सत्यमेव जयते

# Performance Audit of Employees' Provident Fund Organisation

## (Ministry of Labour and Employment)

## Report of the Comptroller and Auditor General of India for the year ended March 2012

**Union Government (Civil)**
**(Autonomous Bodies)**
**Report No. 32 of 2013**
**(Performance Audit)**

# Performance Audit of
# Employees' Provident Fund Organisation
## (Ministry of Labour and Employment)

**Report of the**
**Comptroller and Auditor General of India**
**for the year ended March 2012**

**Union Government (Civil)**
**(Autonomous Bodies)**
**Report No. 32 of 2013**
**(Performance Audit)**

# Contents

# Preface

The Report of the Comptroller and Auditor General of India for the year ended March 2012 containing the results of the Performance Audit of Employees' Provident Fund Organisation (EPFO) has been prepared for submission to the President of India under Article 151 of the Constitution.

The Performance Audit was conducted through test check of records of the EPFO and its Regional Offices (ROs) and Sub-Regional Offices (SROs) for the period 2006-07 to 2011-12. Audit observations were issued to EPFO as well as the Ministry and the replies have been considered and appropriately incorporated in the Report.

# Executive Summary

The Government of India has enacted a number of legislations in the area of social security. Employees' Provident Funds and Miscellaneous Provisions Act, 1952 is an important Act in this regard. The Act provides for compulsory provident fund, pension and deposit linked insurance in factories or establishments employing twenty or more employees in industries mentioned in Schedule I to the Act. The Government of India administers the Act through Employees' Provident Fund Organisation.

Important findings of the Performance Audit Report are given below:

- Wage limit for coverage of employees under EPF Scheme was ₹ 6500 which has been continuing since June 2001.

  (Paragraph 2.1)

- There were consistent shortfalls in receipt of contributions from the Central Government.

  (Paragraph 2.1.2).

- Income of EPFO collected by way of administrative charges, etc. has been more than its expenditure on running of schemes.

  (Paragraph 2.1.3)

- The balance in the 'Interest Suspense Account' increased consistently from ₹ 12445.29 crore in March 2007 to ₹ 22461.15 crore in March 2011.

  (Paragraph 2.3)

- The EPFO did not follow prescribed pattern of investments.

  (Paragraph 2.5)

- Valuation of Employees Pension Fund is not being done in time, nor are the reports received in a time bound manner and there is significant delay in action on valuation reports.

  (Paragraph 2.6)

- The EPFO was not very encouraging towards voluntary coverage of its schemes. Inspections of establishments were less than prescribed targets, which led to insufficient controls over establishments.

(Paragraphs 3.3 and 3.4)

- A sum of ₹ 313.20 crore was recoverable on account of EPF arrears from 20974 establishments in selected ROs/SROs of the five States as on 31 March 2012.

(Paragraph 4.3)

- Outstandings towards realisation of damages from unexempted establishments increased from ₹ 151.78 crore to ₹ 265.75 crore during 2006-07 to 2011-12.

(Paragraph 4.5)

- Employers of exempted establishments did not deposit ₹ 129.20 crore to their respective Boards of Trustees. An amount of ₹ 299.78 crore was not invested by the BOTs of 249 exempted establishments which was in violation of the provisions of exemption.

(Paragraphs 4.6.1 and 4.6.2)

- More than 70,000 Subscribers' accounts had minus balances totalling ₹ 45.06 crore, which is indicative of withdrawal in excess of available balance. Possibility of unauthorised withdrawals could not be ruled out.

(Paragraph 5.2)

- Balance in Inoperative/Unclaimed Deposit Account increased from ₹ 332.14 crore to ₹ 2948.11 crore during 2006-12. Further, number of inoperative accounts increased from 25,12,793 in 2006-07 to 73,00,262 in 2011-12.

(Paragraph 5.4)

***Summary of Recommendations***

- *The wage limit may be suitably revised at regular intervals.*
- *Central Government should remit its contribution to EPFO in time.*
- *The EPFO may revise its administrative charges suitably.*
- *The EPFO may frame the budget estimates with due care as per provisions in GFRs. Ministry may scrutinize the budget proposals adequately before according sanction.*
- *The EPFO should prudently match its earnings with interest payouts to its subscribers.*
- *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.*
- *The Ministry may take appropriate action to reconcile the figures.*
- *The minimum number of meetings of the Committees should be held as per prescribed norms.*
- *The EPFO should closely monitor targets and ensure compliance for conducting regular surveys and inspections of establishments. Further, it needs to welcome establishments opting for voluntary coverage and ensure that notifications are issued in a time bound manner.*
- *The EPFO should ensure comprehensive updation of DCBRs, generate appropriate defaulters list and initiate necessary recoveries.*
- *The EPFO may monitor timely remittance of its deposits by SBI.*
- *The EPFO should evolve a procedure for constant monitoring and control mechanism to ensure that number of in-operative accounts are minimised.*
- *Updation of subscribers' accounts should be done on a regular basis.*

# 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 I[1] 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 Proviosions 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 Establishement (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, penalities 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.

# 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 wages[1] 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 | 39265.50 |
| **Employees' Pension Fund** | | | | | | |
| I) Employers Share | 6,710.66 | 8,022.46 | 9,320.56 | 9,930.52 | 11,587.94 | 13417.47 |
| II) Government Share | 1,340.00 | 990.00 | 1,167.22 | 994.00 | 1,300.00 | 1350.00 |
| **Total** | 8,050.66 | 9,012.46 | 10,487.78 | 10,924.52 | 12,887.94 | 14767.47 |
| **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.

