

CHAPTER IV

Corporate Social Responsibility

4.1 Introduction

Corporate Social Responsibility (CSR) is a Company's commitment to operate in an economically, socially and environmentally sustainable manner, while recognising the interests of its stakeholders including consumers, employees, investors, communities. It is mandate given to profit making companies to dedicate a portion of their profits to the common social good so as to give back to the society within which they operate. The inclusion of the CSR mandate under the Companies Act, 2013 is an attempt to supplement the Government's efforts of equitably delivering the benefits of growth and to engage the Corporate World with the country's development agenda.

Chart 4.1 Corporate Social Responsibility



The Government of India enacted the Companies Act, 2013 in August 2013. With the enactment of the Companies Act (hereafter referred to as "Act") containing CSR provision under Section 135, the mandate for CSR has become a part of Corporate Governance in the country.

Section 135 of the New Companies Act 2013 enjoins the Board of Directors of every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more, during any financial year, to ensure that the Company spends at least two *per cent* of the average net profit of the Company, made during the three immediate preceding financial years, for the purpose of its Corporate Social Responsibility.

Schedule VII of the Companies Act 2013 enlists activities to be undertaken under CSR and includes activities related to healthcare, education & skill development, social inequality, environment sustainability, national heritage, art and culture, armed forces, sports, funds set up by Central Government, technology incubators, rural development projects, slum area development, capacity building etc.

Apart from the Act, Ministry of Corporate Affairs (MCA) issued Companies (Corporate Social Responsibility Policy) Rules, 2014 and Department of Public Enterprises (DPE)

issued O.M on Observance of transparency and due diligence in selection and implementation of activities under CSR by CPSEs) dated 1/8/2016.

4.2 Audit Objective

The audit objective was to ascertain whether the provisions of the Companies Act 2013, Companies (Corporate Social Responsibility) Rules 2014, and DPE instructions vide O.M dated 01/08/2016 have been followed.

- Whether provisions relating to constitution of CSR Committee, formulation and compliance of policy have been complied with;
- Whether provisions relating to prescribed amount to be spent on specified activities have been complied with ;
- Whether provisions relating to institutionalisation of a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the CPSEs.
- Whether provisions relating to reporting have been complied with;

4.3 Audit Scope

- As on March 2017, there were 636 CPSEs under the audit jurisdiction of Comptroller and Auditor General of India. These included 438 Government Companies, 192 government controlled other companies and six statutory corporations.
- In the present review 79 CPSEs were covered. Data was not received in respect of two CPSEs²⁷. The review covered 77 CPSEs (7 Maharatna ²⁸, 17 Navratna ²⁹ and 50 Miniratna ³⁰ Category-I, 3 Miniratna Category-II ³¹ (**Appendix VIII**) under the administrative control of 24 Ministries/Departments. The period of one year ended March 2017 was covered during the review.

²⁷ *FCI Aravalli Gypsum & Minerals India Limited and Pawan Hans Helicopters Limited (PHHL)*

²⁸ *CPSEs with an Avg. Annual Profit over ₹5000 crore or Avg. annual net worth of ₹1000 crore or more or Turnover of ₹2000 crore or more for last three years*

²⁹ *CPSEs which have obtained Excellent or Very Good rating under the Memorandum of Understanding system in three of the last five years and have composite score of 60 (out of 100), based on six parameters which include net profit, net worth, total manpower cost, total cost of production, cost of services, PBDIT (Profit Before Depreciation, Interest and Taxes), capital employed, etc., and a company must first be a Miniratna and have 4 independent directors on its board before it can be made a Navratna.*

³⁰ *A CPSE which had made profits continuously for the last three years or earned a net profit of ₹30 crore or more in one of the three years*

³¹ *A CPSE which had made profits continuously for the last three years and have positive net worth*

4.4 Audit Criteria

The analysis was carried out against following criteria:

- i. Provisions of the Companies Act 2013
- ii. Provisions of Companies (Corporate Social Responsibility Policy) Rules, 2014 and
- iii. DPE O.M instructions dated 1/8/2016

4.5 Audit Findings

The findings of the review are presented in following paragraphs.

4.5.1 Planning

4.5.1.1 Constitution of CSR Committee

All 77 CPSEs, reviewed, have constituted CSR committee. Fifteen CPSEs have constituted CSR committee during the year 2016-17 with a delay ranging from 25 to 39 months in constitution of CSR Committee (**Appendix IX**).

4.5.1.2 Appointment of Independent director

Section 135(1) of the Companies Act 2013 stated that every company qualifying the conditions specified in the Act should constitute a CSR Committee of the Board consisting of three or more directors, out of which at least one director should be an independent director. It was observed that two CPSEs³² out of qualifying CPSEs did not have independent director in the Committee during 2016-17.

4.5.1.3 Formulation of CSR and Sustainability Policy

As per provisions of Section 135(2) of the Companies Act 2013, Corporate Social Responsibility Policy should be formulated. In case of all 77 CPSEs under review, CSR and sustainability policy was formulated and recommended by CSR Committee and the same was duly approved by the Board.

4.5.1.4 Activities to be undertaken, in CSR policy as specified in Schedule VII of the Companies Act 2013,

Out of 77 CPSEs, it was observed that the CSR policy of five CPSEs viz. Engineers India Limited (EIL), Antrix Corporation Limited (ACL), Indian Renewable Energy Development Agency Limited (IREDAL), Rajasthan Electronics & Instruments Limited (REIL), National Buildings Construction Corporation Limited (NBCCL), did not indicate the activities to be undertaken, from the 11 activities specified in schedule VII of the Companies Act 2013.

