

3.4 Death-Cum-Retirement benefit scheme in Urban Local Bodies

3.4.1 Introduction

Government of Kerala introduced (November 1967) a pension scheme for the employees under the regular establishment of urban local bodies (ULBs) governed by Kerala Municipal Employees Death-Cum-Retirement Benefit Rules, 1967. The rules which envisaged creation of a Central Pension Fund (CPF) for making payment to the employees were replaced by Kerala Municipality (Employees Death-Cum-Retirement Benefit) Rules, 1996 (Rules). However, the admissibility of death-cum-retirement benefits (DCRB) was continued to be governed by the provisions of Kerala Service Rules, 1959 (KSR). Each ULB was to contribute from its own fund 15 per cent of total monthly emoluments of each of its employees every month to the CPF which was administered by the Director of Urban Affairs (DUA). The amount contributed to the CPF by the ULBs was to take care of the payment of DCRB to the employees, thus absolving the ULB of any liability to pay DCRB at a later stage. The major advantage of this system was that the liability for the payment of DCRB of an employee could be apportioned among the ULBs in proportion to the length of his service in each ULB.

Out of 58 ULBs in the state, 10* were selected for detailed scrutiny. Records of these ULBs and the DUA were test checked during September and October 2007 and the following audit findings emerged.

Audit Findings

3.4.2 Fund Position

Total contribution received directly from the ULBs and through adjustment from grants due to ULBs was Rs. 23.87 crore during 2002-03 to 2006-07 against which Rs.26.03 crore was spent for payment of death-cum-retirement benefits.

(Rupees in crore)

Year	Opening Balance	Direct Contributions	Contributions through adjustments*	Total	Payments	Closing Balance
2002-03	3.21	3.13	1.65	7.99	4.21	3.78
2003-04	3.78	3.55	0.71	8.04	6.02	2.02
2004-05	2.02	3.68	0.71	6.41	4.73	1.68
2005-06	1.68	4.19	0.73	6.60	4.98	1.62
2006-07	1.62	5.52	0	7.14	6.09	1.05
Total		20.07	3.80		26.03	

Accounts of the pension fund not properly maintained.

Source : Control Register of DUA.

Receipts and payments under CPF were not properly accounted in the cash book and other records and the cash book was not closed by DUA. In the absence of proper accounts, the details of receipts and payments were compiled from Control Register and the bank accounts by DUA which were not reliable. Further, non-reconciliation of accounts of the DUA with the accounts of the ULBs made the accounts even more unreliable.

* Thiruvananthapuram, Kollam and Kozhikode Corporations and Municipalities of Nedumangad, Chengannur, Kottayam, Thripunithura, Aluva, Vadakara and Thalassery.

* Amount recovered by DUA from the grant payable to ULBs and adjusted towards contribution due.

3.4.3 Arrears of Pension Contribution

14 ULBs out of 58 defaulted payment of pension contribution.

The contributions to the CPF should be sent to the DUA before 25th of every month failing which the ULBs were liable to pay interest for the defaulted period at the rates in force for Savings Bank Deposits. As per the accounts maintained by the DUA, 14 ULBs (refer table in paragraph 3.4.4) out of 58 in the state did not remit the contributions on due dates. The arrears of contributions payable by these ULBs could not be ascertained in audit as the DUA had no details of the contribution payable by them. The contribution payable by ULBs which defaulted payment was not ascertainable by DUA as the salary details were not forwarded to him. DUA did not monitor whether the payment of contribution made by each ULB was at the prescribed rate and at the stipulated time. Though a certificate of salary drawn by the employees was to be attached while remitting the contribution, it was not properly verified by the DUA to ensure the correctness of the amount.

3.4.4 Interest on belated payment of contributions not realised

The following ULBs in the state did not remit the contribution during periods noted against each.

Sl No	ULB	Period during which contribution was not remitted
1	Alappuzha	2003-04 to 2006-07
2	Aluva	2003-04 and 2004-05
3	Cherthala	2002-03 to 2006-07
4	Changanassery	2005-06 to 2006-07
5	Chengannur	2002-03
6	Kochi	2004-05
7	Kozhikode	2002-03 and 2003-04
8	Nedumangad	2002-03
9	Neyyattinkara	2002-03 to 2006-07
10	Pathanamthitta	2002-03 to 2004-05 and 2006-07
11	South Paravoor	2002-03
12	Thiruvananthapuram	2003-04 to 2006-07
13	Thripunithura	2002-03
14	Varkala	2003-04

Interest on arrears was not recovered.