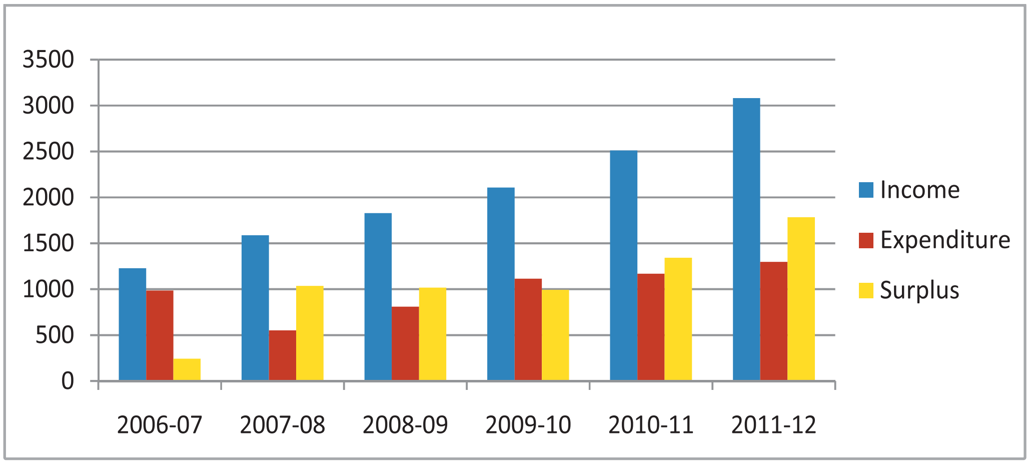
The details of income, expenditure and surplus are given below:-

**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 Expen-diture* | 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 | (-) 377.18<br>*25.10* | (-)106.28<br>*8.63* |
| 2010-11 | 1514.62 | 1708.61 | 193.99 | 12.81 | 1198.39 | (-) 510.22<br>*29.86* | (-)316.23<br>*20.88* |
| 2011-12 | 1761.40 | 1925.82 | 164.42 | 9.33 | 1338.33 | (-) 587.49<br>*30.51* | (-)423.07<br>*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

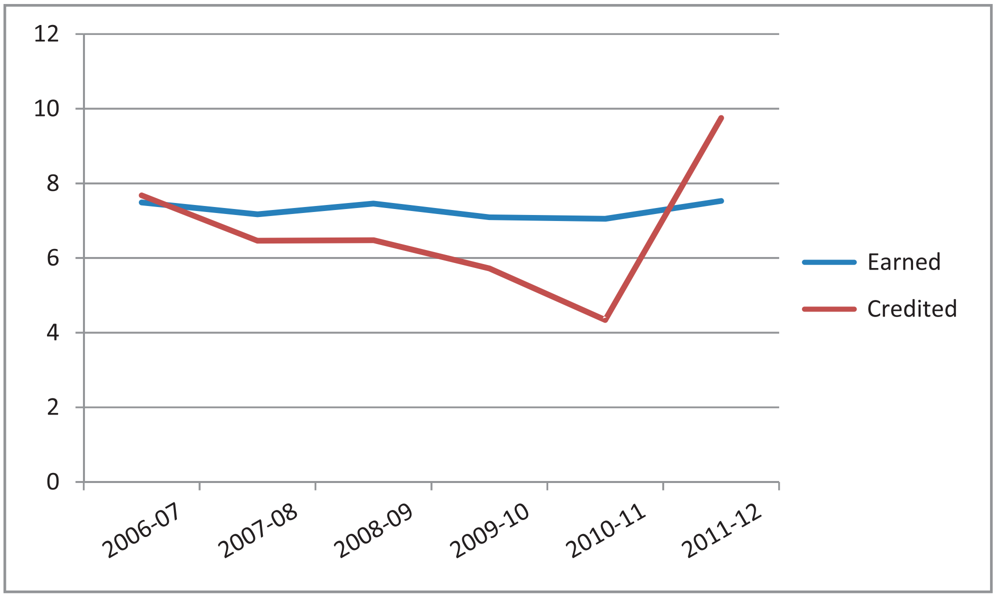
As per paragraph 60(1) of the EPF Scheme, 1952 the Commissioner shall credit interest to the accounts of the members at such rate as may be determined by the Central Government in consultation with the CBT.

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<br>Total : 24 | 4 - (2006-07)<br>3 - (2007-08)<br>4 - (2008-09)<br>2 - (2009-10)<br>3 - (2010-11)<br>4 - (2011-12)<br>**Total: 20** | 4 |
| Regional Committees | Administration of scheme in States, progress of recovery of PF contribution, speedy settlement of claims | 2 every year<br>Total : 266 | 28 - (2006-07)<br>22 - (2007-08)<br>22 - (2008-09)<br>32 - (2009-10)<br>36 - (2010-11)<br>33 - (2011-12)<br>**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.*

# Chapter-III: Coverage and Enrolment

## 3.1 Coverage of establishments

The EPF Act is applicable to every establishment, which is engaged in any one or more of activities specified in Schedule-1 of the Act or any activity notified by the Central Government in the official Gazette; and employing 20 or more persons. Also an establishment which is not otherwise covered under the Act can be included voluntarily with the mutual consent of the employer and the majority of its employees under Section 1(4) of the Act.

Under the EPF Scheme, 187 classes of industries and establishments were covered (March 2012). During 2006-07 to 2011-12, EPF Scheme was extended to industries and establishments dealing with computers, companies offering life insurance, private airports, electronic media, lodging houses, service apartments, condominiums, municipal councils or corporations, etc.

6,91,237 establishments were covered under EPF Scheme (as on 31 March 2012). These included 6,88,487 un-exempted[1] and 2750 exempted[2] establishments. The employees in the un-exempted establishments are serviced by the EPFO and those of the exempted establishments are serviced by the establishments themselves.

Out of the total work force of about 459 millions in India, 27.55 (six *per cent*) million workers are in the organised sector (17.67 million in public sector and 9.87 million in private sector) and the remaining 94 *per cent* are in the unorganised sector. As on 31 March 2012, 8, 55, 40, 324 members were covered under the EPF Scheme which was 18.64 *per cent* of total work force.

Of the total number of members, 64.45 *per cent* are concentrated in five States namely Tamil Nadu, Maharashtra, Karnataka, Delhi and Haryana.

---

[1] Un exempted establishments are those to whom the EPF Scheme has been extended. (Sec.1)

[2] Exempted establishment means an establishment in respect of which an exemption has been granted from the operation of the Scheme (Sec.2(fff).