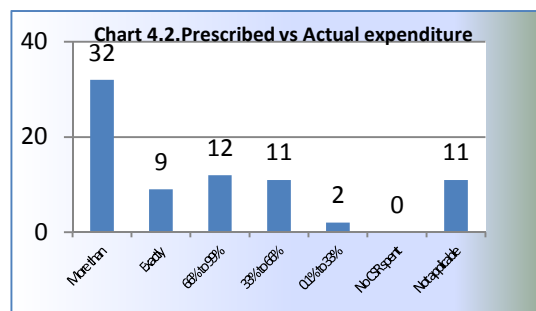
³² *MSTC Limited, and Oil India Limited (OIL)*

4.5.2 Review of expenditure on CSR

Section 135 (5) of the Companies Act 2013 specified that the Board of every company should ensure that the company spent, in every financial year, at least two *per cent* of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy; provided that, under Clause (o) of sub-section (3) of section 134, if the company failed to spend such amount, the Board should specify reasons for not spending in its report. During the year 2016-17, 77 CPSEs undertook 8840³³ projects and CSR expenditure thereon (including amount spent from the carried forward amount of previous years) was ₹3150.37 crore. Review of 77 CPSEs revealed that 49 of the 66³⁴ profit making CPSEs had allocated at least two *per cent* of the average net profit. Thirteen profit making CPSEs (**Appendix X**) did not allocate the prescribed amount for CSR expenditure. Though Section 135 (5) of the Companies Act 2013 did not specify requirement of allocation of expenditure on CSR, for the loss making CPSEs, it was observed that out of the 11 loss making CPSEs, 5 CPSEs³⁵ also had allocated an amount of ₹18.30 crore for CSR of which, expenditure of ₹14.66 crore was incurred out of the allocated amount during the year 2016-17. Remaining 6 loss-making CPSEs incurred expenditure of ₹1.97 crore from the carried forward amount of previous year.

4.5.2.1 Utilisation of funds

Out of 77 CPSEs, the amount spent by 66 profit making CPSEs on CSR activities for the year 2016-17 was ₹2761.50 crore, against the required amount of ₹2789.78 crore. Thus, 98.97 *per cent* of the required amount was utilised during the Financial Year (FY) 2016-17.



Expenditure on CSR of 41 CPSEs was above 2 *per cent* of the average Annual Profit, whereas, the expenditure of 25 CPSEs (**Appendix XI**) was below 2 *per cent* of funds.

4.5.2.2 Unspent amount carried forward from the previous years

- Out of 77 CPSEs under review, 39 CPSEs had total unspent amount of ₹2438.42 crore carried forward from the previous years. Thirty five of these CPSEs, utilised an amount of ₹214.12 crore for CSR activities during the year 2016-17. Four

³³ No. of projects in respect of NSCL is not available.

³⁴ Data not available in respect of Railtel Corporation of India Ltd, Rites Ltd, India Tourism Development Corporation and National Seeds Corporation Ltd.

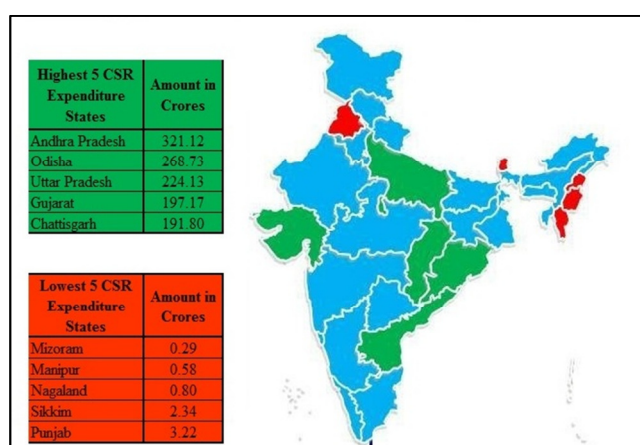
³⁵ Steel Authority India Limited (SAIL), Mangalore Refinery Petrochemical Limited (MRPL) Rashtriya Ispat Nigam Limited (RINL), Telecommunications Consultant India Ltd (TCIL) and Chennai Petroleum Corporation Ltd (CPCL)

CPSEs viz. IREDA, Oil and Natural Gas Corporation Limited (ONGC), ITPO, South Eastern Corporation Limited (SECL) did not utilise carried forward amount of ₹1636.11 crore of which unspent amount of ONGC itself was ₹1520.90 crore.

- Out of 39 CPSEs with unspent balance of previous year, eight³⁶ CPSEs had fully utilised the unspent amount carried forward from the previous year. Six³⁷ CPSEs did not maintain information regarding actual expenditure from the carried forward amount, as specified in Section 135 (5) of the Companies Act 2013 for the Financial Year 2016-17, separately.

4.5.2.3 State-wise CSR Expenditure

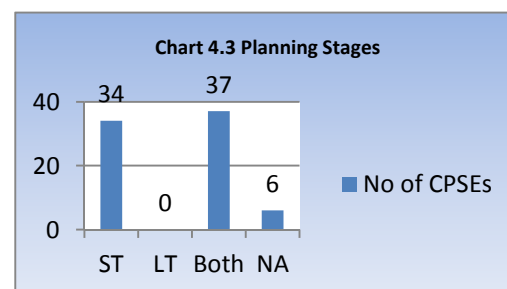
State-wise expenditure on CSR of 77 CPSEs is shown in the picture alongside. It can be seen that CPSEs have spent more in Andhra Pradesh, Odisha, Uttar Pradesh, Gujarat and Chhattisgarh, whereas, expenditure in Punjab and north-eastern States such as Mizoram, Manipur, Nagaland, Sikkim is insignificant. The detailed CSR expenditure State-wise is shown in **Appendix XII**.



