

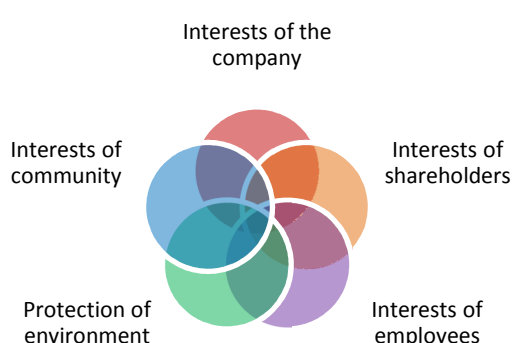
## CHAPTER IV

# Corporate Social Responsibility

## 4.1 Introduction

Corporate Social Responsibility (CSR) is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the local community at large. It recognises the interests of its stakeholders and the general community at large by covering sustainability, social impact and ethics. The concept of CSR rests on the ideology of give and take. Companies take resources in the form of raw materials, human resources etc. from the society. By performing the task of CSR activities, the companies are giving something back to the society.

**Chart 4.1**



India is the first country in the world to make CSR mandatory, with the coming into force of section 135 and schedule VII of the Companies Act, 2013 in April 2014. The Companies Act, 2013 and the Companies CSR Rules 2014 mandate and regulate the social spending by the Companies. 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.

**Legal Framework:** Section 135 of Companies Act 2013 (hereafter referred to as the Act), deals with the subject of Corporate Social Responsibility and lays down the qualifying criteria based on net worth, turnover and net profit during any financial year<sup>31</sup> for companies which are required to undertake CSR activities and inter alia specifies the broad modalities of selection, implementation and monitoring of the CSR activities by the Board of Directors of the Company. The activities which may be included by the companies in their CSR policies are listed in Schedule VII of the Act. The provisions of Section 135 of the Act and Schedule VII of the Act are applicable to all

<sup>31</sup> As per Amendment 37 of Companies Act 2017, to resolve the ambiguity on any financial year, the words 'any financial year' has been replaced with the words immediately preceding financial year. This notification is effective from 19 September 2018.

companies including CPSEs. The Act makes it mandatory for any company to spend, annually at least 2 *per cent* of average net profit (calculated as per section 198 of the Act) of three immediate preceding financial years towards CSR activities. The compliance of the provisions of CSR under the Act i.e. constitution of CSR Committee, formulation of CSR Policy and spending of prescribed amount on CSR activities came into force from April, 2014.

In February 2014, Ministry of Corporate Affairs (MCA) issued Companies (Corporate Social Responsibility Policy) Rules, 2014. The CSR Rules were made applicable to all companies including CPSEs w.e.f. 1 April 2014. Department of Public Enterprises (DPE) also issued notification on observance of transparency and due diligence in selection and implementation of activities under CSR by CPSEs in August 2016.

## 4.2 Audit Objective

Audit objective of compliance audit of CSR activities of the CPSEs was to ascertain whether the provisions of the Act, Companies (Corporate Social Responsibility Policy) Rules 2014, and DPE guidelines 2016 were complied with. In order to assess the efforts of the CPSE, Audit looked into the following issues:

- Whether the provisions relating to constitution of the CSR Committee, formulation and compliance of policy, planning stages of execution have been complied with
- Whether the provisions relating to prescribed amount to be spent on specified activities have been complied with
- Whether the provisions relating to implementation have been complied with
- Whether the provisions relating to reporting have been complied with

## 4.3 Audit Scope and Coverage

Audit reviewed the CSR activities carried out by 82 CPSEs during the year 2017-18. Audit had selected the 82 CPSEs out of total 164 profit making CPSEs in 2016-17 is given in Table 4.1.

**Table 4.1: Selection of CPSEs for review of CSR activities**

Quantum of Net Profit of CPSEs	Population	No. of CPSEs selected	Percentage
Above ₹ 100 crore	65*	64	100%
₹ 50 to ₹ 100 crore	19	9	47.36%
₹ 10 to ₹ 50 core	37	7	18.91%
Less than ₹ 10 crore	43	2	4.65%

\*ONGC Videsh carries out its operations overseas and hence does not qualify for CSR

\*Primary Source: Survey report of DPE for 2016-17

The 82 CPSEs included 7 Maharatna, 14 Navratna, 44 Miniratna and 17 other companies, of which 42 CPSEs were listed companies. Details are given in **Appendix-XVIII**.