The interest payable on the amount of arrears also could not be worked out as the amount of contributions payable was not ascertainable. However, it was confirmed that the DUA had not received any amount towards interest so far. Though the Corporation of Kochi remitted contribution during the years except 2004-05, the amount remitted was negligible (Rs.56,727). Inability to ensure prompt and timely payment of contributions and interest on defaulted payments indicated that DUA could not allot entitled amounts as mentioned in paragraph 3.4.5, to even those ULBs that had remitted the contributions due.

3.4.5 Sanctioning of pension and allotment of amount to ULBs

The secretary of the ULB should prepare the pension papers one year before the retirement of every employee and forward it to the DUA through the Director of Local Fund Audit who should verify the eligibility of pension under KSR. The DUA on sanctioning pension allots to the ULB the amount

34 ULBs made pension payments from their own funds as they did not receive any amount from Pension Fund.

required for disbursement of pension and other benefits for one year to such employees. In respect of other pensioners, DUA should allot before 31 March to the ULB the amount required for disbursement of the pension benefits during next year. The secretary should keep this amount in a separate fund called Municipal Pension Fund and disburse the pension from this fund every month. However, audit scrutiny revealed that the amount required for next year's disbursement was not allotted before 31 March to any ULB in the state. Out of 58 ULBs in the state 46 ULBs (79.3 per cent) (**Appendix IX**) did not receive any allotment during the years noted against each. Of the 46 ULBs, 34 were those which remitted the contribution every year. As a result of these, 34 ULBs (59 per cent) out of 58 had to make DCRB payments from their own funds during different periods between 2002-03 and 2006-07 although they had remitted Rs 7.55 crore towards contribution. This led to avoidable draining of resources of ULBs which could have been utilised for developmental activities. Incidentally, Kozhikode Corporation which defaulted payment of contribution during 2002-03 and 2003-04 received allotment every year during the period from 2002-03 to 2006-07.

3.4.6 Payment of contribution and receipt of allotments in selected ULBs

A detailed examination of the amount contributed and that received as allotment revealed that none of the selected ULBs received sufficient allotment for disbursement of pension as shown below:

(Rs.in crore)

Sl No	ULB	Period	Contribution			No. of pensioners	Pension and other benefits disbursed	Source of funds for disbursement	
			Due	Paid	Balance			CPF	Own funds
1	Kollam	4/00-9/07	2.01	2.01	0	212	5.49	1.50	3.99
2	Kozhikode	1/96-9/07	2.39	2.39	0	544	9.49	3.30	6.19
3	Kottayam	1/97-9/07	1.62	1.62	0	144	4.55	2.33	2.22
4	Thripunithura	4/97-9/07	0.46	0.46	0	25	0.66	0.30	0.36
5	Aluva	1/97-9/07	0.78	0.78	0	38	1.23	0.50	0.73
6	Thiruvananthapuram	4/02-3/07	5.18	0.11	5.07	713	18.50	0.25	18.25
7	Vadakara	4/00-9/07	0.82	0.64	0.18	65	0.93	0.68	0.25
8	Nedumangad	4/91-10/07	0.34	0.33	0.01	14	0.69	0.16	0.53
9	Thalassary	5/03-9/07	0.80	0.63	0.17	109	2.18	0.91	1.27
10	Chengannur	1-1-97-9/07	0.47	0.19	0.28	21	0.79	0.25	0.54
	Total		14.87	9.16	5.71	1885	44.51	10.18	34.33

The amount of contribution payable/due (Rs.14.87 crore) by 10 selected ULBs during the above periods was just one third of the actual DCRB liability (Rs.44.51 crore) during the same period which indicated that the rate of contribution was not sufficient to run the scheme successfully. As a result, the

The amount of contribution was not sufficient to meet the pension payment liability of ULBs.

ULBs had to incur an expenditure of Rs.34.33 crore from their own funds as they received only an amount of Rs.10.18 crore (22.87 per cent) from the CPF. The lack of financial viability of the scheme may prompt the ULBs to withdraw from the scheme leading to its discontinuance. In fact, Thiruvananthapuram Corporation stated (October 2007) that they did not remit the contribution since 2002-03 as no allotment was received from CPF for several years.