4.5.3 Implementation of CSR activities

4.5.3.1 Implementation plan

As per rule 6 (1) of the CSR Rules 2014 the CSR Policy of the CPSEs should list the CSR Projects or Programs which the Company plans to undertake in compliance with Schedule VII of the Companies Act, 2013 specifying the modalities of execution of the projects or programs and implementation schedule for the same. As per para 2 (iv) of DPE OM dated 01.08.2016 “An institutionalised mechanism for monitoring, reporting and evaluation should be introduced by CPSEs implementing CSR”. It was observed that out of 77 CPSEs, 59 CPSEs had formulated annual CSR plan for the year 2016-17. In case of 41 CPSEs implementation schedules for the projects had not been mentioned in the CSR Policy.



³⁶ PDIL, REIL, Indian Oil Corporation Limited (IOCL), Numaligarh Refinery

Limited (NRL), SJVN, SAIL, CWC, Indian Railway Catering & Tourism Corporation Limited (IRCTC)

³⁷ Bharat Petroleum Corporation Limited (BPCL), NMDC, NSCL, Bharat Coking Coalfields Limited (BCCL), WAPCO, GAIL

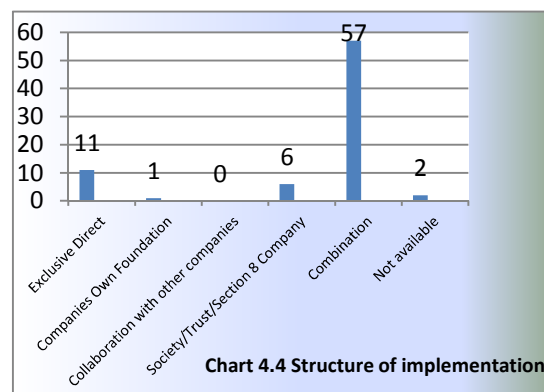
CSR Plan of NSICL did not specify the list of activities to be undertaken under CSR. 16 CPSEs had not prepared any annual CSR Plan for the year 2016-17.

4.5.3.2 Organisation structure for implementation of CSR activities

As per rule 4(2) of CSR Rules “The Board of a company may decide to undertake its CSR activities approved by the CSR Committee, through

(a) a company established under section 8 of the Act or a registered trust or a registered society, established by the company, either singly or alongwith any other company, or

(b) a company established under section 8 of the Act or a registered trust or a registered society, established by the Central Government or State Government or any entity established under an Act of Parliament or a State legislature :



The different structure for types of organisations implementation employed by the CPSEs are shown in the adjacent chart no 4.4, Audit observed that 57 CPSEs preferred combination of exclusive direct, own foundation, collaboration with other Companies and Society/ Trust/ Section 8 Company as their medium of implementation, whereas 11 CPSEs preferred exclusive direct mode of implementation for undertaking CSR activities.

Test check of 39 CPSEs has revealed that out of a total of 1986 projects implemented through external agencies during the year 2016-17, 833 (41.94 per cent) projects were awarded on the basis of tender, 727 (36.61 per cent) were awarded on nomination basis and 426 projects (21.45 per cent) were implemented through other modes viz. projects/ activities implemented through government machinery or through community based organisations, National Corporate Social Responsibility (NCSR) Hub, Tata Institute of Social Services, Mumbai (TISS) etc.

Audit also observed that ONGC had formed and registered a trust named ONGC Foundation in November 2014 for looking after the CSR activities of the Company. It was observed that though ONGC Foundation has been formed to take care of CSR assets created and carrying out CSR activities, the trust is not fully functional even after a lapse of 33 months since formation of the trust. Further, two of the Company’s assets viz. ONGC Community Hospital at Lakhimpur-Khiri district (U.P) and Sibasagar Hospital valuing ₹4.89 crore and ₹3.75 crore respectively, were not transferred in the name of ONGC Foundation (till August 2017) despite decision taken in the first meeting of ONGC Foundation (December 2014) and Board meeting (November 2016). The expenditure of

₹4.89 crore, pertaining to the Community Hospital was booked as revenue expenditure during 2013-14.

The Management in their reply stated that action for transfer of assets at ONGC Community Hospital to ONGC foundation would be taken up. Further progress was awaited.

4.5.3.3 Baseline/Need assessment surveys

As per para 2 (ii) of DPE OM dated 01.08.2016 “CPSEs should ensure that the criteria for selection and engagement with stakeholders are clearly outlined for prioritising the need of the people and selection of activities/ projects under CSR activities.” Audit of compliance with the requirement revealed the following:

- a) 19 CPSEs out of 77 CPSEs did not carry out any baseline/need assessment surveys prior to selection of CSR activities.
- b) 3441 new projects were undertaken under CSR scheme in 2016-17 in 50 out of 77 CPSEs reviewed. Out of this, Baseline/ Need assessment surveys was conducted for 2804 projects and survey was not conducted for 637 (18.51 *per cent*) of the total new projects undertaken.
- c) In respect of EIL, no baseline /need assessment survey done prior to the selection of any CSR activity and CSR expenditure had been made based on the need assessment done by the agency that approached the Company for funding under CSR. The Management in their reply (October 2017) stated that baseline/need assessment survey are made part of CSR proposals submitted by the concerned agencies to EIL and there is no explicit requirement in the guidelines for the same. The fact remains that the company itself has to undertake baseline/assessment survey rather than accepting the proposals submitted by the concerned agencies.
- d) Total CSR expenditure of NBCC, during the year 2016-17, was ₹7.74 crore. The Company had neither taken up baseline survey nor carried out need assessment for its CSR activities. The Company stated that the baseline survey/ need assessment involved expenditure and even after this study, letter of undertaking/ requisition in prescribed format from District administration/ Government body/ any other Government agency was required. The Company also stated that the survey / assessment would not clarify the availability of land, resource and other takeover / maintenance issues.

