NEW LABOUR CODES-

OVERVIEW FROM AUDIT PERSPECTIVE

CA. JEEN PAUL

Agenda

- **History**
- **Code on wages** - detailed
- **Code on IR, SS, OSH 2020-** - brief
- **Guidance on new Labour Codes-ICAI**
- **Professional Oppurtunities for CA**

HISTORY

COLONIAL ERA

Apprentices Act, 1850

Factories Act, 1881

Pre Independence- ILO

Workmen Compensation Act, 1923

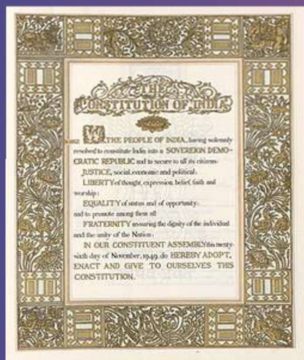
Trade Unions Act 1926

Trade Disputes Act , 1926

Payment of Wages Act, 1936

Industrial Employment (Standing Orders) Act, 1946

Post Independence


THE CONSTITUTION OF INDIA

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a SOVEREIGN DEMOCRATIC REPUBLIC and to secure to all its citizens:

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity;

and to promote among them all

FRATERNITY assuring the dignity of the individual and the unity of the Nation;

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949, do HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.

CONSTITUTIONAL AUTHORITY

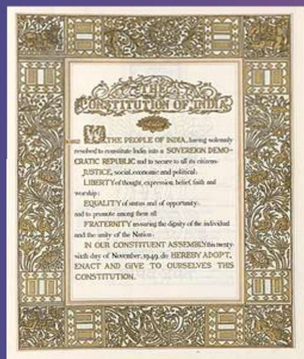
FUNDAMENTAL RIGHTS

RIGHT TO EQUALITY : ARTICLE 14 EQUALITY BEFORE THE LAW

RIGHT TO FREEDOM : ARTICLE 19(1)C TO FORM ASSOCAITIONS OR UNIONS

RIGHT AGAINST EXPLOITAION : ARTICLE 23 PROHIBITION OF TRAFIC IN HUMAN BEING AND FORCED LABOUR

ARTICLE 24 ; PROHIBITION OF EMPLOYMENT OF CHILDREN IN FACTORIES, ETC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CONSTITUTIONAL AUTHORITY

DIRECTIVE PRINCIPLE OF STATE POLICY

Article 39 : Equal pay for equal work for men and women; health of workers.
Code on Wages

Article 41: Right to work and public assistance in cases of unemployment/old age.
Social Security Code

Article 42 :Provision for just and humane conditions and maternity relief.
Maternity Benefit Act / OSH Code

Article 43A : Participation of workers in the management of industries.
Industrial Relations Code