3.4.7 Payment of arrears of pension not met from CPF

According to the Rules, the total amount required for payment of gratuity, commutation, pension and arrears was to be met from CPF. Although the selected ULBs had to incur an expenditure of Rs.3.51 crore from their own funds towards payment of arrears of DCRB, DUA did not allot any amount from CPF for the purpose. As contribution equal to 15 per cent of arrear pay was payable to CPF, arrear pension on account of revision of Pay/Dearness Allowance was also to be met from CPF.

3.4.8 Administrative Expenses not met from CPF

Administrative expenses of the Fund was not met from Pension Fund.

According to the Rules, the administrative expenses of the scheme such as establishment expenditure, travelling allowance, stationery, furniture, contingent expenditure, etc of the pension section of the Directorate of Urban Affairs were to be initially met from the budget allotment of the department. After the close of the year, the amount so spent should be remitted back to the Government Account from the CPF. During the period from 2002-03 to 2006-07, though an amount of Rs.74.64 lakh was spent from Government accounts towards administrative expenses of the scheme, DUA did not remit back the amount to the Government by debit to CPF.

3.4.9 Diversion of Specific Purpose Grant towards Pension Contribution

Government diverted grant for specific purposes towards contribution.

Government during March 2005 allotted Rs. 84 lakh to the ULBs for the specific purposes of Maternity and Child Welfare, Mosquito Control Operation and nursery school maintenance. However, DUA adjusted Rs. 73.20 lakh from this amount towards pension contribution arrears of ULBs. The action of DUA in adjusting pension contribution from specific purpose grant was unauthorised.

3.4.10 Evaluation

No evaluation of the scheme was so far done either by the Government or by the DUA. The amount in the CPF other than that necessary for meeting daily expenses was to be deposited in fixed deposits for getting more interest and the interest so earned was to be credited to the CPF. As at the end of 2006-07, the amount kept in fixed deposits was Rs.3.66 crore and the balance in CPF was Rs. 1.05 crore. Had allotments as provided in the Rules been made to ULBs, there would not have been any balance in the CPF and the object of the scheme for meeting the whole expenses for payment of pension from the interest would not have materialized. Likewise, another objective of the scheme to allocate the pension liability *prorata* among the ULBs where the employees worked during their service could not be achieved, wherever payment of pension was made from own funds. None of the ULBs test checked could meet the full expenditure on pension from the amount allotted

from CPF and they had to spend from own funds. As a result of non-evaluation of the scheme, the Government could not take care of these aspects which were adverse to the scheme. Unless the scheme is revamped, it is not possible to continue the scheme.

3.4.11 Internal Control and Monitoring

The internal control mechanism for ensuring prompt payment of pension contribution was very weak as the DUA had no accurate data about the pay and allowances of the ULB employees. As such DUA could not determine the amount payable by each ULB towards pension contribution and could not take any action against erring ULBs. Even though the Director of Local Fund Audit was to prescribe the form of accounts and registers of CPF, the form of registers and accounts used by DUA were not consistent with the purpose of the intended internal control. Another weakness in internal control was in monitoring the maturity period of fixed deposits made in treasuries. Failure of internal control and monitoring system in this case led to loss of interest of Rs. 37.61 lakh on fixed deposit due to non-renewal of fixed deposits for the last four years. Further as DUA did not conduct treasury/Bank reconciliation during 2006-07, the correctness of the balances as per the accounts of DUA could not be ensured which was also an internal control lapse.

3.4.12 Conclusion

A review on implementation of the death-cum-retirement benefit scheme for the employees of ULBs introduced by the Government of Kerala revealed that accounts of the Central Pension Fund were not properly maintained by the DUA. 14 out of 58 ULBs did not remit the pension contributions on the due dates. However, the DUA did not have records to ascertain the arrears or the interest on such arrears payable by the ULBs. 34 ULBs made pension payments from their own funds in addition to periodic contributions to the fund due to non receipt of the due amount from Pension Fund. The amount of pension contribution was not sufficient to meet the pension payment liability of the ULBs. As a result, there is a likelihood of the ULBs withdrawing from the schemes leading to discontinuance of the scheme. Evaluation of the scheme was not done by the Government and the internal control system was very weak.

3.4.13 Recommendations

- **Proper accounts should be maintained both by DUA and the ULBs.**
- **Government should consider adoption of a viable rate of pension contribution for successful continuation of the scheme.**
- **Arrears of pension contribution should be recovered immediately with interest.**
- **The scheme may be revamped so that the ULBs need not spend any money from own funds for payment of pension.**