4.5.3.4 Preference for Operational areas

As per Section 135 (5) of the Companies Act 2013 “The Board of every company shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy:

Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities:”

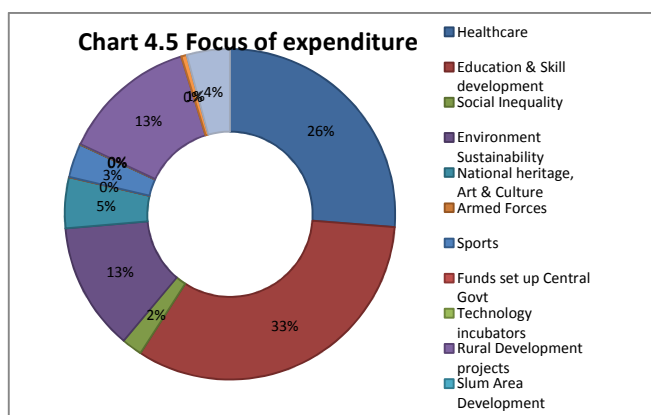
It was observed that 49 out of 77 CPSEs, had defined local area of operations. 24 CPSEs had not defined the local area of their operations. 62 out of 77 CPSEs, had given preference to areas around its area of operations for spending the CSR funds. Ten³⁸ CPSEs had not given preference to local area of operation. Four CPSEs³⁹ stated that they did not have any specific geographic location and therefore undertook CSR activities on pan India basis. Data was not available in case of Bharat Dynamics Limited (BDL).

4.5.3.5 Focus of CSR activities undertaken by CPSEs

As per provision of Para 4(1) and Para 6(1) of the CSR Rules 2014, the CSR activities should be undertaken by the company, as stated in its CSR policy i.e. projects or programs falling within the purview of the Schedule VII of the Companies Act 2013.

Focus of the expenditure on various CSR activities/ areas in 77 CPSEs is shown in chart 4.5.

During the year 2016-17, the number of projects undertaken by 77 CPSEs was 8840⁴⁰ and CSR



expenditure thereon (including amount spent from the carried forward amount of previous years) was ₹3150.37crore. As can be seen from the above, Education and skill development, Healthcare, Rural Development and Environment sustainability with total expenditure of ₹1036 crore, ₹826 crore, ₹417 crore and ₹394 crore respectively, formed the thrust areas for CSR. Focus on other areas given in Schedule VII of Companies Act

³⁸ Goa Shipyard Limited (GSL), ITPO, CWC, IREDAL, WAPCO, TCIL, IRCTC, RVNL, RITES, PDIL

³⁹ HUDCO, Rural Electrification Corporation (REC), PFC and PEC

⁴⁰ No. of projects in respect of NSCL is not available

like Technology incubation, Armed forces, Funds set up by Central Government and Slum Area Development was limited.

4.5.3.6 Administrative overheads

As per Rule 4(6) of CSR Rules 2014 Companies could build CSR capacities of their own personnel as well as those of their Implementing agencies through Institutions, with established track records of at least three financial years but such expenditure, including expenditure on administrative overheads⁴¹ should not exceed 5 *per cent* of total CSR expenditure of the company in one financial year. During the year 2016-17, the total administrative overheads for CSR reported by 55, out of 77 CPSEs, was 2.52 *per cent* of the total CSR expenditure⁴². It was observed that out of these 55 CPSEs expenditure on administrative overheads for the financial year 2016-17 of three CPSEs viz. HLL Lifecare Limited (HLL Lifecare), RITES Limited (RITES) and BEL exceeded 5 *per cent* of the total CSR expenditure of the company.

MCA vide its clarification (September 2014) exempted the expenditure on salaries paid by the Companies to regular CSR staff as well as to volunteers of the Companies, out of the ambit of total CSR expenditure. However, 26 (**Appendix XIII**) out of 55 CPSEs included total amount of ₹66.60 crore spent on salaries of CSR staff and volunteers as administrative overheads. Out of the total expenditure of ₹75.61 crore on CSR activities by these 26 CPSEs, ₹66.60 crore was towards salaries of CSR staff which was inadmissible.

4.5.3.7 Surplus arising out of CSR Projects

As per Rule 6(2) of the Companies (Corporate Social Responsibility Policy) Rules, 2014 “the CSR Policy of the company should specify that the surplus arising out of the CSR projects or programs or activities should not form part of the business profit of company.”

It was observed that CSR Policy of 19 out of 77 CPSEs did not specify the above information. During the year 2016-17 out of 77 CPSEs, six⁴³ CPSEs reported surplus arising from CSR activities. Out of the six CPSEs, two CPSEs (NLCL and BDL) have not reinvested surplus such as revenue earned from sale of tickets from Company bus services and interest earned on fixed deposits for CSR initiatives. Four CPSEs reinvested the same over and above the mandatory 2 *per cent* allocation for CSR.