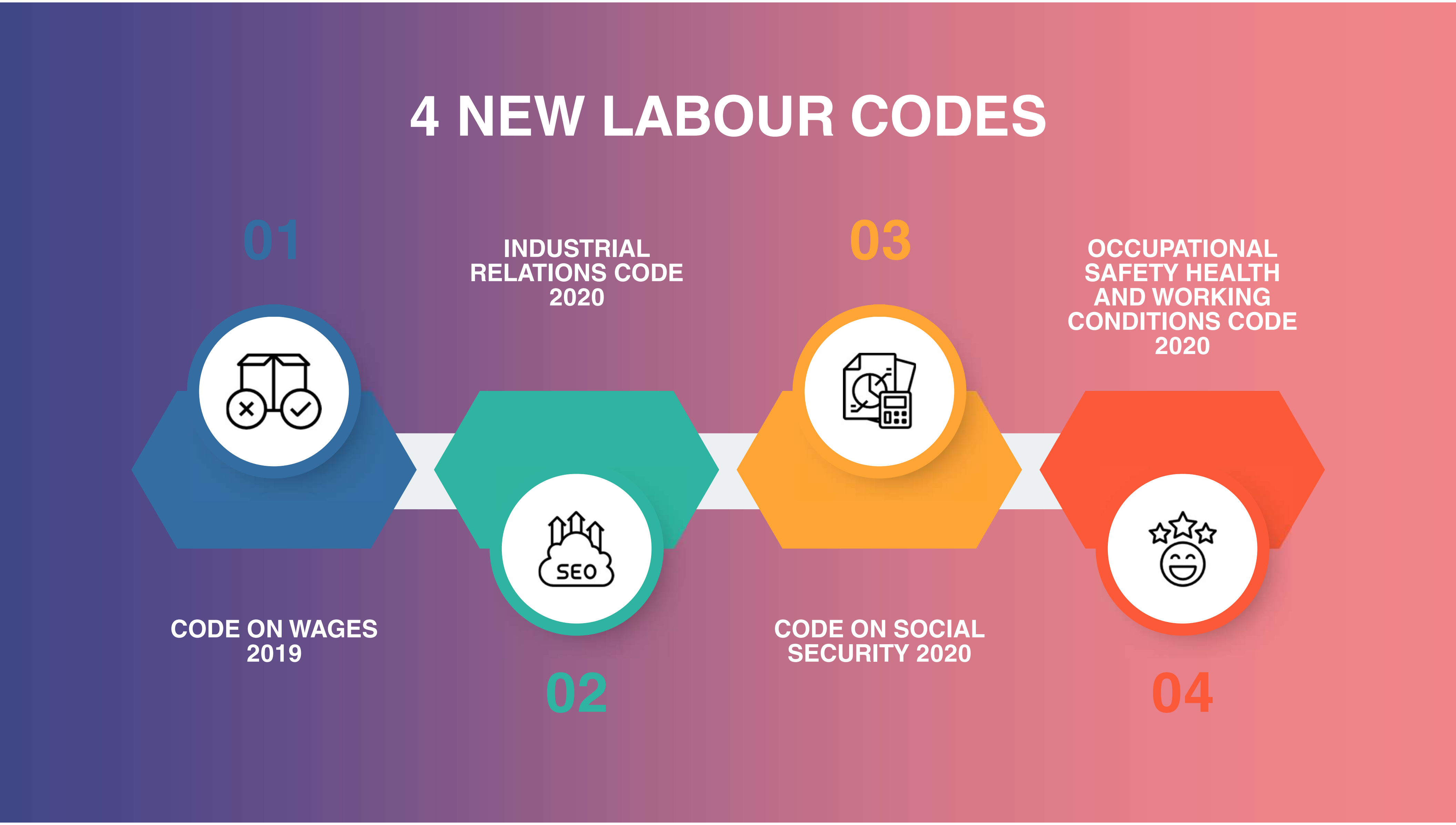
The Great Consolidation

The **29** central labour legislations have been consolidated into four primary Codes, effective in their entirety since November 21, 2025:

- **Current Enforcement Status**
- **Immediate Effect:** All 29 prior central laws are officially repealed.
- **No Transition Window:** Despite earlier mentions of a transition, current notifications provide no grace period. Compliance is required immediately.
- **Rule-Making Gap:** While the Codes are active, many States have yet to finalize their specific Rules. We are currently in a "hybrid" regulatory phase.

Two "Golden Rules" for Interpretation

Principle	Legal impact
Code Supremacy	The Code take precedence over all existing contracts, policies and settlemets. conflicting old agreements are now invalid
Rule Continuency 69(3)/104/143(4)/143(2)	As per Section 6 and 24 of the General Clauses Act 1897, old rules under repealed laws still apply only / if they don't conflict with the new Codes, until new rules are gazetted.


4 NEW LABOUR CODES
01
CODE ON WAGES 2019
02
INDUSTRIAL RELATIONS CODE 2020
SEO
03
CODE ON SOCIAL SECURITY 2020
04
OCCUPATIONAL SAFETY HEALTH AND WORKING CONDITIONS CODE 2020

01

02

03

04

Wage Code:

1. Payment of Wages Act, 1936
2. Minimum Wages Act, 1948
3. Payment of Bonus Act, 1965
4. Equal Remuneration Act, 1976

IR Code:

1. Industrial Disputes Act, 1947
2. Industrial Employment (Standing Orders) Act, 1946
3. Trade Unions Act, 1926

SUBSUMED LAWS

SS Code:

1. Employee's Compensation Act, 1923
2. Employees' State Insurance Act, 1948
3. Employees' Provident Funds and Miscellaneous Provisions Act, 1952
4. Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959
5. Maternity Benefit Act, 1961
6.Payment of Gratuity Act, 1972
7. Cine-Workers Welfare Fund Act, 1981
8.Building and Other Construction Workers'
9.Welfare Cess Act, 1996

Unorganised Workers' Social Security Act, 2008

oshCode:

1. Factories Act, 1948
2. Plantations Labour Act, 1951
3. Mines Act, 1952
4. Working Journalists and other Newspaper Employees (Conditions of Service) and Miscellaneous Provisions Act, 1955
5. Working Journalists (Fixation of Rates of Wages) Act, 1958
6. Motor Transport Workers Act, 1961
7. Beedi and Cigar Workers (Conditions of Employment) Act, 1966
8. Contract Labour (Regulation and Abolition) Act, 1970
9.Sales Promotion Employees (Conditions of Service) Act, 1976
10.Inter-state Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979
11.Cine-Workers and Cinema Theatre Workers (Regulation of Employment) Act, 1981
12.Dock Workers Safety (Safety, Health, and Welfare) Act, 1986
13.Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1966

Continuing Acts under Labour Laws

01 **Sexual Harassment of Women at Workplace** (Prevention, Prohibition and Redressal) Act, 2013 (Posh Act)

Central Act

02 **Apprentices Act, 1961**

Central Act

Specific industry Acts & Administrative Acts

03

central & State Acts

Shops and establishments of State

04

State Act

Definition of wages is most important

1. Statutory Contributions (EPF and ESI

2. Calculation of Gratuity
3. Overtime Payments

4. Bonus Entitlement and Calculation

5. Minimum Wage Compliance

6.Leave Encashment

7.Maternity benefit

DEFNITION OF WAGES

01 All remuneration

wages" means **all remuneration** whether by way of salaries, allowances or otherwise,
expressed in terms of money or capable of being so expressed which would,
if the **terms of employment**, express or implied, were fulfilled, be payable to a person employed
in respect of his employment or of **work done in such employment**, and

includes,—

(i) basic pay;
(ii) dearness allowance; and
(iii) retaining allowance, if any,

02 **Allowances**

DEFNITION OF WAGES

but does not include—

(*a*) any **bonus** payable under any law for the time being in force, which does not form part of the remuneration payable under the terms of employment;

(*b*) the **value of any house-accommodation**, or of the supply of light, water, medical attendance or other amenity or of any service excluded from the computation of wages by a general or special order of the appropriate Government;

(*c*) any contribution paid by the **employer to any pension or provident fund,** and the interest which may have accrued thereon;

