

FINANCE AND ACCOUNTS OF SOCIAL SECURITY ORGANISATIONS

INTRODUCTION

Every Social Security Organisation under the Code on Social Security deals with huge amounts of public money.

These organisations collect and manage funds relating to:

- Employees' Provident Fund (EPF)
- Employees' Pension Scheme (EPS)
- Employees' Deposit Linked Insurance (EDLI)
- Employees' State Insurance (ESI)
- Social Security Schemes
- Welfare Funds

Since these funds belong to workers and beneficiaries, proper financial management becomes extremely important.

To ensure:

- ✓ Transparency
- ✓ Accountability
- ✓ Financial Discipline
- ✓ Prevention of Misuse
- ✓ Proper Utilisation of Funds

Sections 115 and 116 provide for:

Maintenance of Accounts

and

Audit of Accounts

of Social Security Organisations.

EXAM TIP

Sections 115 and 116 deal with Accounts and Audit of Social Security Organisations.

CHAPTER OVERVIEW

Section	Subject
Section 115	Accounts
Section 116	Audit

SECTION 115

ACCOUNTS

WHY ARE ACCOUNTS NECESSARY?

Every organization handling public money must maintain proper records of:

Income

and

Expenditure

Without proper accounting:

- Fraud may occur
- Funds may be misused
- Accountability may disappear
- Auditing becomes impossible

Therefore, maintaining proper accounts is a statutory obligation.

Example

EPFO receives thousands of crores as PF contributions every year.

Without proper accounting records, it would be impossible to know:

- Amount received
- Amount invested
- Amount paid to members

EXAM TIP

Purpose of accounts = Transparency and Financial Accountability.

WHO MUST MAINTAIN ACCOUNTS?

Every:

Social Security Organisation

must maintain accounts.

Examples

EPFO

Employees' Provident Fund Organisation

ESIC

Employees' State Insurance Corporation

Other Social Security Bodies

created under the Code.

Example

ESIC maintains records of:

- Contributions received
- Medical expenditure
- Hospital expenses
- Benefit payments

EXAM TIP

Every Social Security Organisation must maintain proper accounts.

WHAT ACCOUNTS MUST BE MAINTAINED?

The law specifically requires maintenance of:

Income Accounts

and

Expenditure Accounts

Income Includes

- Contributions
- Grants
- Donations
- Government Assistance
- Interest Income
- Investment Income

Example

Employer and employee ESI contributions form part of income records.

EXAM TIP

Income records include contributions and investment income.

Expenditure Includes

- Benefit Payments
- Salaries
- Administrative Expenses
- Medical Expenditure
- Welfare Activities
- Infrastructure Costs

Example

Payment of sickness benefit under ESI is recorded as expenditure.

EXAM TIP

Benefit payments form part of expenditure accounts.

FORM OF ACCOUNTS

Who decides the format of accounts?

The form and manner of maintaining accounts shall be specified by:

Appropriate Government

However, this cannot be done independently.

The Appropriate Government must first consult:

Comptroller and Auditor-General of India (CAG)

Example

The Central Government specifies accounting formats for EPFO after consultation with the CAG.

EXAM TIP

Accounts are maintained in the form specified by the Appropriate Government after consultation with CAG.

MEMORY TRICK

"A-C-A"

A = Accounts

C = Consultation with CAG

A = Appropriate Government decides

SECTION 116

AUDIT

INTRODUCTION

Maintaining accounts alone is not enough.

The accounts must also be independently verified.

This verification process is called:

Audit

Meaning of Audit

Audit means:

Systematic examination of accounts to verify:

- Accuracy
- Legality
- Completeness
- Financial discipline

Example

An auditor checks whether ESI funds were spent only for authorized purposes.

EXAM TIP

Audit = Independent examination of financial records.

WHO CONDUCTS THE AUDIT?

The accounts of every Social Security Organisation shall be audited by:

Comptroller and Auditor-General of India (CAG)

This is one of the most important examination points.

Example

The accounts of ESIC are audited by the Comptroller and Auditor-General of India.

EXAM TIP

Audit Authority = Comptroller and Auditor-General of India (CAG).

