WHO PAYS WHEN A PROVIDENT FUND TRUST FALLS SHORT? INSIDE THE LEGAL FRAMEWORK, WORKING AND RISKS OF EXEMPTED PROVIDENT FUND TRUSTS

A Study with Reference to Bharat Heavy Electricals Limited (BHEL)

Abstract

Each month, substantial public sector enterprises such as BHEL allocate hundreds of crores of rupees into privately managed retirement funds, which operate outside of EPFO's direct oversight yet remain governed by its regulations. This essay examines the primary issue for employees: the fate of their funds and the accountability for any shortfall. It delineates the legal basis for Exempted Provident Fund Trusts as stipulated in Section 17 of the EPF & MP Act, 1952, the daily administration and management of these trusts, and — crucially — the implications of recent withdrawal regulations on liquidity and the employer's financial statements during a shortfall. It also explores the role that subtly unifies this entire framework: the Management Accountant, redefined now as a portfolio governance specialist whose reconciliations and forecasts act as tools of fiduciary confidence.



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INTRODUCTION

It appears paradoxical that the government would require employers to hold their employees' retirement funds in a private trust that is overseen by an impartial third party.

India has the largest mandatory retirement savings scheme in the world, established under the Employees' Provident Funds and Miscellaneous Provisions Act (1952). Based on the Employees' Provident Fund Scheme (1952), the Employees'

Pension Scheme (1995), and the Employees' Deposit Linked Insurance Scheme (1976), it is comprised of three systems. In most cases, all that is required of businesses is a payment to their EPFO. If there is no disadvantage to the members, large and financially stable businesses have the option to operate the fund themselves as an Exempted Provident Fund Trust (under Section 17 of the Act).

All of Bharat Heavy Electricals Limited's (BHEL) divisions and projects, as well as its regional offices around the country, adhere strictly to this principle. This is a once in a lifetime chance for the Trust to have a lively discussion about a completely odd topic, like running (or not running), employers, and retirement funds?

1. What This Article Sets Out to Answer

- What does it mean to be "exempt" from EPFO and what remains the same?
- Who is responsible for paying the interest on claims and contributions that do not go through?
- Where are the members' Crores of Contributions, and is this investment secure?
- What sets this apart from the withdrawal reforms in 2025, and who stands to lose the most in the event of a Trust's bankruptcy?

THE LEGAL FINE PRINT — AND WHY IT MATTERS

"The laws of EPFO do not apply to the exempted. But that is not what it means. Assuming all substantive safeguards are satisfied, it presumes that EPFO has acknowledged that employers should be responsible for the documentation.

Legislation	What It Actually Controls
EPF & MP Act, 1952	The exemption itself, under Section 17
EPF Scheme, 1952	Contributions, interest, withdrawals
EPS, 1995 / EDLI, 1976	Pension and insurance benefits
Govt. Investment Pattern	Where the money can legally go

Table 1. The Legal Backbone of an Exempted Trust

Workers are often unaware that even if a company is exempt from paying certain taxes, it is still required to pay a matching contribution from the company, earmarks interest (at least) at the EPFO noise rate, invest in the same way, and undergo the same inspections and audits as the rest of the employees. The task at hand is unchanged; the individual doing these routine tasks could change. You risk having your exemption revoked if you treat EPFO badly enough.

EXPERT INSIGHT

Exemption is a privilege, not a right — granted only where an establishment proves financial strength and administrative competence, and reviewed on an ongoing basis. Regulators increasingly judge trusts less on whether contributions were paid, and more on whether governance would survive a genuine stress test.

GOVERNANCE: WHO IS ACTUALLY MINDING THE MONEY?

The assets of the employer are not managed by the trustees, but rather by a corpus that is legally separate from employer accounts. Thanks to the exemption model, employees may get personal, fast service with funds that will never be considered "house cash".

Particulars	EPFO	Exempted Trust
Account Administration	EPFO	Employer Trust
Claim Processing	Centralised	In-house, faster
Final Decision-Maker	EPFO	Board of Trustees

Table 2. Two Very Different Ways to Run the Same Promise

The Board, as the last line of defence, has the theoretical responsibility to act honestly, refrain from conflicts of interest, and follow all applicable investment criteria. The issues highlighted below stem from the fact that, in reality, governance standards have varied significantly between trusts.