(*d*) any conveyance allowance or the value of any **travelling concession;**

(*e*) any sum paid to the employed person to **defray special expenses** entailed on him by the nature of his employment;

(*f*) **house rent allowance;**

(*g*) remuneration payable under any award or **settlement** between the parties or order of a court or Tribunal;

(*h*) any **overtime allowance;**

(*i*) any **commission** payable to the employee;

DEFNITION OF WAGES

03 **Terminal benefits**

(*j*) any gratuity payable on the termination of employment;
(*k*) any retrenchment compensation or other retirement benefit payable
To the employee
or any *ex gratia* payment made to him on the termination of employment:

Provided that, for calculating the wages under this clause, if payments made by the employer to the employee under clauses (a) to (i) exceeds one-half, or such other per cent. as may be notified by the Central Government, of the all remuneration calculated under this clause, the amount which exceeds one-half, or the per cent. so notified, shall be deemed as remuneration and shall be accordingly added in wages under this clause:

Calculation of 50% Rule

Critical working

01 All remuneration

02 Less one Time benefits

03 Find value of 9 allowances : Deduct

04 Balance = Wages

05 if 9 allowances are more than 50% of all remuneration

06 value above 50% should be addes with wages

Example 1.	amount in Rs
Basic.	40,000
HRA.	20,000
LTA.	16,000
Special Allowance	24,000
Total	100,000

Question : what is the wage ?

A 50,000
B 64,000
C 36,000
D 100,000

Example 2.	amount in Rs
Basic.	40,000
HRA.	28,000
LTA.	28,000
Special Allowance	4,000
Total	100,000

Question : what is the wage ?

A 50,000
B 56,000
C 44,000
D 100,000

DISCUSSION ON EXCLUSIONS......

"Section 2(y)(a) -Any bonus payable under any law for the time being in force"

This refers to bonus that arises from a **statutory obligation**, not from employer discretion.

Practical Scenarios — How This Plays Out

✅ **Scenario 1 — Properly Excluded (Classic Case)**

- Employer pays **8.33% statutory bonus** annually in November under the Payment of Bonus Act
- Appointment letter states salary as Basic + DA + HRA only
- Bonus is **nowhere mentioned** as a monthly pay component

Section 2(y)(b) — Value of House Accommodation, Amenities & Services

Properly Excluded

- Company provides **free quarters** to a factory worker in an industrial township → value of accommodation excluded
- Employer runs a **subsidized canteen** — meal value not added to wages
- Company bus service provided for commuting → excluded

Section 2(y)(c) — Employer's Contribution to PF / Pension Fund

DISCUSSION ON EXCLUSIONS……

Section 2(y)(d) — Conveyance Allowance / Travelling Concession

✅ **Properly Excluded**

•Fixed **conveyance allowance paid** for commuting → excluded
•**LTA** paid once in two years for travel to hometown → excluded
•**Fuel reimbursement** against bills for field staff → excluded

Section 2(y)(e) — Sum Paid to Defray Special Expenses

Practical Scenarios

✅ **Properly Excluded**

•**Daily allowance** for field sales staff working away from HQ → excluded
•**Washing allowance** for factory workers required to wear uniforms → excluded
•**Risk/hazard allowance** for workers in dangerous conditions → excluded (if linked to actual risk)
•**Remote area allowance** for posted employees → excluded

DISCUSSION ON EXCLUSIONS……

Section 2(y)(f) — House Rent Allowance (HRA)

Practical Scenarios

✅ **Properly Excluded**

•HRA clearly shown in salary slip → excluded ✅ *(our case)*

•HRA to senior employees in metro cities → excluded regardless of amount

2(y)(g)Award / Settlement / Court

Practical Scenarios

✅ **Properly Excluded**

•**Long Term Settlement** with union awards an additional **production incentive** excluded under 2(y)(g)

•**Industrial Tribunal award** grants an **ex-gratia payment** to workers → excluded

•**Court order** directs payment of **attendance bonus** → excluded

•**Bipartite settlement** grants a **special allowance** for a defined period → excluded

DISCUSSION ON EXCLUSIONS……

Section 2(y)(h) — Remuneration for Overtime Work

Practical Scenarios

✅ **Properly Excluded**

•Factory worker works 10 hours overtime in a month → overtime pay for 10 hours excluded from wages

•Overtime varies each month → clearly excluded

Section 2(y)(h) — Commission Payable to Employee

Practical Scenarios

✅ Properly Excluded

•Sales executive earns % of commission on collections → excluded

•Insurance agent receives commission on policies sold → excluded

•Monthly commission varies based on business generated → excluded

The Golden Rule Across All Clauses

Cash + Fixed + Guaranteed + In appointment letter = WAGES

Kind / Variable / Contingent / Separately paid = EXCLUDED

Salary in Kind

Provision: Value of "Remuneration in Kind" up to 15% of total wages is allowed.

Audit Example:
Employee Total Remuneration: ₹1,00,000.

Company provides free high-end housing valued at ₹25,000 (25%).

Audit Finding: Only ₹15,000 (15%) can be considered part of wages for statutory compliance.
The extra ₹10,000 cannot be used to "offset" minimum wage requirement

Practical Considerations

01

Whether wage determination will be done on monthly or annual basis?

02

How to quantify the benefit in kind such as stock awards, car etc?

03

cost analysis be done for calculation of wages for gratuity, meternity benefits leave encashments , esc etc

04

whether performance bonus/ statutory bonus forming part of bonus forming part of contact are wages?