### 3.2 Compulsory coverage - Surveys

As stated earlier, the provisions of the Act are applicable to every establishment which is a factory engaged in any industry specified in Schedule I and in which 20 or more persons are employed and also to any other establishment employing 20 or more persons which the Central Government may, by notification in official gazette specify.

The Provident Fund Inspector is expected to keep constant vigil over uncovered establishments in his/her area and recommend coverage as soon as the Act becomes applicable to them. Surveys are conducted by Enforcement Officer of the EPFO to assess coverage potential of new establishments.

The EPFO Headquarters fixed (January 2009) target for coverage as five establishments for each Enforcement Officer per month under his jurisdiction and overall increase of 15 *per cent* in the number of establishments covered as compared to last year, for each office.

During the year 2009-10 to 2011-12, shortfalls ranged between 47 *per cent* and 58.82 *per cent* against the targets prescribed, in sampled ROs/SROs in the States of Chhattisgarh, Gujarat, Haryana, Madhya Pradesh, Odisha, Kerala, Tamil Nadu, Rajasthan, Goa and Delhi as per details given below. In respect of other regions/States complete data/details were not available. Shortfalls in inspection would have adversely affected inclusion of new establishments.

**Table 3.1: - Details of Coverage and Enrolment**

| Year | Number of Establishments at the beginning of year | Target for enrolment of fresh establishment (15 *Per cent*) | Number of Establishments fresh enrolled | Number of Establishments at the end of the year | Shortfall | *Per cent* of Shortfall |
|---|---|---|---|---|---|---|
| **2009-10** | 198463 | 29769 | 15777 | 214240 | 13992 | 47.00 |
| **2010-11** | 214240 | 32136 | 15925 | 230165 | 16211 | 50.44 |
| **2011-12** | 230165 | 34525 | 14219 | 244384 | 20306 | 58.82 |

No response on the above issue was received from EPFO (November 2013).

### 3.3 Voluntary coverage

An establishment can be covered voluntarily with the mutual consent of the employer and the majority of the employees (Section 1(4) of the Act). In such cases, the CPFC issues a notification in the official gazette and the social security benefits as per the EPF Scheme are available to employees. However, there was no time frame for issue of such notification.

Audit noted that a large number of requests for voluntary coverage were pending with the Central Office and ROs. Between 2006-07 and 2011-12, of the total 1352 cases of request for voluntary coverage from Chhattisgarh, Delhi, Haryana, Jharkhand, Punjab and Uttar Pradesh, only in 79 cases (5.84 *per cent*), notifications were issued. As on 31 March 2012, 314 cases were pending with Central Office for issue of gazette notification and 959 cases pending with ROs.

Significant pendencies were also noticed in other States test-checked in audit as given below:

- In West Bengal (RO Kolkata) during the period from 2006-12, 466 establishments applied for voluntary coverage, out of which only in three cases notifications were issued. The ROs did not recommend 448 cases to their Headquarters reportedly owing to non-receipt of Final Applicability Report from the Enforcement Officer, and the remaining 15 cases were pending with the Central Office.

- In Kerala (RO Thiruvananthapuram) in 177 voluntary coverage cases, issue of notifications was pending. Out of these, in 39 cases, the Enforcement Officers had not conducted inspection and the remaining 138 cases were pending at the Central Office.

- In Odisha, although 83 establishments applied for voluntary coverage, but notification was issued only to 14 establishments during 2006-12.

- In Haryana, 95 cases of voluntary coverage were pending as on 31 March 2012 for periods ranging from 60 to 120 months. No notifications were issued during 2010-11 to 2011-12.

Thus, EPFO was not very encouraging regarding voluntary coverage of its schemes.

EPFO did not comment on the issue (November 2013).

### 3.4 Inspections

Para 11 of Inspector Manual provides that every establishment covered under the Act should be inspected as often and as thoroughly as necessary to ensure effective and prompt implementation of the Act and schemes. In general, routine inspection of an establishment (exempted or un-exempted) should be conducted at least once in 4 months and a minimum of 45 inspections in a month should be maintained by Inspectors.

During test check of records in the ROs/SROs it was noticed that desired number of inspections of establishments were not conducted. Inadequate inspections were noticed in following States.

| State | Audit observation |
|---|---|
| Karnataka | SRO, Bangalore – 36 establishments were not inspected since coverage, out of which seven establishments have defaulted. |
| Uttar Pradesh | The target for inspection of covered establishments was not fixed in RO Kanpur, SROs Varanasi and Bareilly for the year 2006-07 to 2011-12. |
| Chhattisgarh | RO, Raipur - no inspection of covered establishments was conducted during 2006-09 and the percentage of shortfall in inspection was 82 to 84 *per cent* during 2009-12. |
| West Bengal | In Kolkota Region out of 14,129 inspections targeted during 2009-12 only 27 *per cent* inspections were conducted.<br>Further, in the case of SRO, Jangipur the percentage of shortfall was 86 *per cent*, 87 *per cent* and 96 *per cent* for the years 2009-10, 2010-11 and 2011-12 respectively. |
| Haryana | No targets for inspection of covered establishments were fixed by RO Faridabad, during 2006-10. Target of inspections of 7818 establishments was fixed by RO Faridabad for the year 2010-11 against which inspection of 1668 (34 *per cent*) establishments were conducted No target was fixed for 2011-12.<br>RO Gurgaon fixed targets of 5544 establishments for inspection for the year 2009-10 to 2010-11. Against the target only 1782 (32 *per cent*) establishments were inspected. No target was fixed for the year 2011-12. |
| Rajasthan | In RO Jaipur and SROs Udaipur, Jodhpur and Kota, out of 6960 inspections targeted, only 2212 (31.78 *per cent*) were conducted during 2011-12. |

**Case study: Inadequate inspections**

In RO, Kolkata, SROs Park Street and Barrackpore 4357 new establishments were added during the period of audit. However, after obtaining code numbers, 1035 newly covered establishments disappeared, either without making any contribution at all or after making contribution for just one or two months. Despite being sought by audit, the RO, Kolkata could not produce any evidence in support of inspection carried out in these establishments.