FREQUENCY OF AUDIT

The audit shall be conducted:

Every Year

(Annually)

Example

EPFO accounts for a financial year are audited annually by CAG.

EXAM TIP

Audit is conducted annually.

WHO BEARS AUDIT EXPENSES?

The expenditure incurred by CAG in conducting the audit shall be paid by:

Concerned Social Security Organisation

Example

If CAG incurs audit expenses while auditing ESIC, ESIC must bear those expenses.

EXAM TIP

Audit expenses are payable by the concerned Social Security Organisation.

POWERS OF CAG DURING AUDIT

To conduct an effective audit, the law grants extensive powers to the Comptroller and Auditor-General.

SAME POWERS AS GOVERNMENT ACCOUNT AUDIT

The CAG enjoys the same powers during audit of Social Security Organisations as he enjoys while auditing Government accounts.

Example

The CAG can inspect records of ESIC just like Government department records.

EXAM TIP

CAG enjoys the same powers as in Government account audits.

POWER TO DEMAND RECORDS

The CAG may demand production of:

Books

Accounts

Vouchers

Documents

Papers

Meaning of Voucher

A voucher is documentary proof of a financial transaction.

Examples:

- Bills
- Receipts
- Payment Records

Example

While auditing ESIC, the CAG may ask for hospital expenditure vouchers.

EXAM TIP

CAG can demand books, accounts, vouchers and documents.

POWER TO INSPECT OFFICES

The CAG may inspect:

Any Office

of the Social Security Organisation.

Example

The audit team may physically inspect the regional office of ESIC.

EXAM TIP

CAG has power to inspect any office of the Social Security Organisation.

PERSONS APPOINTED BY CAG

The law extends audit powers not only to the CAG but also to:

Persons Appointed By CAG

for conducting the audit.

These officers enjoy the same audit powers during the audit process.

Example

An audit officer authorized by CAG can inspect records and demand documents from ESIC.

EXAM TIP

Audit officers appointed by CAG enjoy the same audit powers.

Particular	Section 115	Section 116
Subject	Accounts	Audit
Responsibility	Social Security Organisation	CAG
Purpose	Maintain Records	Verify Records
Frequency	Continuous	Annual
Authority Involved	Appropriate Government	CAG
Consultation Required	CAG Consultation	Not Applicable
Records Covered	Income & Expenditure	Entire Accounts

WHY IS CAG AUDIT IMPORTANT?

The CAG audit ensures:

Financial Transparency

Protection of Workers' Funds

Prevention of Corruption

Proper Utilization of Resources

Accountability of Officials

Example

During audit, irregular expenditure by a welfare organization may be detected and reported.

EXAM TIP

CAG audit protects social security funds from misuse.

COMPARISON TABLE

AUDIT REPORT AND ITS SUBMISSION

WHAT HAPPENS AFTER AUDIT?

After completion of audit by:

Comptroller and Auditor-General of India (CAG)

the audit process does not end.

The audit findings must be formally communicated to the Government.

DOCUMENTS PREPARED

The following documents are prepared:

Certified Accounts

and

Audit Report

Who Certifies the Accounts?

The accounts may be certified by:

CAG

or

Any Person Appointed by CAG

Example

After auditing ESIC accounts, the CAG certifies the accounts and prepares an audit report highlighting observations and deficiencies.

EXAM TIP

Accounts may be certified by CAG or a person appointed by him.

SUBMISSION PROCESS

Step 1

Audit Report prepared.

↓

Step 2

Report sent to Social Security Organisation.

↓

Step 3

Organisation records its comments.

↓

Step 4

Report along with comments forwarded to Appropriate Government.

Example

ESIC receives audit observations from CAG and submits explanations before forwarding the report to the Central Government.

EXAM TIP

Audit Report + Organisation's Comments = Sent to Appropriate Government.

MEMORY TRICK

"C-C-G"

Certified Accounts

Comments

Government

SECTION 117

BUDGET ESTIMATES

INTRODUCTION

A budget is a financial roadmap.

It estimates:

Expected Income

and

Expected Expenditure

for the upcoming year.

