

Chapter-II: Financial Management

2.1 Rates of contribution and wage limit

EPFO collects (a) contributions from employers (including employees' share), and (b) administrative charges from covered establishments, for operation of its schemes. The contribution rates in terms of *per cent* of wages¹ under schemes are:

Table-2.1: Rates of Contribution (in *per cent* of wages)

	Contribution Account				Administration Account		
	EPF	EPS	EDLI	Total	EPF	EDLI	Total
Employer	3.67	8.33	0.5	12.5	1.10	0.01	1.11
Employee	12.00	Nil	Nil	12.00	Nil	Nil	Nil

Establishments which are exempted from EPF Scheme are required to pay inspection charges of 0.18 *per cent* of wages for EPF and 0.005 *per cent* of wages for EDLI.

The Central Government also contributes 1.16 *per cent* of wages of the members of EPS.

Thus, the employers, employees and Central Government contribute at 12.5 *per cent*², 12 *per cent* and 1.16 *per cent* of wages respectively in contribution account for a beneficiary covered under all three schemes.

Wage limit for coverage of employees under EPF Scheme was ₹ 6500 which has been continuing since June 2001, thus denying the benefit of EPF to a large number of employees with wages more than this limit. Wage limit for ESI i.e. another social security scheme was also ₹ 15,000. EPFO stated (December 2013) that matter regarding enhancement of existing wage limit has been taken up with the Ministry.

Recommendation: *The wage limit may be suitably revised at regular intervals.*

¹ Wages consist of basic wages, dearness allowance (including cash value of concessions) and retaining allowance, if any, payable to each employee.

² For certain category of establishments like sick units or establishments which have incurred losses, etc., the rate of contribution is less

2.1.1 Contribution collected

Based on the prescribed rates given in preceding paragraph, the collection under contribution account was as under:

Table-2.2: Contribution collected

(₹ in crore)

Year	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Provident Fund	14,414.01	18,782.30	23,246.60	26,558.20	32,494.40	39,265.50
Employees' Pension Fund						
I) Employers Share	6,710.66	8,022.46	9,320.56	9,930.52	11,587.94	13,417.47
II) Government Share	1,340.00	990.00	1,167.22	994.00	1,300.00	1,350.00
Total	8,050.66	9,012.46	10,487.78	10,924.52	12,887.94	14,767.47
Employees Deposit Linked Insurance Scheme						
Employer Contribution	250.65	308.44	368.40	423.22	480.00	566.40

2.1.2 Shortfalls in Central Government share of EPS

Para 3 of Employees' Pension Scheme 1995 provides that the Central Government shall also contribute at the rate of 1.16 *per cent* of wages and credit the contribution to the Employees Pension Fund. The EPFO prefers claim to the Ministry in this regard in the beginning of the year.

It was, however, observed that there were consistent shortfalls in receipt of contributions from Central Government as against claims preferred during 2006-07 to 2011-12 as under:-

Table-2.3: Shortfalls in Central Government share of EPS

(₹ in crore)

Year	Arrears of Government share in the beginning of the year	Claims added during the year	Total claims	Contribution received from Government during the year	Shortfall in contribution	Per cent shortfall (Col 6X100 Col.4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2006-07	870.57	934.50	1805.07	1340.00	465.07	25.76
2007-08	465.07	1117.17	1582.24	990.00	592.24	37.43
2008-09	592.24	1297.94	1890.18	1167.22	722.96	38.25
2009-10	722.96	1382.88	2105.84	994.00	1111.84	52.80
2010-11	1111.84	1613.69	2725.53	1300.00	1425.53	52.30
2011-12	1425.53	1868.46	3293.99	1350.00	1943.99	59.02

From the above, it is clear that there was increasing trend of shortfalls in receipt of Government share. An amount of ₹ 1943.99 crore was outstanding from Central Government as on 31 March 2012.

EPFO initially stated (January 2013) that EPS'95 is a funded scheme and delay in contribution made by Central Government has no immediate adverse effect on pension obligations. It subsequently stated (August 2013) that the Ministry had conveyed the sanction of a sum of ₹ 1943.99 crore towards arrears of Central Government contribution.

The reply of EPFO regarding adverse effect is not acceptable as shortfall in receipt of contribution affected the EPS corpus including investments and interest thereon.

Recommendation: Central Government should remit its contribution to EPFO in time.

2.1.3 Administration Account: Income, Expenditure and Surplus

The main income of EPFO is received through administrative charges and inspection charges, penal damages or interest and interest on investments. The expenditure of EPFO is on its establishment for running of the schemes viz. EPF, EPS and EDLI.

