-23 (42%) - a year when pandemic-related restrictions had significantly eased - indicates that factors other than COVID contributed to under-utilisation.

3.11.5.4 Loss of Central share under training programme

As per condition of RGSA, contribution of funds by GoI and States are in the ratio of 60 and 40, respectively. The first instalment of Central share was to be released by deducting the unspent balance with the State from the previous year's release. The second instalment was to be released after expenditure of 60 *per cent* of the total available funds.

During the FYs 2018-19 to 2022-23, SIRD was to receive Central share of ₹131.67 crore[21]. Due to non-utilisation of available funds and short release of State share, GoI did not release its share during FYs 2018-19 and 2019-20 and released partly during FY 2020-23, as shown in the ***Table 3.9*** below.

Table 3.9: Details of funds received under RGSA

(₹ in crore)

FY	Central share due	State share due	Central share received	State share received	Reason for non-release of central share
2018-19	30.41	20.27	0	0	Non-utilisation of available funds and non-release of State share
2019-20	17.13	11.42	0	13.33	Non-utilisation of available funds and non-release of State share
2020-21	12.89	8.97	2.94	9.34	Non-utilisation of available funds
2021-22	18.00	12.00	1.33	0.88	Non-utilisation of available funds
2022-23	53.24	35.49	11.4	7.60	Non-utilisation of available funds
Total	***131.67***	***88.15***	***15.67***	***31.15***	**-**

***Source**: information furnished by SIRD*

21 60 *per cent* of total cost of approved action plan i.e ₹ 219.45 crore

Thus, due to short utilisation of available funds by SIRD and non-release of its share by the State Government, Central share of ₹89.47 crore[22] was denied which could have provided further opportunity of enhancing the capacity of the PRI members.

On this being pointed out in Audit, SIRD admitted (December 2023) the fact of loss of central assistance.

Recommendations:

6. ***Government should take steps to transfer the functionaries to PRIs from the Departments of devolved subjects.***
7. ***PRIs may be empowered to assess the requirement, recruitment and control of their functionaries.***
8. ***Required capacity building activities may be conducted for PRI functionaries and representatives for enabling the Local Bodies to discharge their assigned functions smoothly and meaningfully.***

[22] Entitled central share for the FYs 2018-23 ₹ 131.67 crore less previous years unspent balance ₹ 26.53 crore less central share released ₹ 15.67 crore.