WHY IS BUDGET NECESSARY?

Without a budget:

- Financial planning becomes impossible.
- Funds may be misused.
- Liabilities may remain unpaid.

Therefore every Social Security Organisation must prepare an annual budget.

Example

EPFO estimates:

- PF contributions likely to be received
- Pension payments likely to be made
- Administrative expenses

for the next financial year.

EXAM TIP

Budget = Estimated Receipts and Expenditure for the next year.

PREPARATION OF BUDGET

Every Social Security Organisation shall:

Prepare Budget Every Year

showing:

Probable Receipts

and

Proposed Expenditure

for the following year.

Example

ESIC estimates medical expenses and contribution income for the next year.

EXAM TIP

Budget is prepared annually.

APPROVAL OF BUDGET

The prepared budget must be submitted to:

Appropriate Government

for approval.

Example

The Central Board submits its annual budget to the Central Government for approval.

EXAM TIP

Budget requires approval of Appropriate Government.

CONTENT OF BUDGET

The budget must contain adequate provisions for:

Discharging Liabilities

and

Maintaining Working Balance

Meaning of Liability

Financial obligations already incurred.

Examples:

- Pension Payments

- Benefit Payments
- Salary Commitments

Example

The budget must contain sufficient funds to pay existing pension liabilities.

EXAM TIP

Budget must adequately provide for liabilities and working balance.

ANNUAL REPORT

INTRODUCTION

Apart from accounts and budget, every organisation must report its performance.

This is done through:

Annual Report

SECTION 118(1)

Every Social Security Organisation shall submit:

Annual Report

to

Appropriate Government

Contents

The report includes:

Work Done

Activities Performed

Final Budget Adopted

Example

ESIC's annual report may include:

- Number of beneficiaries
- Hospitals managed
- Benefits paid
- Financial performance

EXAM TIP

Annual Report contains work, activities and adopted budget.

LAYING BEFORE PARLIAMENT OR STATE LEGISLATURE

Important Constitutional Provision

The Appropriate Government must place before the Legislature:

Annual Report

Budget

Audited Accounts

CAG Report

Comments of Organisation

Where Placed?

Parliament

or

State Legislature

depending upon the organisation.

Example

The Central Government places EPFO's annual report and audited accounts before Parliament.

EXAM TIP

Annual Report, Budget and Audited Accounts are laid before Parliament/State Legislature.

VALUATION OF ASSETS AND LIABILITIES

INTRODUCTION

Social Security Organisations manage massive funds worth thousands of crores.

Therefore periodic valuation is necessary.

Meaning of Valuation

Valuation means determining:

Present Value of Assets

and

Present Value of Liabilities

WHY IS VALUATION NECESSARY?

To determine:

- Financial Health
- Solvency
- Future Obligations
- Sustainability of Funds

Example

EPFO evaluates whether current assets are sufficient to meet future pension obligations.

EXAM TIP

Valuation determines financial soundness of social security funds.

WHO CONDUCTS VALUATION?

Valuation is conducted by:

Valuer

or

Actuary

Meaning of Actuary

An actuary is a specialist who assesses:

- Financial Risks
- Future Liabilities
- Insurance and Pension Obligations

Example

An actuary estimates future pension liabilities under EPF pension schemes.

EXAM TIP

Valuation is done by Valuer or Actuary.

APPOINTMENT

Appointment requires:

Prior Approval

of

Appropriate Government

Example

An actuarial expert is appointed only after Government approval.

EXAM TIP

Prior Government approval is mandatory for appointment.

FREQUENCY OF VALUATION

CENTRAL BOARD

Valuation shall be done:

Every Year

(Annually)

Example

EPFO's fund valuation is conducted every year.

EXAM TIP

Central Board Valuation = Annual.

(Very Important)

CORPORATION (ESIC)

Valuation shall be done:

Once Every Three Years

Example

ESIC fund valuation is conducted once every three years.

EXAM TIP

Corporation Valuation = Once in 3 Years.

OTHER ORGANISATIONS

Frequency shall be:

Specified by Appropriate Government

Example

Government may prescribe valuation intervals for welfare boards.