Thus inspections of establishments were less than targets, which led to insufficient controls over establishments regarding implementation of provisions of the Act.

***Recommendation:*** *The EPFO should closely monitor targets and ensure compliance for conducting regular surveys and inspections of establishments. Further, it needs to welcome establishments opting for voluntary coverage and ensure that notifications are issued in a time bound manner.*

# Chapter-IV: Contribution and recovery

## 4.1 Responsibility of employers

As per Para 30(3) of the EPF Scheme, it shall be the responsibility of the principal employer to pay both the contributions payable by him in respect of the employees directly employed by him and also in respect of the employees employed through a contractor, as also administrative charges.

## 4.2 Demand Collection Balance Register (DCBR)

DCBR is maintained in ROs/SROs for all establishments. Entries in DCBR are made through monthly statements received from employers along with challans of remittances made in bank. DCBR facilitates preparation of defaulters' lists and damages statement which are then transferred to Enforcement Branch and Penal Damage Cell for initiating action to recover the dues. DCBR also facilitates reconciliation with schedule of receipts received from banks to get delayed remittances which constitute default by banks (Para 4.5.3 of the Manual of Accounting Procedure, Part 1- General). Thus, DCBR is an important control register and is required to be maintained properly.

Test check of records in respect of the selected ROs/SROs in the following States revealed that the DCBR was not being maintained or the reconciliation was not being done with the receipts of the bank.

- In Delhi RO (North) and RO (South) DCBRs were not being maintained.
- In Karnataka (RO Bangalore and SRO Chikkamagalur) monthly updation of DCBR was not done.
- In Rajasthan (RO Jaipur and three SROs) DCBR was not maintained since 2005-06.
- In Jharkhand, posting in DCBR was not being done monthly and in some cases the posting was done annually.

Due to non-maintenance or updation of the DCBR, the EPFO authorities lost an important control mechanism to watch receipt of dues and remittance towards the past accumulations and ensure correctness of defaulters' lists.

The EPFO stated (September 2013) that the Electronic Challan-cum-Return (ECR) facility has already been provided in the new Application Software which will auto update the DCBR.

Action taken by EPFO is commendable, however, the software will monitor current remittances only and past gaps in DCBR will remain.

***Recommendation:*** *The EPFO should ensure comprehensive updation of DCBRs, generate complete defaulters list and initiate necessary recoveries.*

### 4.3 Arrears of Provident Fund and Administrative Charges

Para 38 of the EPF Scheme provides that every employer shall deduct the employees' contribution from their wages which together with their own contribution as well as administrative charges, he shall deposit within 15 days of the close of every month. Directorate of Recovery at EPFO Headquarters monitors the performance of its field offices regarding recoveries.

As on 31 March 2012, total arrears on account of EPF were ₹ 1723 crore. Test check in audit revealed that a sum of ₹ 313.20 crore was recoverable on account of EPF arrears from 20,974 establishments in selected ROs/SROs from the following five States as on 31 March 2012.

**Table 4.1: Arrear of EPF**

| State | Number of Establishments | Total dues (₹ in crore) |
|---|---|---|
| West Bengal | 96 | 6.55 |
| Gujarat | 1902 | 87.33 |
| Tamil Nadu | 10303 | 135.61 |
| Haryana | 1262 | 25.18 |
| Punjab | 7411 | 58.53 |
| **Total** | **20974** | **313.20** |

Further, as on March 2012 total arrears on account of administrative and inspection charges were ₹ 143.60 crore. The arrears of administrative charges pertaining to un-exempted establishments in three States of Kerala, Madhya Pradesh and Tamil Nadu had increased from ₹ 16.94 crore involving 17213 establishments to ₹ 27.87 crore involving 19316 establishments during 2006-12.

State specific findings for Maharashtra, Odisha, Kerala, Karnataka, Tamil Nadu, Haryana and Punjab regarding arrears of administrative/inspection charges are given below.

**Table 4.2: State specific findings on arrears of administrative/ inspection charges**

| State | Observation |
|---|---|
| Maharashtra | In RO (Mumbai-I Bandra) total amount of ₹ 25.95 crore (₹ 14.64 crore up to 2003-04, ₹ 8.95 crore from April 2004 to March 2009 and ₹ 2.36 crore from April 2009 to March 2011) was pending for recovery towards the inspection charges from Maharashtra State Road Transportation Corporation. |
| Odisha | The arrears of administrative charges were ₹ 4.33 crore from 2279 defaulting establishments. In respect of exempted establishments, arrears of recoverable inspection charges were ₹ 4.65 crore. SRO, Keonjhar did not maintain records from 2006-07 to 2011-12. SRO, Berhampur also did not maintain records relating to the required information in respect of inspection charges of exempted establishments. |
| Kerala | In RO Thiruvananthapuram non recovery of administratives charges increased from ₹ 5.89 crore to ₹ 7.78 crore from 3602 to 4400 establishments during the period 2006-07 to 2011-12. |
| Karnataka | In RO, Bangalore, amount of contribution and inspection charges recoverable as on 31 March 2012 was ₹ 10.23 crore. |
| Tamilnadu | An amount of ₹ 9.48 crore was pending for collection from 12182 establishments towards administration charges as on March 2012. |
| Haryana | Administrative charges in respect of 1284 establishments amounting to ₹ 2.03 crore in RO Faridabad and 960 establishments involving an amount of ₹ 41.71crore in RO Gurgaon were in arrears as on 31 March 2012. |
| Punjab | ₹ 5.21 crore in respect of 4329 establishments in RO Chandigarh and ₹ 1.29 crore in respect of 2573 establishments in RO Ludhiana were pending on account of administrative charges as on 31 March 2012. |

No reply was received from the EPFO (November 2013).

## 4.4 Interest due from bank for delayed credits

State Bank of India (SBI) collects the amounts leviable on behalf of the EPFO.

As per Para 6.9.1 of Manual of Accounting Procedures (General), the amount of contributions and other dues received by the branches of SBI every day should be remitted to SBI's concerned link branch on the same day. Any delay in transfer would adversely affect the Fund and interest thereon. Further, the amount deposited with the SBI is to be credited in the EPFO account within seven days from the date of presentation of challan by establishment. The delay in transfer of amount attracts interest of two *per cent* over and above its savings rate.