#### 4.4 Audit Criteria

Audit analysis was carried out against following criteria:

- i. Provisions contained in Section 135 and Schedule VII of the Act
- ii. Provisions of Companies (Corporate Social Responsibility Policy) Rules, 2014
- iii. DPE notification of 1 August 2016 on observance of transparency and due diligence in selection and implementation of activities under CSR and directions on Swachh Bharat.

#### 4.5 Audit Findings

Audit findings on extent of compliance with the provisions of the Act with regard to constitution of CSR Committee, formulation and compliance of policy, planning & execution of CSR activities and monitoring & reporting thereof by the CPSEs are given in the following paragraphs.

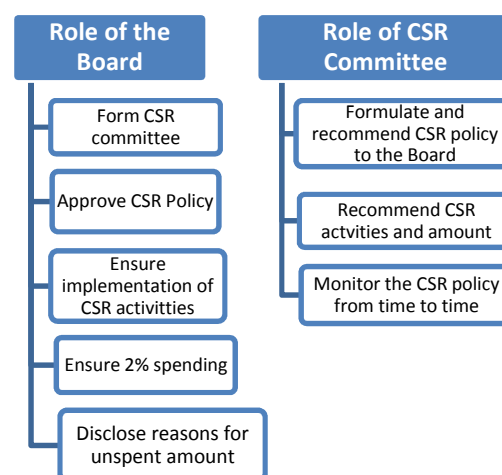
##### 4.5.1 Planning

##### 4.5.1.1 Constitution of CSR Committee

As per section 135 (1) of the Act, every company having a net worth of ₹ 500 crore or more or turnover of ₹ 1000 crore or more or a net profit of ₹ 5 crore or more during any financial year and thus qualifying for undertaking CSR activities shall constitute a CSR committee of the Board consisting of three or more Directors. All 82 CPSEs selected for audit were meeting the above criteria to undertake CSR

activities as per the Act. Audit noticed that all CPSEs except Solar Energy Corporation of India Limited (SECI) had constituted CSR committee, which constituted the committee only in September 2018. While 76 CPSEs had constituted a standalone CSR Committee, 5 CPSEs (CONCORAIR, ECGC, EIL, JCI and MDL) had clubbed the CSR Committee with Board. All CPSEs were having minimum of 3 Directors in the Committee except Antrix, which had only two Directors. Role of the Board and CSR Committee as per section 135 (1) and (3) of the Act is depicted in the chart.

Chart 4.2



#### 4.5.1.2 Independent Directors in Committee

Having Independent Directors: 74 CPSEs

Having no Independent Director: 7 CPSEs

Having more than one Independent Director: 45 CPSEs

As per section 135 (1) of the Act, CSR committee shall have at least one independent director. Out of 81<sup>32</sup> CPSEs where CSR Committee was formed, 74 CPSEs had complied with the Rule of having at least one Independent Director

in the committee. In respect of the remaining 7 CPSEs (ANTRIX, BLI, GGL, HSCC, IIFCL, JCI and NHDC) no Independent Director was nominated in the Committee; Four CPSEs (AIEL, AIATSL, NTPCVVN and RECPDC) being wholly owned subsidiary companies are not required to have an Independent Director as per Rule 4 (2) of Companies (Appointment and Qualification of Director) Amendment Rules 2017. 45 CPSEs had more than one Independent Director (**Appendix-XVIII**). Out of total 354 Directors in the CSR committee, 150 were Independent Directors and 15 were women Directors.

Ministry of Corporate Affairs (Ministry) in its reply (August 2019) stated that as per the board report filed by the company, JCI have independent director in its committee. Audit noticed that as per the Annual Report of JCI for the year 2017-18, the non-official director was appointed only in August 2018 i.e. in FY 2018-19.

#### 4.5.1.3 Framing of CSR policy

Section 135 (3) of the Act requires that the CSR Committee shall formulate and recommend to the Board a CSR Policy. 81 CPSEs had framed the CSR policy based on recommendation of the CSR Committee and approval of Board. While 5 CPSEs (CCL, CPMDIL, NCL, SECL and NTPVVN) being subsidiary companies adopted the policy of their holding company (viz. CIL and NTPC), one CPSE (JCI) did not have CSR policy in place. GAIL Gas formulated CSR policy only in May 2017 and hence it did not undertake CSR activities prior to 2017-18, even though it was qualified to do so as per provisions of the Act. The requirements of Rule 6 with regard to policy and compliance thereof by the 81<sup>33</sup> CPSEs are given in Table 4.2.