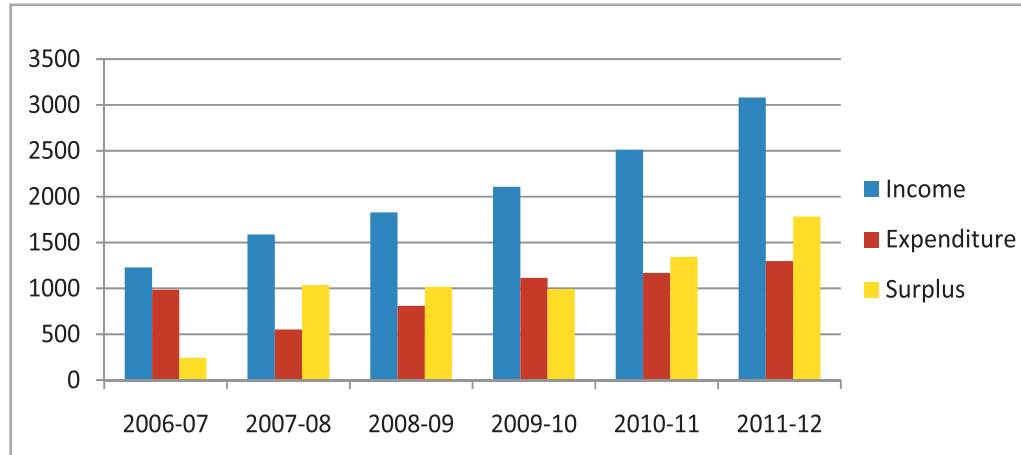
The details of income, expenditure and surplus are given below:-

Table 2.4: Income and Expenditure

(₹ in crore)

Year	Total income	Total expenditure	Excess of income over expenditure	Excess of income over total expenditure (in per cent)
2006-07	1229.91	985.81	244.10	25
2007-08	1587.71	551.57	1036.14	188
2008-09	1828.65	809.66	1018.99	126
2009-10	2107.60	1115.04	992.56	89
2010-11	2509.70	1168.43	1341.27	115
2011-12	3081.50	1298.84	1782.66	137

The above information is also depicted graphically as under:-



Thus, income of EPFO collected by way of administrative charges, etc. has been significantly and consistently more than its expenditure on running of schemes. As on 31 March 2012, the accumulated surplus of EPFO, on administration account was ₹ 8558.08 crore.

Recommendation: The EPFO may revise its administrative charges suitably.

2.2 Budget

The Commissioner prepares the budget of EPFO and places before CBT by 15 February of the preceding year, which then sends it to the Ministry for approval (Section 58 of the Act). General Financial Rules (GFRs) provide guidance on preparation of budget and states that the budget should be prepared with due care (Rule 3 of GFR, 2005).

The year-wise position of Budget Estimates (BE), Revised Estimates (RE) and actual expenditure during the period 2006-07 to 2011-12 is shown below:

Table-2.5: Excess/Savings in Budget

(₹ in crore)

Year	B.E	R.E.	Variation between BEs & REs		Actual Expenditure*	Excess(+)/ Savings(-) (per cent w.r.t. REs)	Excess(+)/ Savings(-) (per cent w.r.t. BEs)
			Amount	percentage			
2006-07	733.22	1090.07	356.85	48.67	1011.37	(-) 78.70 7.22	(+) 278.15 37.94
2007-08	956.66	842.66	(-) 114.00	(-)11.92	586.25	(-) 256.41 30.43	(-) 370.41 38.72
2008-09	959.25	1027.04	67.79	7.07	819.89	(-) 207.15 20.17	(-) 139.36 14.53

2009-10	1231.67	1502.57	270.90	21.99	1125.39	<u>(-) 377.18</u> 25.10	<u>(-)106.28</u> 8.63
2010-11	1514.62	1708.61	193.99	12.81	1198.39	<u>(-) 510.22</u> 29.86	<u>(-)316.23</u> 20.88
2011-12	1761.40	1925.82	164.42	9.33	1338.33	<u>(-) 587.49</u> 30.51	<u>(-)423.07</u> 24.02

*including Capital Expenditure

From the above table, it may be seen that:

- There was saving of 7.22 *per cent* to 30.51 *per cent* during the years 2006-07 to 2011-12 with reference to revised estimates.
- During the years 2007-08 to 2011-12, the actual expenditure was less than the budget estimates and percentage of savings, with reference to budget estimates was between 8.63 and 38.72 *per cent*.
- During the years 2008-09 to 2011-12, although the revised estimates was more than the budget estimates, but the actual expenditure was even less than the budget estimates.