Test check in audit of selected ROs/SROs revealed that as on 31 March, 2012 due to delays in crediting in EPFO account by bank, interest amounting to ₹ 7.74 crore was recoverable towards additional two *per cent* in following States:

**Table 4.3: Details of interest recoverable**

| State and RO/SRO | Amount of recoverable interest (₹ in crore) |
|---|---|
| West Bengal (RO Kolkata, SRO Parkstreet) | 2.99 |
| Karnataka (RO Mangalore, SROs Mysore and Chikkamagalur) | 1.13 |
| Punjab (RO Ludhiana) | 0.40 |
| Madhya Pradesh (SROs Gwalior and Bhopal) | 1.12 |
| Kerala (RO Thiruvananthapuram) | 2.10 |
| **Total** | **7.74** |

Although, the Central Office along with Regional Provident Fund Commissioner were responsible to ensure proper and prompt recovery but system to track the delayed credits by the bank was non functional.

Steps taken by the EPFO to recover the amount were not on record.

***Recommendation****: The EPFO may put in place an effective mechanism to monitor timely remittance of its deposits by SBI.*

## 4.5 Levy and realisation of damages and penalties

All the covered establishments are required to pay their dues within 15 days of the close of every month. If the amount is not deposited within the stipulated time, penal damages can be imposed under section 14B of the Act. (Para 5.1.3 of the Manual of Accounting Procedure (Part -1 General) read with Para 32A of the Scheme).

It was seen that outstanding amount of damages levied but not realised from defaulting un-exempted establishments as on 31 March 2012 was ₹ 265.75 crore. Further, it was noticed that the balance outstanding amount had doubled from ₹ 132.62 crore as on 1 April 2006 to ₹ 265.75 crore as on 31 March 2012. The details for selected ROs/SROs of five States i.e. Kerala, Madhya Pradesh, Rajasthan, Tamil Nadu and Goa are given below.

**Table4.4: Levy and realisation of damages from un-exempted establishments**

(Amount ₹ in lakh)

| Year | Opening Balance of damages | | Amount of damages levied during the year | | Balance outstanding of damages | |
|---|---|---|---|---|---|---|
| | Number of Establishments | Amount | Levied | Realised | Number of Establishments | Amount |
| 2006-07 | 6429 | 13261.84 | 4317.61 | 2401.21 | 5405 | 15178.24 |
| 2007-08 | 5405 | 15178.24 | 11453.27 | 2404.52 | 5606 | 24226.99 |
| 2008-09 | 5606 | 24226.99 | 4854.01 | 3014.90 | 5814 | 26066.10 |
| 2009-10 | 5814 | 26066.10 | 3458.07 | 1824.93 | 6327 | 27699.24 |
| 2010-11 | 6327 | 27699.24 | 4067.91 | 3411.39 | 9429 | 28356.46 |
| 2011-12 | 9429 | 28356.46 | 2701.12 | 4482.15 | 9270 | 26575.43 |

In the States of Gujarat, Punjab and Haryana, an amount of ₹ 68.12 crore was in arrears on account of damages (as on 31 March 2012) as per details given below:

- In Gujarat, arrear of damages was of ₹ 47.72 crore.
- In Haryana (ROs Faridabad and Gurgaon), damages of ₹ 15.28 crore from 1371 defaulting establishments were due.
- In Punjab (RO Chandigarh), damages of ₹ 5.12 crore were outstanding from 702 defaulting establishments.

The EPFO stated (November 2012) that directions have been issued for active follow up of the provisions of the Act by its field offices.

Audit also noted that the arrears of penalties from un-exempted establishments in respect of selected ROs/SROs of Chhattisgarh, Odisha, Gujarat, Delhi, Rajasthan, Tamil Nadu and West Bengal increased from ₹ 443.65 lakh in 2006-07 to ₹ 1371.90 lakh in 2011-12. The details are in table below.

**Table 4.5: Levy of penalties**

(Amount ₹ in lakh)

| Year | Number of defaulting Establishments | Penalties leviable | Penalties levied | Shortfall |
|---|---|---|---|---|
| 2006-07 | 7546 | 2799.19 | 2355.54 | 443.65 |
| 2007-08 | 9105 | 4082.12 | 3129.99 | 952.13 |
| 2008-09 | 7286 | 7666.87 | 6279.28 | 1387.59 |
| 2009-10 | 9918 | 3127.33 | 1982.63 | 1144.70 |
| 2010-11 | 15949 | 13397.98 | 7764.13 | 5633.85 |
| 2011-12 | 8176 | 3603.02 | 2231.12 | 1371.90 |

## 4.6 Transfer of Funds by exempted establishments to Board of Trustees (BOT)

### 4.6.1 Transfer of Funds

As per EPF Scheme 1952, for exempted establishments, the employer shall transfer to its Board of trustees (BOT) the contributions payable to the Provident fund by himself and employees at the rate prescribed under the Act from time to time by 15th of each month for which the contributions are payable. The employer shall be liable to pay simple interest in terms of the provisions of section 7-Q of the Act for any delay in payment of any dues to the BOT. In the event of any violation of the conditions for grant of exemption, by the employer or the Board of Trustees, the exemption granted may be cancelled.

Test check of records in selected ROs/SROs in the States of Madhya Pradesh, West Bengal, Rajasthan and Kerala revealed that employers of exempted establishments did not deposit ₹ 129.20 crore[1] to their respective Boards of Trustees.

[1] Madhya Pradesh – ₹ 17.67 crore, West Bengal ₹ 62.84 crore, Rajasthan: ₹ 45.43 crore, Kerala: ₹ 3.26 crore.

Non-transfer of funds by the establishments to their respective BOTs indicates that the establishments were violating the exemption provisions. EPFO did not initiate action to cancel exemption of these erring establishments.

The EPFO stated (November 2012) that directions have been issued to take action as per rules immediately.