**Table 4.2: Compliances of CSR policies by CPSEs**

Requirement of CSR Rule No. 6	Compliance by CPSEs	
	Yes	No
<b>Policy inter alia to include</b>		
Focus Areas of implementation	81	0
Mode of implementation	77	4 (CWC, IOCL, KRCL and UCIL)

<sup>32</sup> SECI formed the Committee only in September 2018.

<sup>33</sup> JCI has no CSR policy in place

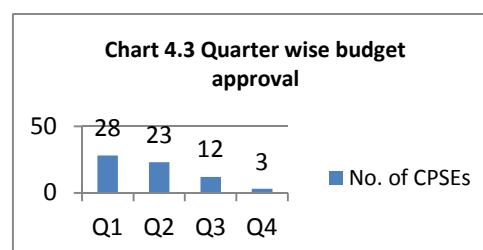
Declaration that surplus from CSR project/ activity shall not form part of business profit	44	37 <sup>34</sup>
Monitoring framework	73	8 (BLI, CONCORAIR, CWC, EIL, IOC, NLC, NTPL and UCIL)

- Guidelines issued by DPE in 2014 stand superseded by revised guidelines of August 2016. CSR policy of 14<sup>35</sup> CPSEs, however, continue to refer to DPE guidelines of 2014.
- As per MCA clarifications (September 2014) salaries are not to be included in project cost of CSR. CSR policies of IRCON, NBCC, NFL, NTPLN, RailTel, RECPDL and RVNL need to be amended accordingly.
- BPCL assured to disclose treatment of surplus from CSR activities in its policy.

Ministry in reply stated that as per the filing made by the company on MCA 21 portal, KRCL has specified the modalities of execution of CSR projects. Audit noticed that though the modalities have been specified on the web site of the company, KRCL needs to incorporate the modalities of execution of the projects in its CSR policy document.

#### 4.5.1.4 Annual CSR Plan and Budget

Role of the CSR Committee is to recommend to the Board the CSR activities and the amount to be spent in the financial year; the Board has to ensure implementation of the CSR activities. This entails planning and approval of CSR activity and budget. As a best practice, the proposed CSR



projects and the budget for the ensuing FY should be presented to the Board for approval through CSR committee latest by 31 March every year so that there is no rush to exhaust the funds in the last quarter. Besides, it will also ensure full utilisation of the funds in the financial year. As per the data available for 70 CPSEs, 28 CPSEs got the provisional budget approved in Q1 (including four CPSEs which got the budget approved in previous year itself i.e. March 2017), 23 CPSEs in Q2 and 12 CPSEs in Q3. Three CPSEs had the budget approved only in Q4 (BLI, MCL and Rail Tel), 2 CPSEs viz. IREDA and NCL had the project wise budget approved in all 4 quarters and 2 CPSEs (ECGC and NTPL) did not prepare the budget. Details are given in **Appendix-XIX**.

<sup>34</sup> ANTRIX, BDL, BEML, BPCL, CCL, CIL, CMPDIL, CWC, EIL, GAIL GAS, HSCC, IIFCL, IRCTC, IREDA, ITPO, KIOCL, KRCL, MCL, MDL, MOIL, MSTC, NAL, NBCC, NCL, NFL, NHDC, NHPC, NPCIL, NRL, NSIC, NTPL, RCF, RECL, RVNL, SECL, SJVN & UCIL

<sup>35</sup> AAI, BEL, BHEL, BLC, GSL, IRFC, MRPL, ONGC, PGCIL, RailTel, REPDC, SPMCIL, TCIL & THDC

## 4.5.2 Financial Component

### 4.5.2.1 Allocation of funds

As per section 135 (5) of the Act it is mandatory for any company to spend, annually at least 2 *per cent* of average net profit of three immediate preceding financial years (calculated under section 198 of the Act). 2 *per cent* of average net profit so calculated for 82 CPSEs was ₹ 3,272.47 crore. The CPSEs allocated ₹ 3,452.77 crore i.e. excess of ₹ 180.30 crore. (Details are given in **Appendix-XX**).