⁴¹ Amendment vide Ministry of Corporate Affairs notification dated 12.09.2014

⁴² ₹75.61 crore, as against the total CSR expenditure of ₹2996.42 crore (for 55 CPSEs)

⁴³ NLCL, HAL, BDL, RINL, NRL, NSCL

In case of NBCC, it was observed that the work of construction of three public toilets in Guntur District, Andhra Pradesh was awarded to NSL Services Ltd (wholly owned subsidiary of NBCC Ltd) for an amount of ₹0.59 crore. Details of CSR expenditure for the year 2016-17 revealed that ₹0.65 crore was released to NSL towards first and final bill for the above work. However, an amount of ₹0.08 crore was also appearing as liability towards the same work (January 2017) and the same was released to NSL on 31.03.2017. It was observed that CSR department had informed the discrepancy to the Finance department of the company stating that there was no such request for undertaking work amounting to ₹0.09 crore from CSR department (January 2017). As per clause 2.7 of CSR and SD Policy of NBCC, the Board Level CSR Committee should recommend/ approve the CSR activity and the expenditure to be incurred on the CSR activities. Audit observed that an amount ₹0.09 crore was released to NSL without approval of the Board or request from CSR Department. The Management reply to the Audit observation was awaited (February 2018).

Audit observed that Neyveli Lignite Corporation Limited provided affordable access by connecting bus from their township to peripheral villages. The expenditure of ₹1.44 crore on the same was booked under CSR expenditure. However, the revenue of ₹1.83 crore earned from sale of tickets was treated as other income by the Company. The Management stated (December 2017) that the net expenses (after offsetting income and employee costs) for 2016-17 was ₹3 crore. Out of this, a portion has been transferred towards CSR under jana-pravesh, a scheme for providing affordable access to social facilities of Neyveli Township. Apart from the same, expenses of Auto yard, directly related to CSR activities are also charged to CSR expenditure. However, the fact remains that revenue of ₹1.83 crore was not shown as CSR income.

In case of BDL, the Company had invested an amount of ₹12.04 crore in fixed deposits out of unspent amount and the interest earned amounting to ₹0.96 crore (@8 per cent) on the same was not reinvested for CSR initiatives.

4.5.4 Monitoring of CSR activities

4.5.4.1 Monitoring of CSR policy

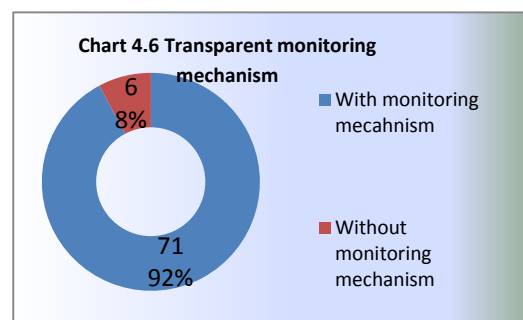
Section 135(3-c) of the Companies Act 2013 provided that the Corporate Social Responsibility Committee should monitor the Corporate Social Responsibility Policy of the Company from time to time. It was noticed in audit that out of 76⁴⁴ CPSEs, the CSR Committee of four CPSEs viz. Kamarajar Port Limited (KPL), NLCL, STCIL and RCIL did not

⁴⁴ Data not available for one CPSE ITDC

monitor CSR policy periodically. Out of 77 CPSEs, in case of nine⁴⁵ CPSEs, changes were approved in the CSR Policy during the year 2016-17 in order to align the same with business policy and strategy.

4.5.4.2 Constitution of Monitoring Mechanism

Para 5(2) of CSR Rules 2014 stated that the CSR Committee should institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company. Further, DPE O.M dated 01/08/2016 instructed to have an institutionalised mechanism for monitoring,



reporting and evaluation of the CSR by the implementing CPSEs. It was observed that out of 77 CPSEs there was no monitoring mechanism in place in six⁴⁶ CPSEs.

Para 6 (1) of CSR Rules 2014 stated that CSR Policy of the Company should include monitoring process of projects and programs falling within the purview of the Schedule VII of the Companies Act, 2013 which the Company had planned to undertake. However, out of 77 CPSEs, CSR Policy of four⁴⁷ CPSEs did not include this information.

GAIL entered into two agreements during July 2013 with Community Friendly Movement (CFM) for financing CSR Project Jaldhar Integrated Watershed Development and Management Program in villages in Jhabua, Madhya Pradesh through contribution of ₹3.13 crore for the year 2013-14. Subsequently, during April 2014, another Agreement was signed with CFM for continuing the Project from 2014 to 2018, with a total contribution of ₹12.50 crore. As per terms of the agreements, 62 watersheds, 4 Fluoride mitigation units and 100 toilets were to be completed, by March 2017. Audit observed that though work relating to 40 watersheds and 4 fluoride mitigation units were completed no toilets were constructed by March 2017. Though CFM provided budget of 62.4 per cent of total cost towards creation of tangible assets, it spent only 30 per cent on creation of assets and 70 per cent was spent on other activities. In the absence of segregation of expenditure, GAIL could not assess the reasonability of the cost incurred for various deliverables. The Management reply to the observation was awaited. (February 2018)

⁴⁵ BEL, BDL, Balmer Lawrie & Company Limited (BLCL), NBCC, ITDC, OIL, Mahanadi Coalfields Limited (MCL), BPCL, PDIL

⁴⁶ MRPL, NLCL, ITDC, ACL, NSCL, RVNL

⁴⁷ MSTCL, ITDC, IOCL, ACL

4.5.4.3 Utilisation certificate

As per the DPE O.M dated 01/08/2016 all efforts should be made by CPSEs to fully utilise the allocated CSR funds for the year.

In case of 9⁴⁸ CPSEs, out of 77 reviewed in audit, it was noticed that receipt of utilisation certificate was not being monitored by the Company. In case of 10⁴⁹ CPSEs, funds were released without verifying the utilisation of earlier allocation.