The shortfalls in expenditure were mainly under following major heads - Revenue, Contingencies and Miscellaneous Staff Welfare Fund, Retirements Benefits, Computerisation and Capital Expenditure.

While scrutinising the process of approval of budget in the Ministry, it was also seen that the Ministry approved the budget proposals as submitted by the EPFO i.e. without exercising any oversight role.

Thus there were weaknesses in budgeting process.

The EPFO noted (November 2012) the observations for future improvement in the process of preparation of budget.

Recommendation: *The EPFO may frame the budget estimates with due care as per provisions in GFRs. Ministry may scrutinise the budget proposals adequately before according sanction.*

2.3 Interest Suspense Account

Para 51 of the Employees Provident Fund Scheme, 1952 provides that all interest, rent and other income realised, and net profits or losses, if any, from the sale or investments not including transactions of the Administration Account, shall be credited or debited, as the case may be, to an account called Interest Suspense Account (ISA).

As per Para 6.1.10 of the Manual of Accounting Procedure, the ISA is to be compiled accurately and promptly as any omission /commission would adversely affect the interest of subscribers.

ISA is a proforma account operated in Central Office. All earnings on account of interest, penal damages, etc. are credited and expenditure relating to interest credited to subscribers' account is debited to the Interest Suspense Account. The balance in ISA is shown as liability in the EPF Balance Sheet.

Audit observed that the balance in the ISA increased consistently from ₹ 12445.29 crore in March 2007 to ₹ 22461.15 crore in March 2011.

Thus the amount in ISA was not being debited with corresponding credits to subscribers' accounts in a regular and timely manner primarily due to non updation of subscribers' accounts. The details are given below:

Table: 2.6: Details of balance in interest suspense account (ISA)

(₹ in crore)

Year	Amount as per last balance sheet	Amount added during the year	Amount cleared (credited) during the year	Balance in ISA at year end
Upto 2006-07	12773.96	7713.60	8042.27	12445.29
2007-08	12445.29	8988.86	8136.58	13297.57
2008-09	13297.57	10975.59	9576.30	14696.86
2009-10	14696.86	12326.95	10025.03	16998.78
2010-11	16998.78	14455.06	8992.69	22461.15
2011-12	22461.15	18531.41	23797.27	17195.29

The balance in ISA reduced to ₹ 17195.29 crore during 2011-12 due to updation of 16.62 crore subscribers' accounts in that year.

It was further noticed that EPFO credited ₹23797.27 crore to subscribers' accounts for interest payable from ISA resulting into negative balance of ₹1336.12 crore in ISA account temporarily as on 31.03.2012.

In reply, EPFO stated (November 2012) that the figure at the end of the year in Interest Suspense Accounts increases every year as the corpus in investment is increased every year.

EPFO's reply does not justify increasing balance in ISA which is due to non-updation of subscribers' accounts in a timely manner. Non-updation of accounts is also discussed under para 5.5.

2.4 Annual rate of interest to subscribers

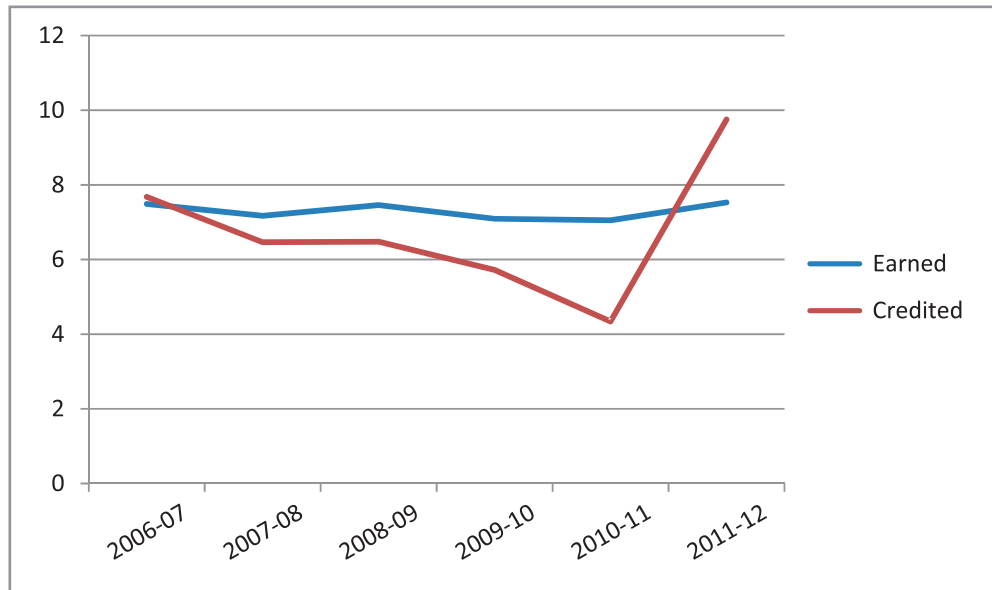
As per paragraph 60(1) of the EPF Scheme, 1952 the Commissioner shall credit interest to the accounts of the members at such rate as may be determined by the Central Government in consultation with the CBT.