Average net profit (as per section 198 of the Act) for preceding three years	2% Allocation to be made for 2017-18	Actual allocated
₹ 1,63,219.04 crore*	₹ 3,272.47 crore	₹ 3,452.77 crore
	Excess of ₹180.30 crore is on account of the difference between the amount to be allocated as per Act and the amount actually allocated.	
*The difference of Rs.0.45 crore is on account of rounding off of figure from lakh to crore.		

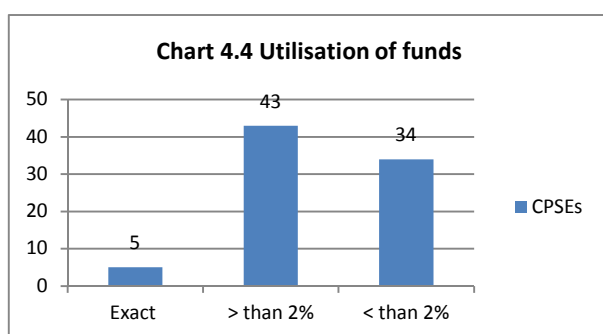
- 19 CPSEs had allocated excess amount/had also allocated for the carry forward of 2016-17 (total excess of ₹ 266.39 crore).
- 6 CPSEs (CCIL, HUDCO, KPL, NCL, PFCL & UCIL) had allocated less than 2 *per cent* of average of preceding three years
- Total under allocation by the 6 CPSEs was to the extent of ₹ 86 crore. Data was not available for WAPCOS.

### 4.5.2.2 CPSEs with negative net profit

Out of 82 CPSEs selected for audit, the average net profit of 3 CPSEs (KIOCL, NTPL and TCIL) was negative at ₹ (-) 8.97 crore, ₹ (-) 27.33 crore and ₹ (-) 47.41 crore respectively. These 3 CPSEs however allocated and spent ₹ 0.16 crore, ₹ 1.44 crore and ₹ 1.15 crore respectively on CSR in 2017-18. Net profit of IIFCL was negative for 2017-18. Its turnover was however more than ₹ 1,000 crore in 2017-18 and hence based on the average net profit of three preceding years IIFC had spent ₹ 17.32 crore on CSR.

### 4.5.2.3 Utilisation of Funds

Section 135 (5) of the Act states that Board shall ensure that the company spends 2 *per cent* of average net profit of preceding three years. DPE also advised (1.08.2016) that all



efforts should be made by CPSEs to fully utilise the allocated CSR funds for the year. Audit observed that against the prescribed 2 *per cent* amount of ₹ 3,272.47 crore, the total spend was ₹ 3,338.60 crore. This, however, included carry forward of ₹ 235.71 crore. Thus, the shortfall for 2017-18

was ₹ 169.60 crore and shortfall for carry forward was ₹ 732.99 crore. 48 CPSEs had fully utilised the CSR funds in the FY 2017-18 while there was a shortfall in utilisation by 34 CPSEs. 43 CPSEs had spent more than the stipulated amount. AIEL could not fully utilise the CSR funds as the company was under consideration for disinvestment. As against prescribed amount of ₹ 487.04 crore, ONGC spent ₹ 503.44 crore (including overheads). However, considering the carry forward from 2016-17, the shortfall was to the extent of ₹ 15.14 crore. Similarly, there was a shortfall of ₹ 12.77 crore for MDL. AIATSL was to spend ₹ 1.86 crore plus ₹ 1.39 crore being carry forward from 2016-17. AIATSL, however, had spent only ₹ 0.84 crore of the carry forward amount in last quarter of 2017-18. CPSE wise spent details are given in **Appendix XX**. Main reasons for non-utilization of full CSR funds as attributed by the CPSEs were delay in sanction of budget/no-suitable project or implementing agency/multi-year project.

DPE in its reply (July 2019) stated that some of the figures quoted by Audit in respect of CPSEs on CSR expenditure and average net profit do not match exactly with the data in Annual PE survey 2017-18 of DPE.

The figures on CSR expenditure as brought out in the Chapter are as per the data provided by the CPSEs. Further, the net profit as per Annual PE survey of DPE is as per the Profit and Loss statement of the CPSEs. Whereas, as per the requirement of section 135 of the Companies Act, 2013, for the purpose of calculating average net profit of last three years, the net profit as per section 198 of the Companies Act, 2013 is to be considered. Hence the differences in the figures as quoted by Audit and DPE survey.