05

what a sum paid to defry special expenses

06

commission or performance bonus

Employee A (Male)		Employee B (Female / Transgender)	
Basic	₹50,000	Basic	₹50,000
DA.	₹10,000	DA	₹10,000
HRA	₹20,000	HRA	₹15,000
Conveyance	₹ 5,000	Conveyance	₹ 5,000
Overtime	₹ 8,000	Overtime	₹ 3,000
Total cash paid =	₹93,000	Total cash paid	= ₹83,000

d) any conveyance allowance or the value of any travelling concession

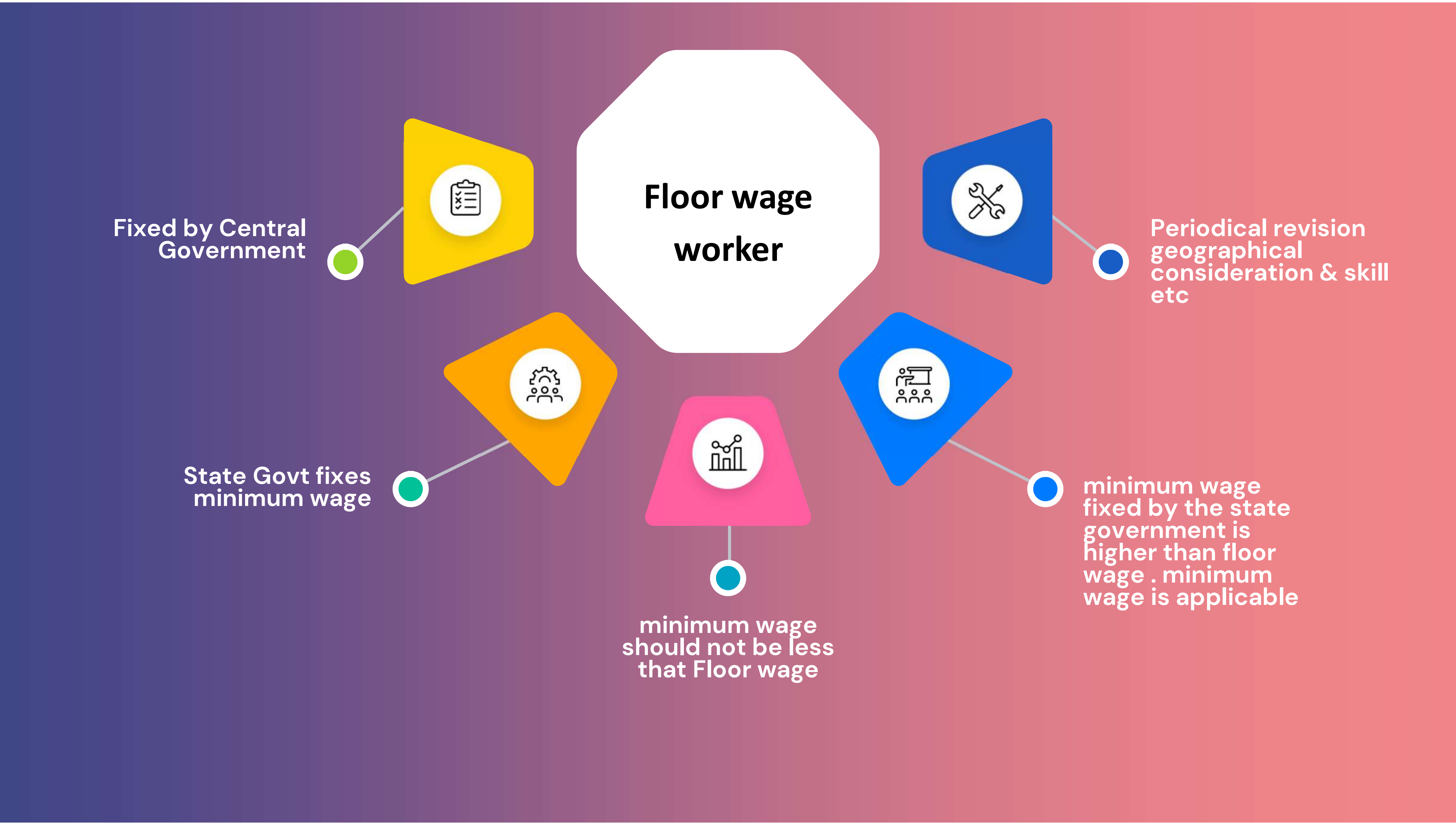
f) house rent allowance

(g) remuneration payable under any award or settlement between the parties or order of a court or Tribunal;