Audit observed that ONGC along with other CPSEs viz. GAIL, IOCL, OIL, BPCL, HPCL, EIL, CPCL and MRPL as member organisations, had contributed (up to 31.07.2017) a total amount of ₹4.34 crore as first instalment to set up a Hydrocarbon Sector Skill Council (HSSC) with primary objective of skill development in Indian Hydrocarbon sector. Six Skill Development Institutes being developed by Oil PSEs were required to be affiliated with HSSC for certification of courses from National Skill Development Council (NSDC). It was observed that agreement between HSSC and NSDC was yet to be signed (September 2017). Further, HSSC has utilised only ₹0.09 crore till date (September 2017). However, the unspent balance amount of ₹4.25 crore was also reported as CSR expenditure by the above CPSEs. The Management of ONGC in their reply stated that meetings of Governing Council were held at regular intervals to discuss the status of the project and expenditure.

4.5.4.4 Ineligible CSR activities

As per provisions of Rule 4(4) of the Companies Corporate Social Responsibility Rules 2014, CSR projects or programs or activities undertaken in India only constituted CSR expenditure. Rule 4(5) stated that CSR projects/programs/ activities that were beneficial only to the employees of the company and their families should not be considered as CSR activities. Rule 4(7) of the CSR Rules stated that contribution of any amount directly or indirectly to any political party should not be considered as CSR activity. Review of eligibility of activities undertaken by 77 CPSEs revealed the following:

- In case of NLCL, Audit observed that an amount of ₹0.45 crore have been incurred on a book fair event which was not in line with the MCA circular dated 18.06.2014 and 12.01.2016 which stated that one-off events would not be qualified as part of CSR expenditure. The Management stated (November 2017) that the book fair event was being conducted continuously for the past 19 years and that the book fair, second largest in the State, attracted nearly 1000 to 1500

⁴⁸ CPCL, NLCL, MECON, SCIL, RCFL, NBCC, STCIL, NSCL, RCIL

⁴⁹ KPL, NLCL, REIL, BEML, MDNL, MECON, MSTC, SCIL, NBCC, NSCL

students from nearby village schools daily. The book fair however was not in line with the provisions of MCA, and thus, the expenditure does not qualify as CSR expenditure.

- SAIL had undertaken activities which were beneficial only to the employees of the Company and their families. These activities were not eligible to be counted towards CSR activities under Rule 4(5) of CSR Rules 2014. The activities included i) Undertaking removal of plastic waste in and around Steel Township at a cost of ₹ 0.13 crore during 2016-17, ii) Running & Maintenance of Durgapur Museum at a cost of ₹0.90 lakh during 2016-17 and iii) Maintenance of BSL school buildings at a cost of ₹0.08 crore during 2016-17. The Management stated(September 2017) that the above projects/activities were approved by the SAIL Board in terms of annual CSR budget plan 2016-17 and fall in line with the interpretation of the activities listed in schedule VII of the Companies Act i.e. sanitation, environment sustainability, protection of national heritage, art and culture, promotion of education. The Management reply is not acceptable since the beneficiaries of these expenditure were mostly employees and families'. These activities were to be taken care of by the Steel plant in normal course of business.
- Government of Gujarat implemented a project named "Statue of unity" through a Government of Gujarat organisation named 'Sardar Vallabhbhai Patel Rashtriya Ekta Trust (SVPRET)' for commemorating the contribution of Sardar Vallabhbhai Patel. The contract for the work was awarded to Larsen & Toubro Ltd in October 2014 at a total project cost of ₹2989 crore with targeted completion by October 2018. As per the detailed proposal, the project comprised of construction of i) 182 meter high bronze plated statue of Sardar Patel which would be the world's tallest statue, ii) Memorial and Visitor's Centre, Gardens and iii) Convention Centre named 'Shresth Bharat Bhawan'. The trust approached five of the CPSEs viz. Oil & Natural Gas Corporation, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, Indian Oil Corporation Limited and Oil India Limited to participate in the project and contribute substantial funds as there was a shortfall of funds for the year 2016-17 to the extent of ₹780 crore. Thereafter, all the five CPSEs contributed a total of ₹146.83 crore (ONGC ₹50 crore, IOCL ₹21.83 crore, BPCL, HPCL, OIL ₹25 crore each) towards this project under CSR. The activity was shown under item (v) of Schedule VII i.e protection of national heritage, art and culture. Contribution towards this project did not qualify as CSR activity as per schedule VII of the Companies Act 2013 as it was not a heritage asset.

The Management of ONGC has stated that the project included activities such as promotion of education, development of banks of River Narmada up to Bharuch etc. The Management of BPCL, HPCL & IOCL stated in their reply that as per Circular No. 21/2014 issued by MCA they interpreted the activity liberally to capture the essence of the subjects enumerated in the Schedule VII of Companies Act 2013.

It was observed the entire amount of ₹50 crore has been given to Sardar Vallabhbhai Patel Rashtriya Ekta Trust (SVPRET) as contribution towards corpus of the Trust. The expenditure would be incurred by the Trust. The fact remained that the contribution towards construction of Statue did not qualify as CSR activity as per schedule VII of the Companies Act, 2013.

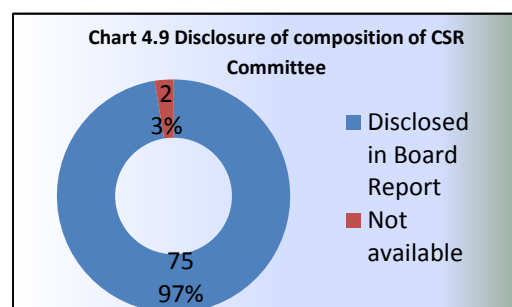
- GAIL entered (December 2012) into an agreement with the Rajasthan University of Health Science (RUHS), Jaipur for financing ₹3 crore to set up “Cath Lab” at RUHS. The contract period was 1 June 2013 to 30 June 2014. As per terms of the agreement, 1st instalment of 50 *per cent* of the cost of the item or advances paid for the items whichever is lower, should be released on submission of the invoice of the item as mobilisation advance for booking. GAIL released the first instalment of ₹1.50 crore on 15 February 2014 without submission of requisite documents. Even after receipt of advance, RUHS did not initiate any action on the Project and also did not respond to correspondence of GAIL.