What Can Go Wrong	The Real-World Fallout	How It's Contained
Wrong PF deduction	Financial loss to members	Payroll validation checks
Delayed investment	Lower returns, forgone interest	Fixed investment calendar
Fraudulent payment	Direct financial loss	Maker–checker approval

Table 3. The Risk Matrix Every Trustee Should Know by Heart

THE MANAGEMENT ACCOUNTANT AS A PORTFOLIO GOVERNANCE PROFESSIONAL

Employee Provident Fund Organization (EPFO) is the de facto administrator of most workers' provident funds. Management Accountant acts as

the strategic architect of portfolio governance, by bridging strategy, stewardship and accountability, the professional safeguards stakeholders' interests, challenges value erosion and drives sustainable, risk-adjusted returns.

An exempted PF Trust's investments and the management of its portfolio are two distinct types of commercial investments. A diversified, compliant, safe, and relatively productive investment pattern is ideal. The objective is not to maximise profits at any cost. It is more beneficial to think about the five interconnected areas in which the management accountant may be useful in this setting as a whole, rather than analysing them independently.



Chart 4. Five Interconnected Areas of Value-Add

Corpus Integrity

Trust corpus reconciliations constitute the bulk of portgov operations. In the absence of a resolution, the disparity can affect the Trust's credibility, as well as the corpus, member balances, and investment plans. This goes beyond just an accounting matter.

Liquidity Planning

It is a big challenge to evaluate the assets without considering future financial demands. Key areas of help from management accountants to trustees in preventing illiquidity of the Trust at the price of portfolio efficiency include settlement and trend analysis, cash-flow forecasting, and more.

Investment Compliance

Portfolio exposure categorisation, maturity analysis, compliance monitoring, and classification; trustees will get analytical reports on a periodic basis detailing the portfolio's composition, maturity profile, compliance, and liquidity condition.

Interest Sustainability

Accurate revenue recording, adequate provisioning, and a realistic assessment of the portfolio's earning potential—rather than an idealised one—are essential components of a long-term interest-crediting system.

Decision-Support to Trustees

With the use of management accounting tools like cash flow forecasts, exception reporting, and variance analysis, trustees can get decision-influencing knowledge from large, sometimes ambiguous datasets.

> ***THE CORE ARGUMENT***
>
> *The principal challenge before the Management Accountant in an exempted Provident Fund Trust is not return maximisation in isolation, but the simultaneous governance of safety, liquidity, statutory compliance, corpus integrity and sustainable returns within a fiduciary framework.*

BEHIND THE SCENES: HOW THE MONEY ACTUALLY MOVES

Each month, there is a scuffle between human resources, payroll, finance, trustees, banks, and investment managers; a misplaced baton might lead to the mismanagement of thousands of member accounts. Outside of the loop, they are two distinct accounting professions.



Chart 5. The Operational Cycle of an Exempted PF Trust

For each member, there is a ledger for withdrawals,

advances, and interest earned; investable funds are distributed according to patterns; liquidity is maintained for qualifying settlements; and payroll verifies all employee pay and contributions. Last but not least, reconciliation completes the circle and reveals whether or not everything has been beneficial.

It is essential that the Investment Register, General Ledger, Bank Statement, and Payroll Register all reconcile on a monthly basis. When they don't, it's usually because of a late settlement, an inaccurate balance, or an irate former employee who just wants their money back. This issue is not related to accounting theory. And it's not even about seeming to be an exempted trust: When there is discipline in the reconciliation, all claims may be expressed far faster than the average of the EPFO, and all work is done in-house.

WHERE DOES THE MONEY ACTUALLY GO?

While it's a question that should be asked by all members, relatively few really do.

The purpose of investing provision funds is to weather economic storms, not to bask in their glories. THESE PRINCIPLES: COMPLIANCE, SAFETY, LIQUIDITY, AND RETURN. The government's investing strategy prioritises the most liquid and secure stocks. No one makes that call, but the Board of Trustees, an Investment Committee, Finance, and others check it against benchmarks from time to time. Diversification, automated validation, and maker-checker controls are more effective than wise investment in preventing payroll mistakes, cyber-security breaches, and fraudulent claims.



Chart 6. Statutory Investment Mix

1. What Better Practice Looks Like?

- Experts make up the Investment Committee, and they look at performance every three months rather than once a year.
- There is no requirement for human involvement or data entry, since SAP enables the interaction of payroll, banking, and investment.
- A yearly stress test is conducted on the risk registry, which is alive and not stored.

BHEL'S TRUST, BY THE NUMBERS

It is important to put statistics in context, even if they never lie. What, therefore, can we learn about the actual pressure points from the three years of huge PSU trust data that serve as examples?