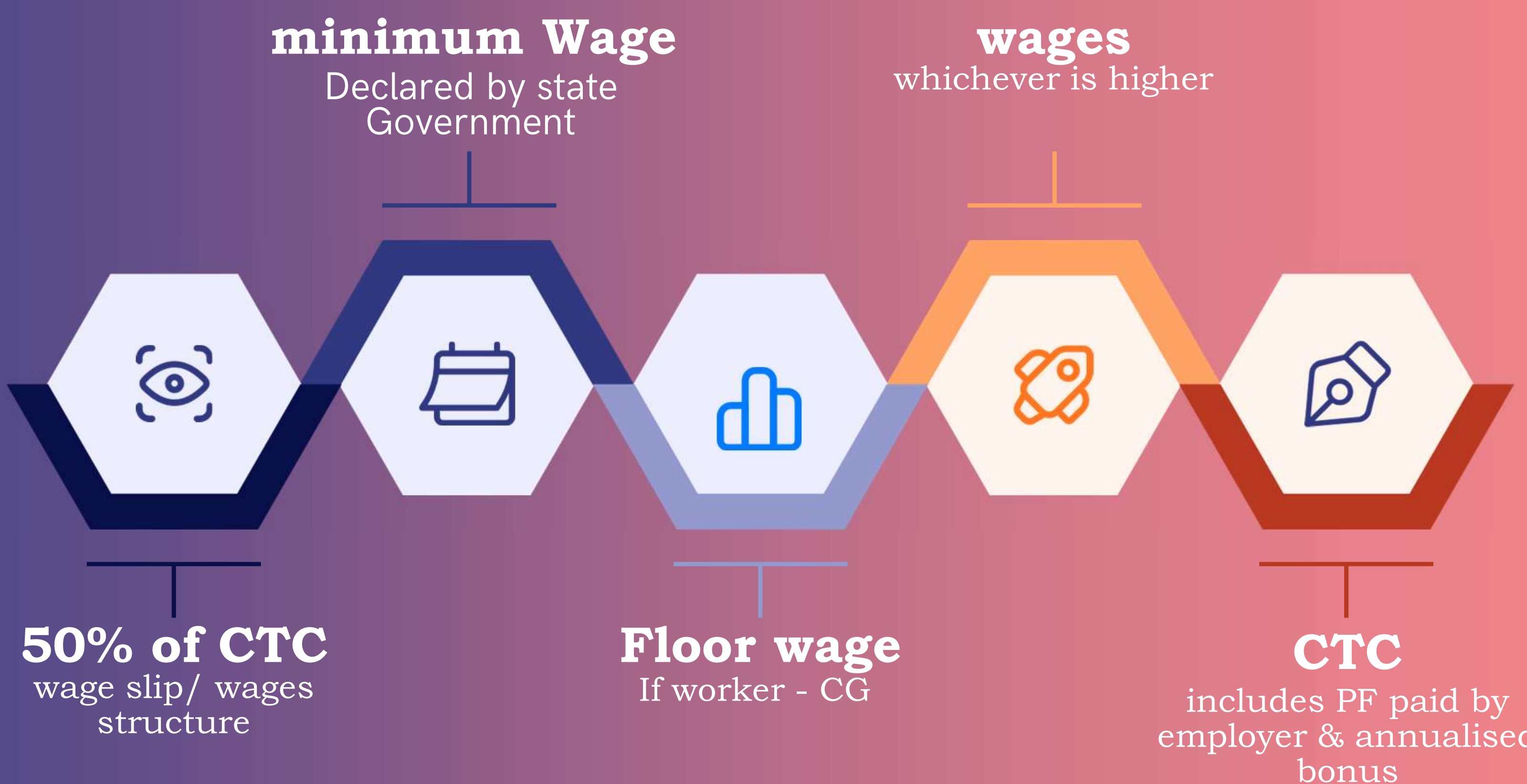
(h) any overtime allowance;

VIALATED THE LAW

Section 2 y further provides that for the purpose of equal wages to all genders and for the purpose of payment of wages the emoluments specified clauses (d),(f), (g) and (h) shall be taken for computation of wage


Floor wage worker
Fixed by Central Government
Periodical revision geographical consideration & skill etc
State Govt fixes minimum wage
minimum wage fixed by the state government is higher than floor wage . minimum wage is applicable
minimum wage should not be less that Floor wage

Practical salary calculation



Time limit for wages

Employees engaged in

01 **Daily : end of the shift**

02 **Weekly : last working day of the week**

03 **Fortnightly : before the end of second day**

04 **Monthly : before 7th day of succeeding month**

05 **Contractor : 7 days**

Permissible Deductions & The 50% Ceiling

Payment of wages act cap was 75%

Authorized Deductions (Section 18):

o Fines: Imposed for specific acts/omissions (must be notified in advance).

o Absence from Duty: Pro-rata deduction for the period of absence.

o Damage or Loss: Recovery for loss of goods or money expressly entrusted to the employee (requires an internal enquiry).

o Services Rendered: Housing/Accommodation or amenities provided by the employ

o Recovery of Advances: Loans or advances given to the employee (and interest thereon).

Permissible Deductions & The 50% Ceiling....
Payment of wages act cap was 75%

Authorized Deductions (Section 18......):

Statutory Dues: PF, ESI, Income Tax (TDS), and Professional Tax.

Court Orders: Deductions mandated by a court or competent authority.
- The 50% Statutory Cap (Section 18(3)):

Total aggregate deductions from an employee's wages in any wage period cannot exceed 50%

Deemed deduction : payment made to employee to employer or his agent
Exclusions: suspension/DE promotion/with holding increment

Audit Check: If deductions (loan recovery + statutory + fines) exceed 50%, the employer must defer the recovery of the excess amount to subsequent months.

Payment of Bonus – Key Shifts from Old Act to New Code (sec 26-41)

Universal Eligibility (No Sectoral Gap):

Old Law: Limited primarily to factories and establishments with 20+ persons.
New Code: Broadened application. Any establishment with 20+ employees at any time during the accounting year must pay bonus.

New Ground for Disqualification (Section 29):
In addition to fraud, theft, and riotous behavior, an employee is now disqualified from receiving a bonus if dismissed for conviction of sexual harassment.