### 4.6.2 Funds remaining un-invested by the BOT

The Boards of Trustees (BOTs) of exempted establishments are required to invest every month the accumulated funds in the manner prescribed by the Central Government from time to time. Failure to make investments as per directions of the Government shall make the BOT liable to surcharge payments.

It was seen that an amount of ₹ 299.78 crore was not invested by the BOTs of 249 exempted establishments in the selected ROs/SROs in five States as per details given below (as on 31 March, 2012):

**Table 4.6: Details of funds not invested by BOTs**

| State | Number of establishments | Amount (₹ in crore) |
|---|---|---|
| Odisha | 21 | 5.76 |
| Kerala | 161 | 73.84 |
| Gujarat | 46 | 5.86 |
| Chattisgarh | 5 | 211.24 |
| Punjab | 16 | 3.08 |
| **Total** | **249** | **299.78** |

Non-investment of funds was in violation of the exemption conditions.

The EPFO stated (November 2012) that instructions have been issued to all field offices to examine such cases in the light of Act and Scheme provisions to take appropriate action against the BOT who retained the fund at their disposal without investing the same.

### 4.6.3 Transfer of accumulated balances to Fund by the exempted establishments after cancellation of exemptions

As per Para 28(1) (ii) of the Scheme, the exempted establishments on cancellation of exemption are required to transfer all accumulations to the credit of the subscribers, within ten days of cancellation of the exemption.

It was observed that in RO Kolkata even after cancellation of exemption of 86 establishments, the past accumulation of 42 establishments amounting to ₹ 97.38 crore had not been transferred for one to five years.

## 4.7 Determination of dues from employers in case of default

Section 7A of the Act empowers the Organisation to determine the amount due from an employer under any provision of this Act, the scheme or the pension scheme or the insurance scheme and may conduct such inquiry as deemed necessary. Accordingly, EPFO quantifies the provident fund dues and raises demand against defaulters. The proceedings under these provisions are quasi-judicial.

The EPFO Headquarters fixed (January 2009) the target of minimum disposal of 50 cases under Section 7A per month for each Assessing Officer. Further, all the cases were required to be finalised within three months and no case was to remain pending for more than 6 months.

Audit noted that in selected ROs/SROs in the States of Andhra Pradesh, Bihar, Delhi, Haryana, Jharkhand, Kerala, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Uttar Pradesh and Goa, the number of cases pending for determination of dues increased from 7324 in March 2007 to 11850 in March 2010 which subsequently decreased to 7089 during next two years.

Extent of delay in determination of dues as on 31 March 2012 in respect of 7089 cases was as under:

| | |
|---|---|
| Delay upto three months | 847 cases |
| Delay from 3-6 months | 1833 cases |
| Delay more than six months | 4409 cases |

Thus there were persistent pendencies in cases for determination of dues from defaulters.

**Case study - Karnataka (RO Bangalore)**

M/s. KSRTC Industrial Training Centre, Shanthi Nagar, Bangalore (code No.41318) was covered since 30 September, 1987. KSRTC had gone on appeal against the coverage of the institution under EPF Act, 1952 which was dismissed in January 2000. However, the unit did not comply with the EPF Rules and its provisions since coverage. Summons was issued under Section 7A in January 2006 after a gap of six years. However, no further progress had been made till date 31 March 2012, except issuing notice in September 2011 and an adjournment notice in December 2012. Thus, dues have not been determined even after 25 years of the Unit's coverage.

## 4.8 Recovery of dues from defaulters

Where any amount is in arrear from the employers, Section 8B, 8C and 8F of the Act empower the EPFO to issue Revenue Recovery Certificate (RRC) and recover the amount by attachment and sale of movable or immovable property of the establishment or the employer.

Scrutiny of records in selected ROs/SROs in Chhattisgarh, Delhi, Madhya Pradesh, Maharashtra, Odisha and Punjab revealed that (during 2006-07 to 2011-12):

- 14170 bank accounts were seized. Further, against the recoverable amount of ₹ 911.72 crore, only ₹ 182.07 crore was recovered.
- Against 3353 properties to be seized involving ₹ 686.97 crore, only 259 properties were seized and a sum of ₹ 5.50 crore was recovered.

**Case studies: Delay in initiating recovery proceedings**

**Karnataka (RO, Bangalore)**

**M/s. Ismart Global Ltd., Bangalore (KN23372): ₹ 2.16 crore**. The establishment defaulted from December 2007 to October 2009 and an amount of ₹ 209.62 lakh was recoverable. RRC was issued in April 2010 and prosecution was launched only in February 2011. ₹ 216.00 lakh remains to be recovered at the end of December 2012.

**M/s Lakshmi Vatika Ltd., Vasant Vihar, New Delhi: ₹ 3.85 crore.** The establishment defaulted in depositing the EPF dues for the period June 2006 to April 2007. A notice was served in December 2009 which was followed by issue of RRC for ₹ 3.85 crore in April 2010. Subsequently, the establishment was not traceable and the bank account of the establishment was found to be closed. Consequently, the amount could not be recovered.

# Chapter-V: Maintenance of Subscribers' Accounts

## 5.1 Maintenance of Accounts

The Manual of Accounting Procedure provides for system of accounts prescribed under the EPF Scheme for maintenance of establishments and employee's members master files, maintenance of data and particulars of employees enrolled as PF members, their cessation and nomination.

## 5.2 Minus balances

Subscribers' accounts reflect balance accumulated as on a particular date. Prudence demands that balances in subscribers' accounts should always be positive. However, an examination of the closing balances in the records revealed minus balances in subscribers accounts as under (31 March 2012):

**Table 5.1: Details of minus balances**

| State | Name of RO/SRO | Number of Subscriber Accounts with minus balance | Total amount of Minus balances in these accounts (₹ in crore) |
|---|---|---|---|
| Punjab | RO Chandigarh | 9341 | 10.23 |
| West Bengal | RO Kolkata, SRO Park Street | 3776 | 6.27 |
| Odisha | SRO Keonjhar | 160 | 0.04 |
| Madhya Pradesh | RO Indore | 19291 | 13.51 |
| Kerala | RO Thiruvanant-hapuram | 4541 | 1.60 |
| Karnataka | RO Manglore, | 3958 | 1.51 |
| | RO Mysore | 1236 | 0.63 |
| Gujarat | RO Ahmadabad | 27874 | 11.27 |
| **Total** | | **70177** | **45.06** |

Depiction of minus balance is indicative of withdrawal in excess of the available balance in the accounts. Possibility of unauthorised withdrawals/ excess payment from the subscribers' accounts could not be ruled out.