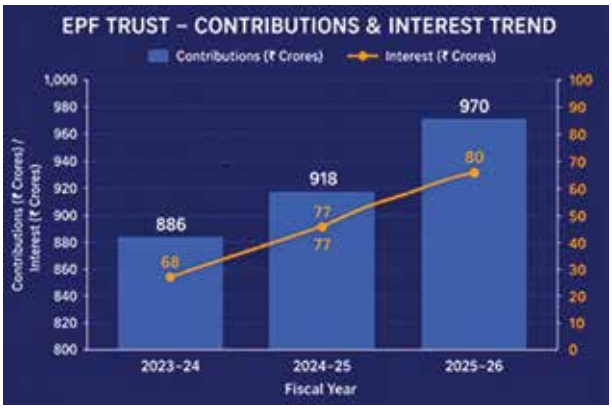


Chart 7. Contribution and Interest Growth, FY23–24 to FY25–26

Although it's encouraging to hear that the corpus is growing, keep in mind that a larger corpus means a greater interest burden to finance in the years to come.

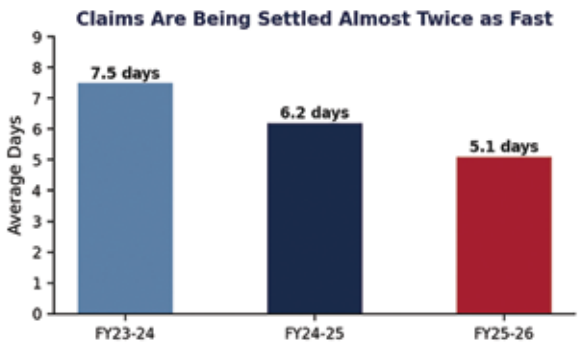


Chart 7.1. Average Claim Settlement Time (Days)

With a three-year drop of nearly half in average settlement time, speed makes a better story. To reiterate, this is not an accident; if that isn't the case, then it's usually due to more stringent reconciliation and quicker document verification, rather than a blanket approach.

The Challenge	Why It Bites	The Fix
Payroll discrepancies	Wrong contributions	Automated payroll validation
Delayed documents	Slower claim settlement	Digital document portal
Legacy data migration	Inconsistent records	Data cleansing & validation

Table 7.2. Where BHEL-Scale Trusts Typically Get Tripped Up

LESSONS FOR PUBLIC SECTOR UNDERTAKINGS

ERP integration across payroll, finance and trust accounting is what actually moves these numbers — not policy documents. Monthly reconciliation is the unglamorous habit that prevents the expensive surprises, and continuous KPI tracking is what lets a Board catch a problem while it is still small.

RECENT PF REFORMS AND IMPLICATIONS FOR EXEMPTED PROVIDENT FUND TRUSTS

The catch is that the policy that helps employees in the long run also makes things harder for the Trust and, in the end, the employer.

The Exempted Provident Fund Trusts are facing significant operational and financial challenges as a result of a recent shift in provident fund administration toward giving members more flexibility. A partial withdrawal reform allows members to remove up to 75% of their outstanding PF amount, while the remaining 25% is kept as retirement security. Eliminating unnecessary steps and processes would expedite the process of returning funds to the PF member. To meet the qualifying claims without jeopardising the members' long-term interests or the specified investment pattern, improvements in cash flow management, investment maturity, and liquidity forecasting are necessary for exempted trusts with increased withdrawal flexibility.

The question of who is responsible if the Trust doesn't pay the members the advertised benefit or interest is another important one. A corporation's exemption does not absolve it from legal obligations. The financial statements should contain any information on obligations or returns that may arise from exemption criteria, Trust regulations, or laws. When it comes to Ind AS 19-Employee Benefits, this becomes even more important when the employer is the one taking on the risk of investments or interest rates.

ILLUSTRATION

Assume that an exempted PF Trust has a member-benefit obligation of ₹100 crore, whereas the resources available with the Trust are ₹95 crore, resulting in a ₹5 crore shortfall which is required to be funded by the employer. In the Trust's books, the amount may be recognised as Employer Shortfall Receivable Dr. ₹5 crore; To Members' PF/Interest Payable ₹5 crore. On receipt of funds, the receivable is settled against the bank. In the employer's books, the corresponding obligation should be recognised in accordance with its nature and Ind AS 19, including actuarial valuation where applicable.