Direct Bank Transfer (The Digital Shift):
Old Law: Permitted cash payments.
New Code (Section 39): Statutory bonus must be credited directly to the employee's bank account. Cash is no longer a compliant mode.

Redefined Calculation Base (The 50% Rule):
Audit Alert: Since "Wages" is now redefined (Section 2(y)), the bonus calculation base may increase if allowances exceed 50% of CTC. This could push an employee's "wage for calculation" higher than before, even if their gross salary remains the same.

Code on Wages 2019

Definitions & Other Key Points

01 **Employee**
skilled, unskilled or semi skilled : mannual , operational, supervisory, managerial ,admin, technical , clerical

02 **Director**
A Director can be considered an employee if they are under a "Contract of Service" with the company.

03 **Any Gender**
Equal remuneration for same or similar work of simialr nature to all genders

04 **Minimum wage**
applicable to all employees

05 **2 classes of work**
Two or more classes of works with minimum wage

06 **Overtime**
Twice the wages for every extra Hour

07 **Audit point of view**
- Verify wage reclassification in payroll master.
- Test minimum wage compliance.

08 **Audit**
Check timely payment & deduction limits.
Bonus accrual & payment.

Code on Social Security 2020

1

EMPLOYEES PROVIDENT FUND

2

EMPLOYEES STATE INSURANCE

3

GRATUITY

MATERNITY BENEFIT

4

EMPLOYEES COMPENSATIO
N

5

&
CONSTRUCTION WORKERS

GIG & PLATFORM WORKERS

Code on Social Security 2020

Employees' Provident Fund (EPF):

Applies to every establishment (regardless of industry) employing 20 or more employees.
Audit Note: The old "Schedule I" list of industries is gone. Universal coverage now applies to all sectors.
Even if the no of employees fall below 20 : continues to apply
Voluntary contribution: employer contribution not required

Contributor	Total Rate	Breakdown of the Contribution
Employee	**12%**	100% goes into the **EPF Account**.
Employer	**12%**	**3.67%** goes to **EPF** (Provident Fund). **8.33%** goes to **EPS** (Pension Fund).*

- **DLI (Insurance): 0.50%** (Capped at ₹15,000 wage base, max ₹75/month).
- **EPF Admin Charges: 0.50%** (Minimum ₹75 per month).

Section 21: Pvt provident fund : 100 or more employees

Code on Social Security 2020

Employees' State Insurance (ESI):

Applies to every establishment with 10 or more employees.
Hazardous Workplaces: Mandatory coverage even if only one worker is employed (Section 2(21))
voluntary application .

Employer 3.25% Paid by the company (over and above the salary).**Employee 0.75%**

Employer fails to register or pay contribution : employee will get benefit and will be recovered

Gratuity:

Applies to factories, mines, oilfields, plantations, ports, and railway companies.
Applies to every shop or establishment with 10 or more employees on any day of the preceding 12 months.

Code on Social Security 2020

Maternity Benefit:

Applies to every factory, mine, or plantation (including government establishments).

Applies to every shop or establishment with 10 or more employees.

Paid Leave26 Weeks (Standard)**Avg. Daily Wage**100% of the average wage for the period of actual absence.
Miscarriage/MTP6 weeks paid leave immediately following the event.
Tubectomy2 weeks paid leave following the operation.
Notice Requirement Woman must give written notice (Form L) to the employer.

New Categories (The Digital Extension):

Gig & Platform Workers: Mandatory for Aggregators (Digital intermediaries connecting buyers and sellers) listed in the 7th Schedule (e.g., Ride-sharing, Food delivery, Logistics).

Unorganized Sector: Applies to home-based or self-employed workers.

FIXED TERM EMPLOYMENT

APLLICABILITY

Both workers 2(o) and employees :2(34)

CONTRACT

Engagement of an employee on the basis of a written contract for a fixed period.
The contract must specify the start date and the end date (or specific project milestone).

The "Parity" Principle

FTEs must receive the same wages, allowances, and benefits as permanent employees doing the same or similar work.

GRATUITY

The "One-Year" Gratuity Rule:
Standard Rule: Permanent employees must serve 5 years to be eligible for gratuity.
FTE Rule: Eligible for pro-rata gratuity after completing just 1 year (240 working days) of continuous service.

FIXED TERM EMPLOYMENT

Comparison for an employee with ₹50,000 monthly "Wages" (leaves in 2 years)

Component	Permanent Employment	Fixed-Term Employee
PF/ESI.	Benefits Full Eligibility	Full Eligibility (Parity)
Gratuity Eligibility.	No (Did not hit 5-year mark)	Yes (Eligible after 1 year)
Gratuity Amount.	₹0	₹57,692
Retrenchment	Pay Possible (if terminated)	None (on contract expiry)
Provisioning Risk	Low (if turnover is high)	High (Mandatory liability)

Industrial Relations Code 2020

1. TRADE UNIONS
2. STANDING ORDERS
3. ARBITRATION

   INDUSTRIAL DISPUTES
4. STRIKES & LOCK OUTS

   LAY-OFF, RETRENCHMENT
5. WORKER RESKILLING FUND

   UNFAIR LABOUR PRACTICES

Industrial Relations Code 2020

Key Definitions (Audit Relevance)

Worker → Supervisory employees up to ₹18,000 p.m. now included (earlier ₹10,000) →

Managerial / administrative roles excluded → Impact: More employees now covered under protections, standing orders, retrenchment, etc.