The EPFO stated (September 2013) that detailed instructions have been issued to field offices to identify and clear the minus balances. Further, Over Pay Committee has been entrusted with the work of identifying the reasons for such minus balances. In case of any of the minus balances resulting due to negligence on the part of officials, recovery of the actual amount from the concerned official is recommended.

### 5.3 Transfer of accounts

As employees change their jobs, EPFO facilitates transfer of balances to relevant RO/SRO. Para 11.3 of the Manual of Accounting Procedure (Part II A&B) provides that the transfer application should be dealt with promptly and the transfer should be effected within 30 days of the receipt of the application, in complete form.

Audit noted that during the period 2006-12, in selected ROs/SROs in the following States, in 81531 cases the funds were not transferred from ROs/SROs to other ROs/SROs as per details given below:

**Table 5.2: Number of cases where funds not transferred**

| State | Number of cases where funds not transferred |
|---|---|
| Madhya Pradesh | 6337 |
| Tamil Nadu | 43658 |
| Haryana | 11439 |
| Punjab | 6667 |
| Gujarat | 7546 |
| Chhattisgarh | 929 |
| West Bengal | 4955 |
| **Total** | **81531** |

It was noticed in audit that in West Bengal (RO Kolkata) alone, the contribution of ₹ 665.63 crore received from 4955 establishments during 2006-11, was yet to be transferred (January 2013) to ROs/SROs under jurisdiction of which new employer falls.

The EPFO in its reply (September 2013) accepted the observation and stated that recent modifications in the Application Software and in the Form 13 (revised) will expedite the process of on line transfer of accounts from one account to another.

### 5.4 Inoperative/Unclaimed Deposit Account

Any amount which could not be remitted for want of latest address, related to members who ceased to be employed or died but no claim is preferred in three years, or amount remitted and received back undelivered, are transferred to inoperative account (Para 72 (6) of EPF Scheme). Further, every effort should be made to contact the payee through employer, trade unions to disburse dues as early as possible (Para 6.5.4 of Manual of Accounting Procedure Part II A and B).

Scrutiny of records in respect of selected ROs/SROs in the States of Chhattisgarh, Delhi, Gujarat, Madhya Pradesh, Maharashtra, Punjab and Rajasthan revealed that the balance amount of inoperative/unclaimed deposit account increased nine fold from ₹ 332.14 crore in April 2006 to ₹ 2948.11 crore in March 2012. Details are given below:-

**Table 5.3: Unclaimed deposits**

(₹ in lakh)

| Year | Opening Balance | Amount transferred | Amount adjusted | Closing balance |
|---|---|---|---|---|
| 2006-07 | 33214.11 | 51.54 | 12222.16 | 21043.49 |
| 2007-08 | 21043.49 | 241.35 | 2288.47 | 18996.37 |
| 2008-09 | 18996.37 | 17207.64 | 5307.51 | 30896.50 |
| 2009-10 | 30896.50 | 24024.84 | 5680.79 | 49240.55 |
| 2010-11 | 49240.55 | 98287.71 | 31281.00 | 116247.26 |
| 2011-12 | 116247.26 | 190172.20 | 11608.81 | 294810.65 |

Further, number of inoperative accounts increased from 25,12,793 in 2006-07 to 73,00,262 in 2011-12. Thus, as on 31 March 2012, EPFO had 8.53 *per cent* of their 8.55 crore total accounts as inoperative accounts. Details are given below.

**Table 5.4: Number of inoperative/unclaimed deposit accounts**

| Year | Regional level | Sub-regional level | Total inoperative accounts |
|---|---|---|---|
| 2006-07 | 1312395 | 1200398 | 2512793 |
| 2007-08 | 1752870 | 1248746 | 942632 |
| 2008-09 | 1358488 | 2599723 | 609718 |
| 2009-10 | 4905130 | 3726016 | 2298280 |
| 2010-11 | 6345082 | 6587634 | 3365348 |
| 2011-12 | 9416961 | 5356698 | 7300262 |

Thus, sharp increase in unclaimed deposits and inoperative accounts indicated that the EPFO did not exercise adequate control on timely refund or transfer of deposits to subscribers.

The EPFO in its reply stated (September 2013) that a mass awareness programme through print as well as electronic media had been made to encourage members to withdraw or transfer the balances in their inoperative account to their current active accounts. Further, modification in Form 13 (Transfer of accounts) and online transfer of funds from one account to another (Form 13) has also commenced to expedite the process of transfer.

***Recommendation:*** *The EPFO should evolve a procedure for constant monitoring and control mechanism to ensure that number of in-operative accounts is minimised.*

## 5.5 Non-updation of accounts

It is expected that accounts are updated with latest additions or withdrawals, however, it was observed that EPFO had a large number of accounts which were not updated. The position of non-updated/updated accounts during the period 2006-07 to 2011-12 was as under:

**Table 5.5: Non-updated accounts***

(Figure: in crore)

| | As on 31 March 2007 | As on 31 March 2008 | As on 31 March 2009 | As on 31 March 2010 | As on 31 March 2011 | As on 31 March 2012 |
|---|---|---|---|---|---|---|
| **Total number of accounts** | 8.37 | 7.55 | 10.11 | 11.25 | 13.35 | 17.01 |
| **Accounts updated** | 5.25 | 3.94 | 5.85 | 6.53 | 6.07 | 16.62 |
| **Accounts non-updated** | 3.12 | 3.61 | 4.26 | 4.72 | 7.28 | 0.39 |
| **Percentage of non updated accounts to total accounts** | (37%) | (48%) | (42%) | (42%) | (55%) | (2%) |

* EPFO treats one year's account as one account for updation.