The interest earned on investments under EPF corpus and that credited to subscribers' accounts during 2006-12 is as given below:

Table-2.7: Difference in interest earned and that credited to subscribers' accounts

Year (1)	Amount invested (₹ in crore) (2)	Interest earned on investments (₹ in crore) (3)	Interest earned on investments in per cent of amount invested (4)	Actual interest credited to subscribers accounts (₹ in crore) (5)	Per cent of amount credited as interest to total invest- ments (6)	Difference between interest earned and interest paid(in per cent) (4)-(6) (7)	Declared rate of interest (in per cent) (8)	Difference between declared rate and earned interest rate (in per cent) (8)-(4) (9)
2006-07	103837.36	7779.63	7.49	7976.24	7.68	-0.19	8.50	1.01
2007-08	121503.70	8706.88	7.17	7854.60	6.46	0.71	8.50	1.33
2008-09	142977.39	10667.43	7.46	9268.15	6.48	0.98	8.50	1.04
2009-10	168281.37	11933.88	7.09	9631.96	5.72	1.37	8.50	1.41
2010-11	201064.01	14181.90	7.05	8719.53	4.34	2.71	9.50	2.45
2011-12	237323.63	17879.95	7.53	23145.81	9.75	-2.22	8.25	0.72

The mismatch between rate of interest earned on its investments and percentage of payouts on investments to its subscribers is also depicted graphically as under:



Graph showing *per cent* of income earned on investments and credited to subscribers accounts.

From above it is seen that :

- a) EPFO had been paying lesser amount as interest to the subscribers than it has been earning on the corpus (except 2006-07 and 2011-12). It may be noted that it charges separately for administration of its schemes.
- b) Interest payments to subscribers as percentage of its total investments have been going down (except for last year), although the declared rate of interest was high. Further, there was no consistency between the rate of interest earned on its investments and the rate being paid to subscribers, for 2006-07 and 2011-12 payment was more than it earned, for remaining years it remained less, violating principles of financial prudence.
- c) There were gaps between declared rate of interest and the rate at which it was earning on its investments.

These facts indicate that total amount of money under EPF corpus was more than cumulative balance with all its subscribers, and the difference was increasing over the years. The gap could be due to non updation of accounts, unclaimed accounts, and moneys in transit, etc. which is reflective of inadequate services to its subscribers.

EPFO replied (December 2013) that interest in column (5) may not be the total amount of interest which should have been credited into subscribers' accounts because a lot of accounts remain pending to be updated. It further stated that during 2011-12, huge number of pending accounts was updated in a special drive. It also stated that in coming years the figures of interest earned and interest paid during a particular year may be quite close.

Recommendation: *The EPFO should prudently match its earnings with interest payouts to its subscribers.*

2.5 Non-adoption of investment pattern as notified by the Ministry of Finance

Ministry of Finance had prescribed pattern of investment in July 2003 with break up of percentage of investments under different categories. This pattern was revised in January 2005 and again in August 2008.

It was seen that the EPFO did not follow the pattern of investment prescribed by the Ministry of Finance. The Ministry of Finance directed (July 2010) the Ministry of Labour and Employment/EPFO to adopt the investment pattern as notified by it.

The EPFO in its reply stated (November 2012) that it had followed the pattern of investment prescribed by Ministry in July 2003. It was found that even 2003 pattern was not being followed.

Thus, EPFO was not following investment pattern as directed by Government of India.

2.6 Annual valuation

As per Para 32 of Employees Pension Scheme, 1995, the Central Government shall have an annual valuation of the Employees' Pension Fund made by a Valuer appointed by it.

The Valuer appointed for year 2005-06 projected total liability in the accounts for ₹ 95,895.00 crore and considered value of fund of ₹ 73,236.00 crore, thereby estimating a deficit of ₹ 22,659.00 crore as on 31 March 2006.