Employer → Widened (includes contractors, intermediaries, principal employers)
INDUSTRY : Any systematic activity to satisfy human wants is industry except NGO, domestic service

Retrenchment, Lay-off & Closure

Prior government permission required only for establishments with 300 or more workers (raised from 100)
States can increase the threshold further
Compensation unchanged → 15 days' average pay per completed year (or part >6 months)
Advantage: Easier restructuring for mid-size companies (<300 workers)

Re-skilling Fund (New Cost)

Employer must contribute 15 days' last drawn wages for every retrenched worker
Paid into government Re-skilling Fund

Amount credited to worker's account within 45 days

Accounting: Expense in P&L in the period of retrenchment (termination benefit)
Audit: Test every retrenchment case for contribution & payment

Standing Orders & Grievance Redressal

Standing Orders mandatory for establishments with 50 or more workers
Model standing orders prescribed → uniformity across units
Grievance Redressal Committee compulsory for 20+ workers
(time-bound resolution ≤30 days)

Occupational Safety, Health and Working Conditions (OSH) code 2020

1	2	3	4	5
Registration	Duties of Employer & Employee	Occupational Safety &Health Working conditions &welfare	Hours of work leave Registrations	Contract Labour Migrant worker

OSH Code, 2020

Registration- every establishment 10 or more employees

Working Hours & Overtime (Core Financial Impact)

Standard: Max 8 hours/day, 48 hours/week

Overtime: With consent → at least 2× normal wages (overtime allowance excluded from wages definition but paid double)
Flexibility: Govt can fix higher daily limits (e.g., 12 hrs in 4-day week)
Night shifts, weekly off mandatory
Impact: ↑ overtime costs if payroll not restructured; test accruals

Leave Entitlements & Encashment

Annual leave: At least 1 day per 20 days worked (≈18 days/year)
Carry-forward allowed; encashment of excess over 30 days mandatory on demand
Leave encashment on separation: Payable within 2 working days
Maternity, casual, sick leave provisions
Audit Red Flag: Higher leave liabilities (past service cost if wages ↑)

OSH Code, 2020

Appointment letter: to every employee within 3 months

Annual Check-up

All Employees (40+)
Employer Mandated **Hazardous Processes** Pre-employment & Periodic Employer Mandated (High Priority) **Non-Hazardous (<40)**Not Statutory (Optional)N/A Recommended

CONTRACT LABOUR:

50+ Employees license , site specific license,
prohibited in core activity
exceptions : Ordinary practice
Part time engagement
Sudden increase in volume

OSH Code, 2020

Welfare, Safety & Health Provisions

Employer duties: Cleanliness, ventilation, drinking water, latrines, waste treatment, safety audits

Safety Committee Prescribed workers

Compulsory welfare facilities (canteen 100+, crèche for 50+ workers)

Third-party audit/certification for startups/classes of establishments (reduces inspector visits)

Financial: Indirect costs (capex for facilities) → expense recognition

THE THRESHOLD NO OF WORKERS IN DEFNITION OF FACTORY

OLD LAW : 10 WORKERS WITH POWER WITH OUT POWER 20

NEW CODE : 20 WORKERS WITH POWER WITH OUT POWER 40

Reduced burden for small/micro manufacturing units (e.g., 10–19 workers with power):

No longer classified as "factories" → escape strict factory-specific compliances (e.g., some licensing, detailed hazardous process rules), but still comply with general OSH provisions.

Re-classification needed: Review client premises —

if previously a factory (under old 10/20), check current headcount. If now below 20/40, document as non-factory establishment → potential compliance savings.

Payroll/HR testing: Verify worker count (exclude apprentices/out-workers where applicable); test for accurate peak over 12 months.

Financial angle:

No direct P&L hit from threshold change, but indirect via uniform rules (e.g., overtime at 2× wages, leave encashment) applying from 10 workers..

Overview
Decriminalization & Compounding

Imprisonment limited to serious/repeat offences (e.g., wilful evasion, safety lapses causing death/injury)

Most first-time offences → monetary fines only (higher than old laws: ₹50,000–₹5 lakh+)

Compounding allowed for first-time offences (not repeat within 3–5 years)
Fine-only offences → 50% of max fine

Fine + ≤1 year imprisonment → 75% of max fine

Opportunity to rectify before prosecution (Improvement Notice)

Audit angle: Lower litigation risk but higher provisions for potential fines

Common Features Across Codes

Inspector-cum-Facilitator role (advisory + enforcement)

Electronic records/registration → easier compliance, but non-maintenance fined

Repeat offence (within 3–5 years) → higher fines + possible imprisonment

Compounding not available for repeat/similar offences

Penalties credited to Social Security Fund (SS Code) or welfare funds

Limitation: 5-year look-back for most claims/proceedings

Code on Wages, 2019 – Key Offences & Penalties

Offence	First-Time Penalty	Repeat (within 5 years)	Section
Pay less than due / below minimum wages	Fine up to ₹50,000	Imprisonment ≤3 months OR fine up to ₹1 lakh (or both)	Sec 54(1)(a)–(b)
Contravene any other provision (e.g., records, timely payment)	Fine up to ₹20,000	Imprisonment ≤1 month OR fine up to ₹40,000 (or both)	Sec 54(1)(c)–(d)
Non-maintenance/improper records	Fine up to ₹10,000	Higher fine/imprisonment	Sec 54(2)
Obstruct Inspector	Fine up to ₹1 lakh	Imprisonment ≤6 months + fine	Various

