

Chapter-I: Introduction

The Employees' Provident Fund came into existence with the promulgation of the Employees' Provident Fund Ordinance, which was replaced by Employees' Provident Fund Act, 1952 now renamed Employees' Provident Funds and Miscellaneous Provisions Act, 1952 (the Act), which extends to whole of India except Jammu & Kashmir.

The Employees' Provident Fund Organisation (EPFO) is vested with the responsibility of implementing three Schemes framed under the Act namely Employees' Provident Funds Scheme (EPF), Employees' Pension Scheme (EPS) and Employees' Deposit Linked Insurance Scheme (EDLI). EPFO works under administrative control of the Ministry of Labour and Employment (the Ministry).

1.1 Objectives and Functions of the EPFO

The objective of the EPFO is to extend social security benefits to the working class in the form of Provident Fund, Pension and Insurance benefits. The broad functions of EPFO are as under :

- Enforcement of provisions of Employees' Provident Funds and Miscellaneous Provisions Act, 1952;
- Recovery and management of money held in Trust; and
- Providing satisfactory service to the members of Schemes.

1.2 Applicability of the schemes

The provisions of the Act and the schemes apply to every establishment specified in Schedule I¹ which employ 20 or more persons. The Act does not apply to any establishment registered under the Co-operative Societies Act, 1912 and employing less than 50 persons and working without aid of power.

There were 4.44 crore members of EPF, 26.53 lakh pension beneficiaries and 4.72 lakh establishments on 31 March 2007, which increased to 8.55 crore members of EPF, 41.03 lakh pension beneficiaries and 6.91 lakh establishments by 31 March 2012.

¹ Schedule I under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, gives a list of classes of industries and establishments wherein the Act is applicable.

1.3 Organisational set up

The EPFO is administered by the Central Board of Trustees (CBT), consisting of Chairman (Union Labour Minister), Vice-Chairman, five members representing the Central Government, 15 members representing State Governments and 10 members representing employers and employees each.

The CBT is assisted by Executive Committee, constituted by the Central Government and four Sub-Committees namely (a) Finance and Investment Committee (b) Committee on Exempted Establishment (c) Pension Implementation Committee and (d) Technical Committee or Committee on implementation of IT Reforms.

The Central Provident Fund Commissioner is Chief Executive Officer of EPFO and ex-officio member of CBT. The implementation of the schemes is carried out through its Central Office at New Delhi, 40 Regional Offices (ROs) and 80 Sub-Regional Offices (SROs) spread across the country. The EPF Scheme provides for constitution of Regional Committees for each State to advise CBT.

1.4 Audit Approach

The audit was conducted under Section 19(2) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 read with Section 5A (6) of the Act.

1.5 Audit Objectives

The Performance audit was taken up to assess the economy, efficiency and effectiveness of implementation of the schemes by the EPFO.

1.6 Audit Scope

The performance audit covered test check of records of Central Office of EPFO, 26 out of 40 ROs (65 *per cent*), 49 out of 80 SROs (61 *per cent*) (Details in **Annex**). States having two or more than two ROs, a minimum of two ROs with the respective SROs were selected and in other States, the RO along with respective SROs were selected for audit.

The performance audit, however, did not cover the Regional and Sub-Regional Offices at Himachal Pradesh, Uttarakhand and North Eastern Region due to low density of establishments in these States.

Records of activities for the period April 2006 to March 2012 were audited.

1.7 Audit Criteria

Audit Criteria were derived from following:

- Employees' Provident Funds and Miscellaneous Provisions Act, 1952;
- Employees' Provident Funds Scheme, 1952;
- Employees' Deposit Linked Insurance Scheme, 1976;
- Employees' Pension Scheme 1995;
- Manuals of EPFO such as Manuals on Accounting Procedure, Inspector Manual, Recovery Manual;
- Rules and regulation of Government of India including General Financial Rules, 2005;
- Administrative instructions issued by Central Office.

1.8 Audit Methodology

The Performance Audit commenced with the Entry Conference on 20 September 2011 with the Central Provident Fund Commissioner and other officers at the Central Office, where audit objectives, audit scope and audit criteria were explained. Records of the EPFO were examined during September 2011 to April 2012.

Draft Performance Audit Report was issued to EPFO and the Ministry in May 2012. Exit conference to discuss the audit findings and recommendations was held with Central Provident Fund Commissioner on 22 November 2012. Replies from the EPFO were received in November 2012. Revised and updated draft was issued to the EPFO and the Ministry on 1 July 2013, replies of which were received during July 2013 to September 2013. Replies have been suitably incorporated in the Report.

1.9 Rationale for this Performance Audit and earlier Audits

Efficient working of EPFO affects large number of subscribers and during 2010-11 there were reports about non-crediting interest to subscribers' accounts resulting in large accumulation in Interest Suspense Account, delays in settlement of claims, announcement of higher rates of interest by the CBT, etc. With these inputs and after suitable risk analysis, performance audit of EPFO was taken up.

1.10 Earlier performance audit relating to EPFO appeared in CAG's Report in 2000. A small audit review about Computerised Employees' Pension System Software appeared in CAG's Report in 2006. Their present status is as under:

Sl. No.	C&AG Report No.	Topic	Present status
1.	4 of 2000 (Union Government Civil-Autonomous Bodies)	Performance Audit of EPFO for 1993-94 to 1998-99	The Ministry submitted Action Taken Note in November 2003
2.	3 of 2006, Para 10.1 (Union Government Civil-Autonomous Bodies)	IT Audit on computerised Employment Pension System Software at Kolkata	The Ministry submitted Action Taken Note in September 2011

Major shortcomings pointed out in earlier Performance Audit Report (2000) were:

- Delays in identifying establishments for coverage;
- Shortfall in inspections;
- Undue delays in determination of dues;
- Non-maintenance of Demand, Collection and Balance Register (DCBR) to watch the recovery and accounting of amounts due;
- Increase in arrears of PF contribution and administrative charges in respect of covered establishments;
- Increase in the pendency of Revenue Recovery Certificates due to inefficient recovery processes;
- Increase in the Interest Suspense Account (ISA).

In Action Taken Notes, the Ministry had assured to take corrective measures in November 2003 and September 2011 respectively on the findings of the Reports. However, the current Performance Audit reveals that most of above shortcomings still persist.

1.11 Structure of Audit Report

The layout of the Report is as under:-

- Chapter 2 - Financial Management, highlighting issues on contributions collected and shortfall in Central Government's share, budgeting process, income, expenditure and surplus, fixation of annual

rate of interest, Interest Suspense Account and non adoption of investment pattern.

- Chapter 3 - Coverage and Enrolment, highlighting issues on coverage of establishments and shortfalls in surveys and inspections, working of voluntary coverage mechanism.
- Chapter 4 - Contributions and Recoveries, highlighting issues on arrears/recoveries and levy of fines, penalties and damages, etc.
- Chapter 5 - Maintenance of Subscribers' Accounts, highlighting deficiencies in subscribers accounts like minus balances, non-updation of accounts, etc.

In chapters 3, 4 and 5 where ever detailed yearwise information was available from States, it has been suitably analysed and presented in the report.

1.12 Acknowledgement

Audit wishes to acknowledge the cooperation received from the Ministry of Labour and Employment, the Central Office of EPFO and its ROs and SROs during the audit process.