Audit observed that despite clear terms in the agreement for release of advance against the submission of invoice, the company without safeguarding its financial interest released the advance violating the provisions of the Agreement. This resulted in blockade of ₹1.50 crore for three years which would continue till realisation of advance paid. The Management replied (December 2017) that the first instalment was released to RUHS on receipt of Fund requisition letter and performa invoice only. Further the issue of refund has been pursued at highest levels with the State Government, the same has not been received. The Management’s reply is not acceptable as ₹1.50 crore was released to RUHS without evidence of a firm contract with the supplier selected on the basis of e-tendering and receipt of booking advance /invoice as per Agreement resulting in blockage of funds for more than three years without attainment of the CSR Project objectives.

4.5.5 Reporting on CSR activities and Sustainability

4.5.5.1 Disclosure of composition of CSR Committee

As per Section 135(2) of the Companies Act, 2013, report of the Board on CSR, should disclose the composition of the Corporate Social Responsibility Committee.



Audit observed that all 77 CPSEs disclosed the required information in their Board's report.

4.5.5.2 Display of contents of CSR

As per Para 9 of the CSR Rules 2014, the Board of Directors of the Company should disclose contents of CSR policy in its report and the same should be displayed on the company's website. Nine⁵⁰ out of 77 CPSEs, did not disclose the contents of CSR Policy in their Board's report. One CPSE namely BDL did not display the contents of CSR policy on their website.

4.5.5.3 Inclusion of Annual Report on CSR in Board's Report

As per Para 8 (1) of the CSR Rules 2014, the Board's report of a Company, should include an annual report on CSR in the prescribed format. It was noticed that all CPSEs except three CPSEs where data was not available (KPL, NLCL and IREDAL), included annual report on CSR in their Board's report. In case of one CPSE (ACL), the annual report included in the Board's report was not in the format prescribed under CSR Rules 2014.

Annexure to CSR Rules 2014, required that the Board's report should include a responsibility statement of the CSR Committee that the implementation and monitoring of CSR Policy, was in compliance with CSR objectives and Policy of the company. It was observed that Boards report of four⁵¹ CPSEs, did not include responsibility statement of CSR Committee in the Board's report.

⁵⁰ NMDCL, RINL, MSTCL, NSICL, OIL, SECL, WCL, REIL, ACL

⁵¹ BCCL, WCL, ACL, RITES.

4.5.5.4 Reporting of unspent amount

Out of 63⁵² profit making CPSEs under review, 41 CPSEs fully utilised the prescribed amount of CSR in the year 2016-17. Out of remaining 22 CPSEs, 21 CPSEs specified the reasons⁵³ in the Board's report. One CPSE viz. EIL did not utilise the prescribed amount fully, in the year 2016-17. The unspent amount for the year 2016-17 was ₹8.13 crore. However, the reasons for underutilisation had not been reported in the Board's report.

4.5.5.5 Collaboration with other Companies

Rule 4 (3) of CSR Rules 2014 stated that "a Company may also collaborate with other Companies for undertaking projects or programs or CSR activities in such a manner that the Committees of respective companies were in a position to report separately on such projects or programs.

It was observed that, 49 out of 77 CPSEs had worked in collaboration with other Companies; however, CSR committees of 36 CPSEs did not report such projects/ programs separately.

4.5.5.6 CSR activities undertaken in pursuance of normal course of business

As per rule 4(1) of the CSR Rules 2014 "The CSR activities shall be undertaken by the company, as per its stated CSR Policy, as projects or programs or activities (either new or ongoing), excluding activities undertaken in pursuance of its normal course of business." Audit observed that ONGC as a part of CSR initiative had incurred an expenditure of ₹0.38 crore during the period from 2013-14 to 2016-17 for mangrove restoration and conservation at its Hazira plant. The proposal for the above project stated that Hazira plant of ONGC was situated in the coastal area of Surat. The soil next to Hazira campus was being subject to severe soil erosion which had posed a threat to Hazira campus. Hence, it was proposed to carry out mangrove plantation at Hazira plant. However, the Company had reported the above expenditure as CSR expenditure instead of showing the same as normal business expenditure in violation of CSR Rule 4 (1).

4.5.6 Impact assessment of CSR activities

As per para 2 (v) of DPE OM dated 01.08.2016 "An institutionalized mechanism for monitoring, reporting and evaluation should be introduced by CPSEs implementing CSR." Test check of 51 CPSEs revealed the following:

⁵² Data not available in case of three CPSEs viz. ITPO, CWC and HUDCO

⁵³ Such as multiyear projects, budget advanced to implementing agency but not spent, exploring new areas and subsequent changes in project proposals etc

- a) All the 51 CPSEs together had conducted impact assessment studies for total of 454 projects. Out of these, impact assessment studies were conducted in house for 259 (57.05 *per cent*) of the projects, and impact assessment studies for 195 (42.95 *per cent*) projects was conducted through external agencies. Thirteen CPSEs had reported expenditure on Impact assessment as ₹0.93 crore. 35⁵⁴ out of 77 CPSEs, carried out impact assessment for ongoing CSR Projects to consider mid-course corrections.
- b) In case of Engineers India Limited, the CSR committee of Board approved (12th August 2014) proposal for conducting employment oriented skill development training for 600 youth at Bhopal and Faridabad under CSR at an estimated cost of ₹2.44 crore through Centre for Research and Industrial Staff Performance (CRISP). Memorandum of Understanding was signed between the EIL and CRISP in July 2015. The Final Evaluation Report (04.06.2016) revealed that out of 600 trained candidates, only 450 candidates could be traced and remaining 150 candidates or status of their employability could not be traced even within the same month of completion of training which depicted inadequate monitoring and tracking of candidates.