The valuation exercise for the year 2006-07, 2007-08 and 2008-09 had been carried out by appointed Valuers. Annual valuation reports as on March 2007 and March 2008 were received by EPFO in October 2011 and August 2012 respectively. The report for the year 2008-09 was yet to be received. Valuers for 2009-10, 2010-11 and 2011-12 were appointed in November 2012. Received reports were reportedly under consideration of EPFO.

Thus, (a) valuation during 2006-07 reflected considerable deficit in Fund, (b) valuation is not being done in time, nor are the reports received in a time bound manner, and (c) there has been significant delays in action on valuation reports.

The EPFO stated (August 2013) that the valuation of EPS Fund as on 31 March 2009, had been completed and the Valuer for valuation as on 31 March 2010, 2011 and 2012 had already been appointed by the Central Government and valuation exercise had been initiated. The EPFO further stated (August 2013) that the Ministry of Labour and Employment had informed in December 2012, that the Ministry after inter-ministerial consultation regarding revision in pensionery benefit under EPS, 1995 submitted a Cabinet Note to the Cabinet Secretariat on 12 October 2012 and it was decided that the issue be examined by a Committee of Secretaries, and the issue was under their consideration since May 2013.

Recommendation: Government must immediately act on pending Valuers' report and decide its impact on EPS accounts and carry out necessary corrections.

The valuation exercise should be done annually on regular and timely basis and the impact thereof should be disclosed.

2.7 Employees' Pension Fund

As per Para 5.3.4 of the Manual of Accounting Procedure of Employees' Pension Scheme, 1995, the Central Government's contribution to the Employees' Pension Fund is to be kept in the Public Account of the Government of India. The Ministry of Labour and Employment issues sanctions in respect of the Government's share of contribution (and for interest thereon) for necessary adjustments by the Pay and Accounts Office in the Union Government accounts. The copies of the sanctions are also forwarded to the EPFO for making necessary entries in its Annual Accounts. As such, the balances of the Government's share of pension contribution to the Employees' Pension Fund, as depicted in the Public Account and in the accounts of EPFO should agree.

Audit noted that as per the annual accounts of EPFO for the year 2007-08, the closing balance of the Central Government's contribution (including interest) to the Pension Fund was ₹ 36,809.06 crore. The amount, however, depicted in the Union Government Finance Accounts was ₹ 36,939.04 crore. There was, thus, a difference of ₹ 129.98 crore in the two documents.

This subject was also commented upon in Audit Reports for the financial years 2008-09, 2009-10, 2010-11 and 2011-12, wherein the need for regular reconciliation to address this discrepancy was impressed upon.

The EPFO stated (September 2013) that as per the directions of the Ministry the matter of reconciliation is being sorted out with the Principal Accounts Officer, Ministry of Labour and Employment.

Recommendation: The Ministry may take appropriate action to reconcile the figures.

2.8 Committee meetings

The activities and functions of the EPFO are governed by the Act. Para 11 of the EPF Scheme 1952 prescribes the minimum number of meetings of Executive Committee and Regional Committees to be held in each financial year. Status of actual number of meetings of these Committees held during the period 2006-12 is given below:

Table 2.8 - Periodical meetings of Committees of the EPFO

Name of the Committee	Main functions of the Committee	Prescribed frequency of meetings	Actual number of meetings held during 2006-07 to 2011-12	Shortfall
Executive Committee	To assist the Central Board in the performance of its functions.	4 every year Total : 24	4 - (2006-07) 3 - (2007-08) 4 - (2008-09) 2 - (2009-10) 3 - (2010-11) 4 - (2011-12) Total: 20	4
Regional Committees	Administration of scheme in States, progress of recovery of PF contribution, speedy settlement of claims	2 every year Total : 266	28 - (2006-07) 22 - (2007-08) 22 - (2008-09) 32 - (2009-10) 36 - (2010-11) 33 - (2011-12) Total: 173	93

Thus, there were shortfalls in the Committee meetings.

The EPFO accepted (November 2012 and August 2013) and stated that audit observations have been noted and the fresh instructions will be issued shortly to all concerned.

State specific findings- Regional Committee (RC) meetings

Gujarat- The tenure of previous RC expired in August 2002. The RC was re-constituted only in February 2011.

Maharashtra- The tenure of previous RC expired in August 2006. The RC was constituted only in December 2010.

Delhi- Reconstitution of the RC was pending since May 2002 for want of nomination from State Government of NCT Delhi. As such no meetings were held during the years 2003-2004 to 2011-12.

Goa- The tenure of RC expired in October 2008 and new RC was reconstituted only in November 2010. Thus, no meeting was held during the years 2008-09 to 2011-12.

Recommendation: *The minimum number of the meetings of the Committees should be held as per prescribed norms.*