Industrial Relations Code, 2020 – Key Offences & Penalties

Offence	First-Time Penalty	Repeat/Serious	Section
Illegal lay-off/retrenchment/closure without permission (≥300	Fine ₹1–10 lakh	Fine ₹5–20 lakh OR imprisonment ≤6 months (or both)	Sec 78–80
Contravene standing orders / unfair labour practice	Fine ₹50,000–₹2 lakh	Fine ₹1–5 lakh OR imprisonment ≤6 months	Sec 67, 70, etc.
Illegal strike/lock-out	Fine ₹50,000–₹2 lakh	Higher fine + imprisonment	Sec 57
Failure to constitute Grievance Committee / maintain records	Fine ₹25,000–₹1 lakh	Escalating	Various

Code on Social Security, 2020 – Key Offences & Penalties

Offence	First-Time Penalty	Repeat/Serious	Section
Failure to pay contributions (PF/ESI/gratuity)	Fine up to ₹50,000–₹1 lakh	Imprisonment ≤3 years OR fine up to ₹3 lakh	Sec 125–133
Non-registration of employees / wilful evasion	Fine ₹50,000 + ₹30,000/day continuing	Imprisonment + higher fine	Various
Misclassification / deny benefits	Fine up to ₹1–3 lakh	Imprisonment ≤3 years	Sec 142
General contravention	Fine ₹50,000–₹2 lakh	Escalating	General

OSH & Working Conditions Code, 2020 – Key Offences & Penalties

Offence	First-Time Penalty	Repeat/Serious	Section
General contravention (e.g., safety, hours, welfare)	Fine ₹2–3 lakh	Additional ₹2,000/day continuing	Sec 94
Safety violation causing accident/death/injury	Fine ₹2–5 lakh (up to ₹10–50 lakh in serious)	Imprisonment ≤1–2 years + fine	Sec 95–104
Obstruct Inspector / no registration	Fine ₹50,000–₹1 lakh	Higher + imprisonment	Sec 95
Employ prohibited categories / fail manager appointment	Fine ₹50,000–₹1 lakh	Double penalty	Various

Compounding Provisions Summary (All Codes)

Offence Type	Compounding Amount	Availability	Restriction
Fine only	50% of max fine	First-time only	Not for repeat within 3–5 years
Fine + ≤1 year imprisonment	75% of max fine	First-time only	Not for serious/repeat
Wages Code variation	Mostly 50% (even for some imprisonment cases)	First-time	Similar restrictions
Process	Before/after prosecution; paid to govt officer	—	Credited to welfare funds

FAQ on Key accounting implications (LC)

Increase in gratuity liability(Past Service Cost)

(a) Under Ind AS 19 requires past service cost to be immediately recognised as an expense in the Statement of Profit and Loss.

(b) Under AS 15 requires

vested past service cost (5years /1 year) to be recognised immediately.

Non Vested past service cost is amortised over the vesting period and recognised as an expense in the Statement of Profit and Loss.

Leave Encashment

(a) Both AS 15 & Ind AS 19 requires past service cost to be immediately recognised as an expense in the Statement of Profit and Loss.

GUIDENCE ON NEW LABOUR CODES

(A) Understanding the entity
- (i) Location of operations of the entity
- (ii) Permanent Employees
- (iii) Fixed Term Employees
- (iv) Contract Staff
- (v) Managed Service Providers
- (vi) Utilisation of GIG and Platform Workers
- (vii) Other relevant HR

(B) Management representations

(C) Consideration of Legal Opinion

(D) Communication with Governace (TCWG)

AUDIT REPORTING (SA705)

Nature of Matter Giving Rise to the Modification	***Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements***	
	Material but Not Pervasive	***Material and Pervasive***
Due to non compliance		
1) Financial statements are materially misstated	Qualified opinion	Adverse opinion
2) Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion
Fully complied	***Emphasis of Matter Paragraph***	
CARO Reporting	***Payment of statutory liabilities , Internal Financial Reporting***	

WAY FORWARD

IMPLEMENTATION OF NEW LABOUR COES

01 CONDUCT IMMEDIATE GAP ANALYSIS

- Map current policies, contracts & payroll against 4 Codes (Wages, Social Security, IR, OSH) + Kerala rules Identify risks: new wage definition (≥50% as wages), gig/fixed-term parity, safety norms

02 Complete All Registrations & Renewals

- Verify/renew: Shops & Establishments, EPF, ESI, PT, LWF, POSH Committee Obtain any pending Code-related registrations/licenses promptly

03 Update Policies, Contracts & Benefits

- Revise employment letters, HR policies for: equal pay, overtime, leaves, maternity, gratuity Align salary structure (min. 50% as “wages”), extend social security to eligible gig/platform workers

04 PROVISONS IN FS

GRATUITY , LEAVE , BBONUS ETc

05 DISCLOSURES

potential financial risk araising out of the non compliance and disputes

Professional Opportunity for CA

Statutory Audit	Payroll audit, benefit obligation review, disclosures
Payroll Restructuring	CTC redesign, wage definition compliance
Accounting Advisory	Ind AS 19 / AS 15 — past service cost
Labour Law Due Diligence	M&A, investments, restructuring
Tax Advisory	TDS, PF tax, CTC optimisation
Compliance Certification	Statutory certificates, internal audit
Training & Consulting	Workshops, guides for corporates/SMEs
Litigation Support	Representation before labour authorities

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