Prudent administration of funds, investments, trust assets, statutory member duties, actuarial assessment, and governance are now essential due to new withdrawal laws and employer financing duty. Immediate preservation of retirement benefits for large corporations like BHEL might be achieved by integration with payroll, SAP, trust accounting/ banking, and investment systems, greatly enhancing these controls.

STRESS TEST — WORTH ASKING OUT LOUD

Two questions expose the real fault line here. First: is a shortfall merely a Trust problem, or does it become an employer balance-sheet problem? By design, it rarely stays with the Trust — the "not less favourable" condition and Ind AS 19 together mean a shortfall converts into a recognised employer liability, complete with actuarial valuation. Second: if thousands of members invoke the new 75% withdrawal facility at once, can the Trust actually pay everyone without selling long-dated bonds at a loss? The statutory pattern guarantees safety, not liquidity — nothing currently mandates a maturity ladder or cash buffer sized for a withdrawal spike. Put together, the exemption model quietly assumes the employer is a backstop, without formally requiring the Trust to be built like one.

KEY GOVERNANCE CHALLENGES

Both the laws and the rules governing corporations appear strong in theory. Actually, a compliance evaluation seldom finds the five weaknesses that are common in exempted PF Trusts at first glance.

- inconsistencies in contract accounting: The quantities stated for the corpus may not match the amounts in other financial documents such as the member ledger, payroll records, or bank records.
- There is a financial risk since the current settlement or withdrawals might change suddenly and require funding in the near future.
- Investment rules, laws, and procedures must be updated on a regular basis to mitigate regulatory risk.
- The dangers of not processing investments

increase when human interfaces, legacy systems, and data transfers are involved.

- If the paperwork or audit trails are inadequate, it might cast doubt on the foundation of financial and investment decisions.

THE THREAD THAT CONNECTS THEM

Regulation → Safety → Liquidity → Data Integrity → Risk → Decision Support. These challenges show why the Management Accountant's contribution should extend beyond accounting entries to continuous monitoring, exception analysis and preventive control.

WHAT'S COMING NEXT FOR TRUST ADMINISTRATION

Is it possible to build a program that checks for fraud before it pays out a claim? Out of the realm of theory. Similarly, exempted trusts are progressively demonstrating how we can go beyond the already available paperless processing and online claim tracking to include features like intelligent reconciliation matching, claims risk assessment, picture ID validation, and online fraud detection.

Beyond just an IT update, this is the first step toward a trust earning ESG credentials, which stand for "social" (i.e., financial inclusion) and "governance" (i.e., transparency, internal controls, independent audit). Also, the next security hole won't be in a ledger entry, but in cyberspace, because more and more transactions are happening online. Along with investment returns, multi-factor authentication, encryption, and even regular penetration testing should now be prioritised.

KEY OBSERVATIONS

In this context, "just do the accounts" means something different depending on which of four things that are obvious outside the details.

- While reconciliation may involve accounting, it is more often used as a tool for governance.
- Trust in member accounts and the corpus is boosted by thorough reconciliation.
- And oversee investments and liquidity: When assessing the efficacy of its investments, a PF Trust must also take settlement responsibilities into account.
- The digitisation process will improve fiduciary governance by making data more accurate, increasing audit trails, traceability, and management reporting.
- CMA is not limited to submitting financial reports to trustees; they can also request non-financial governance-related outputs.

SO, WHO SHOULD SLEEP EASIER?

A well-run, financially stable business would be far better off than EPFO inferring its own workers' retirement hoard, according to the EPF & MP Act of 1952, so long as no one was hurt! As an example, BHEL demonstrates that taking risks may pay off when HR, Finance, Payroll, Internal Audit, Trustees, and banking partners work together authentically on a monthly basis, not only during audits.

1. What Would Actually Move the Needle

- Administration: Put together a digital dashboard that the board may evaluate every three months, and make sure that unreconciled items are systematically aged.
- AI-powered processes and digital audit trails utilising SAP for automated reconciliation and digital pattern matching are examples of technology.
- Keep working on creating and updating a database of potential threats, test cyber resilience every year, and check in on sustainability, investment, and interest crediting at regular intervals.
- PF, investment rules, taxes, and risk should still be the subject of ongoing education. The importance of CMA abilities should not be overlooked.
- Instead of calling consumers, we provide a mobile app that shows the progress of claims in real-time.

The real test of that type of trust was never accurate interest counting. Furthermore, employees won't have to redo allowances year after year if it delivers as promised. MA

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