

Corporate Social Responsibility

6.1 Introduction

Corporate Social Responsibility (CSR) is a Company's commitment to operate in an economically, socially and environmentally sustainable manner, while recognizing the interests of its stakeholders. This commitment is normally beyond statutory requirement.

The Committee on Public Undertakings (COPU) in 1992 examined the issue relating to social obligation of Central Public Sector Enterprises (CPSEs) and observed that "being part of the 'State', every public sector enterprise (PSE) has a moral responsibility to play an active role in discharging the social obligations endowed on a welfare State, subject to the financial health of the enterprise". Based on the recommendation of the COPU, the Department of Public Enterprises (DPE) issued general guidelines in November 1994. These guidelines basically left it to the Board of Directors of the PSEs to devise socially responsible business practices in accordance with their Articles of Association, under the general guidance of their respective Administrative Ministry/Department.

6.2 Salient Features of DPE's recent guidelines on CSR

DPE issued fresh guidelines on the CSR on 9 April, 2010 which are specific and comprehensive, and require the business plan under CSR to be integrated with social and environment concerns related to respective CPSE. The guidelines lay stress on the link of CSR with sustainable development and define CSR as a philosophy wherein organizations serve the interest of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations.

The guidelines specify the mandate and scope of activities for CSR by the CPSEs and are in the nature of a charter on activities, projects, expenditure, documentation and monitoring of CSR initiatives of CPSEs.

Some significant features of the guidelines are detailed below:

- ❖ CPSEs should consider the parameters specified by DPE for identification of CSR schemes/projects.
- ❖ The identified Projects under CSR are to be implemented by specialized agencies and not by its own staff.
- ❖ CPSE should set up independent divisions, departments, sections, cell, etc. to deal with CSR activities but salary of the staff will not form part of the CSR budget/expenditure.
- ❖ The impact made by CSR activities should be quantified to the best possible extent with reference to baseline data to be created by the CPSEs before start of any CSR project.

- ❖ Meticulous documentation relating to CSR approaches, policies, programmes, expenditure, procurement, etc. should be prepared and put in public domain (particularly through Internet).
- ❖ Each CPSE should include a separate paragraph/chapter in the Annual Report on implementation of CSR activities/project including facts relating to physical and financial progress.

6.3 Monitoring mechanism of CSR activities

A Memorandum of Understanding (MoU) is signed between each CPSE and the Government of India i.e. concerned Administrative Ministry/Department every year.

Audit noticed that in the MoU Guidelines prescribed by DPE for the year 2010-11, "CSR" was included as a compulsory element under the "Non-financial parameters" with a mandatory weightage of 5 per cent. Since compliance with the DPE guidelines on CSR has been factored into the MOU parameters, the Administrative Ministries/ DPE should now ensure that the CPSEs set their own targets to assess its performance under CSR and the performance of these companies is monitored on a regular basis.

6.4 Shortfall in CSR Budget/expenditure by CPSEs during 2010-11

The DPE's guidelines on CSR require that CPSE budget will be compulsorily created every year, through a Board Resolution, as a percentage of net profit in the following manner.

Type of CPSEs Net Profit (Previous Year)	Expenditure range for CSR in a Financial Year (per cent of profit)
Less than ₹ 100 crore	3% - 5%
₹ 100 crore to ₹ 500 crore	2% - 3% (subject to minimum of ₹ 3 crore)
₹ 500 crore and above	0.5% - 2%

The guidelines further clarified that the unspent amount of the budget will be transferred to a CSR Fund, which will accumulate and not lapse. Loss making CPSEs are not mandated for CSR activities.

Audit review of the CSR budget/expenditure by the CPSEs during the year 2010-11 was conducted for 114 CPSEs, which earned net profit in excess of ₹ 10 crore during the year 2009-10. The status of compliance with DPE guidelines on CSR, in terms of number of CPSEs, under different classes by size of net profit, is briefed below:

Net Profit range during 2009-10	Number of CPSEs' spending/provision for CSR, during the year 2010-11, compared to the minimum amount specified in DPE guidelines			
	Total	Minimum Required	Shortfall	Excess
Above ₹ 500 crore	34	5	4	25
₹ 100 crore – ₹ 500 crore	31	4	17	10
₹ 10 crore – ₹ 100 crore	49	4	37	8
Total	114	13	58	43

The details of top 10 CPSEs which did not meet the minimum requirement for CSR budget/expenditure during the year 2010-11 are given below:

(₹ in crore)

Sl. no.	CPSE's name	Net Profit	Minimum CSR budget/expense as per guidelines	Amount spent on CSR	Amount provided for CSR	Shortfall from minimum prescribed CSR
		2009-10	2010-11			
(a)	(b)	(c)	(d)	(e)	(f)	(g)=(e-c)
1	Airport Authority of India	712.29	14.25	3.94	Nil	(-) 10.31
2	Rural Electrification Corporation Limited	2,327.18	11.64	1.37	Nil	(-) 10.27
3	Indian Railways Finance Corporation Limited	442.69	8.85	0.25	Nil	(-) 8.60
4	Hindustan Aeronautics Limited	1967.41	9.84	1.79	Nil	(-) 8.05
5	Engineers (India) Limited	435.58	8.71	0.74	Nil	(-) 7.94
6	Housing and Urban Development Corporation Limited	495.31	9.91	4.99	Nil	(-) 4.92
7	Mazagaon Dock Limited	243.52	4.87	0.44	0.42	(-) 4.01
8	Manganese Ore India Limited	466.34	9.33	5.75	Nil	(-) 3.58
9	National Fertilizers Limited	171.51	3.43	0.19	Nil	(-) 3.24
10	India Infrastructure Finance Company Limited	153.76	3.08	Nil	Nil	(-) 3.08

Audit concludes that

- ❖ Out of the total 114 CPSEs earning profit of more than ₹ 10 crore, 58 CPSEs did not comply with the DPE guidelines in terms of the minimum CSR budget/expenditure. As such, the compliance was less than 50 per cent in terms of number of CPSEs.
- ❖ The compliance was not encouraging in case of CPSEs earning profit between ₹ 10 crore and ₹ 100, as 37 out of 49 CPSEs did not comply with the guidelines.
- ❖ The compliance was not satisfactory in case of CPSEs earning profit between ₹ 100 crore and ₹ 500 crore, as 17 out of 31 CPSEs failed to comply with the minimum requirement of CSR budget/expenditure.
- ❖ However, the compliance was encouraging among large CPSEs which earned profit of more than ₹ 500 crore, as the shortfall was only in 4 out of 34 CPSEs and as many as 25 CPSEs spent/provided for CSR in excess of the minimum requirement.

New Delhi
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New Delhi
Dated: 30th March, 2012

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