EXAM TIP

Other Organisations = Frequency prescribed by Government.

SPECIAL POWER OF GOVERNMENT

Government may order valuation at any other interval whenever necessary.

Example

If financial instability is suspected, Government may order an immediate valuation.

EXAM TIP

Government may order special valuation at any time.

MEMORY TRICK

"1-3-G"

1 = Central Board → 1 Year

3 = Corporation → 3 Years

G = Government decides others

HOLDING OF PROPERTY BY SOCIAL SECURITY ORGANISATION

INTRODUCTION

Every organisation requires assets for functioning.

Examples:

- Land
- Buildings

- Hospitals
- Vehicles
- Equipment
- Investments

Section 120 provides powers regarding acquisition and management of property.

EXAM TIP

Section 120 deals with property and investments.

POWER TO ACQUIRE PROPERTY

Social Security Organisations (except Corporation) may:

Acquire Property

Hold Property

Sell Property

Transfer Property

Property may be:

Movable

or

Immovable

Example

EPFO purchases office premises for regional operations.

EXAM TIP

Property may be movable or immovable.

POWER TO INVEST FUNDS

Unused money may be:

Invested

Re-invested

Realised

subject to Government conditions.

Example

EPFO invests surplus funds in Government securities.

EXAM TIP

Unused funds may be invested and re-invested.

SPECIAL RULE FOR EPF, PENSION & INSURANCE FUNDS

Investment rules must follow:

Provident Fund Scheme

Pension Scheme

Insurance Scheme

Example

EPF investments must follow investment patterns prescribed under EPF Scheme.

EXAM TIP

PF, Pension and Insurance Funds follow scheme-specific investment rules.

POWER TO RAISE LOANS

Social Security Organisations (except Corporation) may:

Raise Loans

but only with:

Previous Government Sanction

Example

A welfare organisation borrows funds after obtaining Government approval.

EXAM TIP

Government sanction is required before raising loans.

BENEFIT FUNDS FOR EMPLOYEES

The organisation may establish:

Provident Fund

Benefit Fund

for officers and staff.

Example

A Social Security Organisation establishes a staff welfare fund.

EXAM TIP

Benefit funds for staff require Government sanction.

SECTION 121

WRITING OFF LOSSES

INTRODUCTION

Sometimes dues become impossible to recover.

Examples:

- Employer closes permanently.
- Company is liquidated.
- Debtor disappears.
- Records are destroyed.

In such situations, law permits writing off irrecoverable amounts.

Meaning of Write-Off

Removal of irrecoverable dues from accounting records.

Example

A company goes bankrupt and no recoverable assets remain. The outstanding contribution may be written off.

EXAM TIP

Write-off means accounting removal of irrecoverable dues.

WHAT MAY BE WRITTEN OFF?

The following may be written off:

Contribution

Cess

Interest

Damages

Example

Outstanding EPF contribution, interest and damages become irrecoverable after liquidation of the employer.

EXAM TIP

Contribution, Cess, Interest and Damages may be written off.

CONDITION

The Social Security Organisation must be satisfied that recovery is:

Impossible / Irrecoverable

Example

All recovery proceedings fail and no assets are available for attachment.

EXAM TIP

Write-off requires satisfaction regarding irrecoverability.

SPECIAL RULE FOR PF, PENSION & INSURANCE FUNDS

Write-off provisions shall be governed by:

Provident Fund Scheme

Pension Scheme

Insurance Scheme

Example

EPF dues can be written off only as per EPF Scheme provisions.

EXAM TIP

PF/Pension/Insurance Fund write-off follows respective schemes.

SUPER REVISION TABLE

Section	Topic	Key Point
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116(3)	Audit Report	Sent to Govt with comments
117	Budget	Annual Budget
117(2)	Budget Requirement	Liabilities + Working Balance
118	Annual Report	Work, Activities, Budget
119	Valuation	Assets & Liabilities
119	Central Board	Annual
119	Corporation	Once in 3 Years
120	Property	Acquire, Hold, Sell
120	Investments	Invest/Reinvest Funds
121	Write-off	Irrecoverable Dues

YOUBOX STUDY