Thus, a large fraction of its beneficiaries' accounts remained un-updated at end of each year, till 2010-11 reflecting inadequate service.

Based on the instructions (March 2011) of the Ministry of Finance, EPFO updated 16.62 crore accounts during 2011-12. Yet, 38.74 lakh accounts remained un-updated as on 31 March, 2012.

The EPFO stated (September 2013) that after taking note of the observation of the Finance Ministry and the CAG it had initiated a special drive during the year 2011-12 to update all its pending accounts by 31 March 2012. Due to this special drive and focused efforts, majority of members' accounts for the year up to 2010-11 have been updated thereby leaving a pendency of only 5.58 lakh accounts as on 31 March 2013.

***Recommendation****: Updation of subscribers' accounts should be done on a regular basis.*

## Conclusion

The Employees Provident Fund Scheme together with the Employees Pension Scheme (EPS) and Employees Deposit Linked Insurance (EDLI) Scheme aims to provide social security to employees and their family members. It is, therefore, important that all establishments which satisfy the requirements of the EPF Act, are brought under its ambit without delays. EPFO ensures this through surveys and inspections. Significant shortfalls were noticed in this regard. Also, EPFO was not found to be very encouraging towards voluntary coverage of its schemes.

The Interest Suspense Account balance was not a true reflection of sums available for distribution as interest to subscribers, in the absence of updation of about 38.74 lakh subscribers' accounts as of March 2012. Further more than 70,000 subscribers' accounts reflected negative balances, indicating excess withdrawls. These reflected inadequate service to its subscribers. Its income was consistently more than expenditure on running of schemes. The EPFO also did not adhere to the investment pattern prescribed by the Ministry of Finance.

The revenue collection processes in the EPFO were deficient. Arrears in determination of dues, outstanding amount recoverable on account of administrative charges from the unexempted establishments, inspection charges from the exempted establishments were significant.

The EPFO did not exercise expected control on the employers of exempted establishments to ensure that the exempted establishments transferred the EPF accumumulations to their BOTs and the BOTs invested the money transferred to them.

Many of the weaknesses, in the implementation of scheme, included in this Report, have been persisting despite earlier assurances rendered to the PAC through Action Taken Notes.

**New Delhi**
**Dated : 13 January 2014**

**(A.W.K. LANGSTIEH)**
**Director General of Audit,**
**Central Expenditure**

## Countersigned

**New Delhi**
**Dated : 20 January 2014**

**(SHASHI KANT SHARMA)**
**Comptroller and Auditor General of India**

# Annex

**Referred to in Para 1.6**

**Details of Regional Offices (ROs) and Sub-regional Offices (SROs) selected for audit**

| Sl. No. | State | Total Number of Regional Offices | Total Number of Sub-Regional Offices | Number of Regional Office(s) Selected | Number of Sub Regional Office(s) selected | Name of Regional Office(s) selected | Name of Sub-regional office(s) selected |
|---|---|---|---|---|---|---|---|
| **1** | Andhra Pradesh | 3 | 8 | 2 | 6 | Hyderabad, Guntur | Kukatpally, Patancheru, Siddipet, Vishakhapatnam, Rajahmundry, Kadapa |
| **2** | Bihar | 1 | 2 | 1 | 2 | Patna | Muzaffarpur, Bhagalpur |
| **3** | Chhattisgarh | 1 | | 1 | | Raipur | |
| **4** | Delhi | 2 | 1 | 2 | 1 | Delhi (North) and Delhi (South) | Laxmi Nagar |
| **5** | Gujarat | 3 | 5 | 1 | 1 | Ahemdabad | Rajkot |
| **6** | Haryana | 2 | 2 | 2 | 1 | Faridabad, Gurgaon | Karnal |
| **7** | Jharkhand | 1 | 1 | 1 | 1 | Ranchi | Jamshedpur |
| **8** | Karnataka | 4 | 10 | 2 | 2 | Bengaluru, Manglore | Mysore, Chikkamagalur |
| **9** | Kerala | 1 | 5 | 1 | 5 | Thiruvanantha-puram | Kozhikode, Kochi, Kollam, Kottayam and Kannur |
| **10** | Madhya Pradesh | 1 | 5 | 1 | 5 | Indore | Gwalior, Bhopal, Ujjain, Jabalpur and Sagar |
| **11** | Maharashtra | 5 | 6 | 2 | 1 | Bandra, Thane | Vashi |
| **12** | Odisha | 1 | 3 | 1 | 3 | Bhubaneshwar | Rourkela, Beharampur, Keonjhar |
| **13** | Punjab | 2 | 3 | 2 | 3 | Chandigarh, Ludhiana | Bathinda, Amritsar, Jalandhar |

| Sl. No. | State | Total Number of Regional Offices | Total Number of Sub-Regional Offices | Number of Regional Office(s) Selected | Number of Sub Regional Office(s) selected | Name of Regional Office(s) selected | Name of Sub-regional office(s) selected |
|---|---|---|---|---|---|---|---|
| **14** | Tamil Nadu | 4 | 7 | 2 | 3 | Chennai, Coimbatore | Ambattur, Salem, Trichy |
| **15** | Uttar Pradesh | 2 | 7 | 1 | 4 | Kanpur | Varanasi, Lucknow, Gorakhpur, Bareilly |
| **16** | West Bengal | 2 | 8 | 2 | 8 | Kolkatta, Jalpaiguri | Parkstreet, Barrackpur, Durgapur, Howarh, Portblair, Siliguri, Darjeeling and Jangipur |
| **17** | Goa | 1 | 0 | 1 | | Goa | - |
| **18** | Rajasthan | 1 | 3 | 1 | 3 | Jaipur | Kota, Udaipur and Jodhpur |
| **19** | Guwahati (NER) | 1 | 3 | - | - | - | - |
| **20** | Himachal Pradesh | 1 | - | - | - | - | - |
| **21** | Uttrakhand | 1 | 1 | - | - | - | - |
| | **Total:** | **40** | **80** | **26** | **49** | | |