The Management in their reply stated that the MOU for the training for 750 candidates was signed in July 2015 and that candidates received average salary of ₹7000 per month. The Management's reply is silent on non-availability of details of 150 candidates. Reply of the management regarding salary of ₹7000 is not tenable because minimum wages prescribed (October /November 2015 by Government of Madhya Pradesh (₹8810 per month) Government of Haryana (₹8797 per month) has not been achieved.

- a) School of Skills Development in Hospitality (SSDH) submitted (March/April 2015) to GAIL a project proposal for funding under CSR along with Baseline Report for a skill development project in hospitality to unemployed youth and ensuring their employment/ self-employment. GAIL entered into an agreement with SSDH (June 2015) at a cost of ₹1.08 crore. On completion of the Programme, the entire payment of ₹1.08 crore was released. Audit observed that:
 - i. The baseline report submitted by SSDH indicated, high attrition rate of 40-50 *per cent* for hotels and restaurants and 90-100 *per cent* for food services. Despite this high attrition rate, GAIL financed the aforesaid project.

⁵⁴ Data not available in respect of BLCL and MDSL

- ii. Impact assessment of the Project revealed that out of a sample of 125 trainees of 500 youth trained for two months, the employment rate was very low as only 36 were currently employed. Many trainees received only a small fraction of promised wages in their employment and some were terminated after three months of placement without payment. Placements were also secured in small shops, thereby making the training irrelevant. Thus, the decision of extending finance for a high-attrition industry resulted in non-achievement of intended impact. The Management replied that they achieved 99 *per cent* passing percentage in the programme and have given a list of 22 organisations in which students were offered job opportunities. The Management reply has not addressed the observation regarding funding of project despite high attrition rate of the industry and failure to achieve satisfactory post training placement percentage.

Some of the notable works done by selected CPSEs are detailed below:

Sl. No.	Name of the CPSE	Notable works undertaken
1.	ONGC	ONGC entrusted maintenance activity of toilets in 5592 schools, constructed under Swach Vidyalaya Abhiyan, to Auroville foundation. The trust had undertaken Information, Education & Communication (IEC) activity to bring behavioural change and inculcate hygienic sanitation practices among the students of the schools and communities where ONGC has funded the construction and/or repair of toilets. The focus of this intervention was to institutionalise mechanisms by inculcating habits for maintenance of all toilets in the schools, ensuring they remained clean in a sustainable way.
2.	BPCL	As a part of Rain water harvesting project in Mokhada, BPCL had undertaken project BOOND. The focus of this project is to convert the 21 tribal villages from water scarce to water positive.
3.	OIL	OIL had undertaken Project OIL Jeevika in Arunachal Pradesh as its intervention for cluster based livelihood project for sustainable income generation. Launched in 2016-17, the project aimed at imparting skill development and up-gradation training to 400 targeted households on bee-keeping & honey processing, mustard, buck-wheat & local pulse processing as well as providing handholding support to them for generation of alternate source of income and formation of self-sustaining livelihood clusters.

Sl. No.	Name of the CPSE	Notable works undertaken
		12 new villages were adopted in FY 2016-17 (Sali cultivation 2400 bighas and Rabi cultivation 1105 bighas) from OIL's operational areas of Tinsukia and Dibrugarh districts, under the Oil India Rural Development Society (OIRDS).
4.	HPCL	As their support for special children, HPCL has undertaken project ADAPT in Maharashtra. Under this project 315 Special Children were provided therapeutic support along with Education and Skill Development. Under project Nanhi Kali, undertaken in the State of Andhra Pradesh, 12000 Girls from under privileged families were provided quality education through academic, materials and social support.
5.	PGCIL	As their intervention for improving Rural Livelihoods, through Farmer-centric Integrated Watershed Management in the States Karnataka and Andhra Pradesh, the Company developed storage capacity of 12000 cu.m and conservation of rain water of 45000 cu.m. This resulted in about 10-22 <i>per cent</i> rise in crop productivity.
6.	CIL	In collaboration with Prayas Juvenile Aid Centre Society the Company had taken initiative for Community based integrated programme with special focus on marginalised children and youth in naxalite and insurgency affected districts of Jharkhand and Assam.

4.6 Conclusion

Most of the 77 CPSEs reviewed in Audit complied with the provisions of the Companies Act 2013 relating to constitution of CSR committee, appointment of independent director and formulation of CSR policy.

Board of Directors of 41 CPSEs out of 66 profit-making CPSEs (62 *per cent*) had ensured that the funds prescribed under the Act for CSR activities were completely spent. However, Board of 25 profit-making CPSEs (38 *per cent*) did not ensure the same. Shortfall in spending ranged from 0.61 *per cent* to 100 *per cent* of the prescribed amount. Sixteen CPSEs had not prepared annual CSR plan. Ten CPSEs had not given preference to local areas. Most of the CPSEs focused on Education and Skill development, Healthcare, Rural development and environment sustainability as their



CSR work. It was observed that five CPSEs had not conducted Board meeting for monitoring CSR activities. Though MCA instructed to keep the component of salaries out of the ambit of CSR, 25 CPSEs included salaries of the employees involved in CSR work as CSR expenditure. MIS system in the CPSEs needed improvement in many cases.

Replies of the Ministry of Corporate Affairs and Department of Public Enterprises (March 2018) on the Chapter have been incorporated in the relevant paragraphs.