#### 4.5.2.4 Utilisation of carry forward amount

**Table 4.3: CPSEs with major unspent CSR amount**

₹ in crore			
CPSEs	Carry forward from 2016-17	Spent in 2017-18	Unspent amount
SECL	186.35	0.32	186.03
PGCIL	123.38	0.05	123.33
BPCL	127.23	14.00	113.23
REC	76.77	22.04	54.73
PFCL	100.20	51.16	49.04
BHEL	53.90	25.80	28.10
EIL	26.83	5.58	21.25
BEL	31.23	10.20	21.03
<b>Total</b>	<b>725.89</b>	<b>129.15</b>	<b>596.74</b>

As per MCA clarifications (12 January 2016), the Board is free to decide whether any unspent amount from the minimum CSR fund is to be carried forward to the next year. 42 CPSEs had carried forward the unspent amount of ₹ 968.70 crore (from FY 2016-17) out of which an amount of ₹ 235.71 crore was spent in 2017-18 leaving a balance of ₹ 732.99 crore. 13 CPSEs (AAI, AIEL, CONCOR, CWC, ECGC, HSCC, IOCL, IRCON, KIOCL, NEEPCO, NLC, NRL and UCIL) had fully spent the carry forward amount in 2017-18. 4 CPSEs (CONCORAIR, ITPO, KRCL and NTPVNL) did not spend the carry forward at all. 29 CPSEs did not fully spend the carry forward. CPSEs with major unspent amount have been listed in table. As against total carry forward of

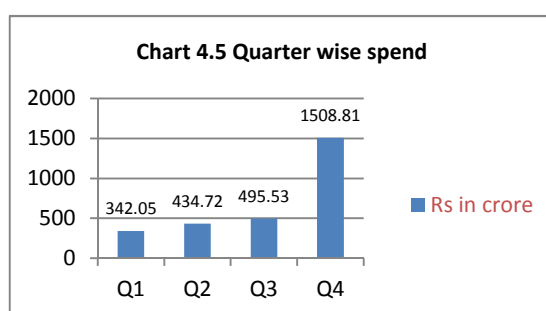


₹ 725.89 crore for the 8 CPSEs, only ₹ 129.15 crore was spent leaving a balance of ₹ 596.74 crore.

#### 4.5.2.4.1 Accounting of unspent amount

As per the Guidance Note (GN) on Accounting for CSR issued by ICAI, the unspent amount is to be disclosed only in the Board's Report and no provision is to be made in the accounts for the unspent amount. However, if a company has already undertaken certain CSR activity for which a contractual liability has been incurred then in accordance with the generally accepted accounting principles, a provision for the amount to the extent to which the CSR activity was completed during the year, needs to be recognised in the books. Audit however observed that BDL, BHEL and PHL have been making a provision for the carry forward/unspent amount to the extent of ₹ 9.58 crore, ₹ 31 crore and ₹ 2.20 crore respectively. 4 CPSEs (AAI, ECGC, HSCC and IOC) have created reserves for CSR (₹ 61.72 crore, ₹ 2.25 crore, ₹ 1.44 crore and ₹ 1.32 crore). This is in contravention to the GN on Accounting for CSR.

#### 4.5.2.5 Quarter wise spend



Total spend by 80 CPSEs (quarter wise break up not available for 2 CPSE viz. SECI & UCIL) in first three quarters was ₹ 1272.30 crore and ₹ 1508.81 crore in last quarter (including carry forward). This indicates that there was rush in CSR spend in last quarter. However, there is uniformity to some extent in the Q2 and Q3. MOIL was the only

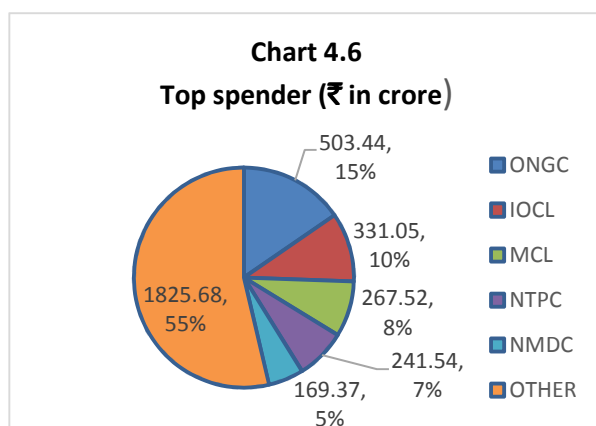
CPSE to have evenly spread the CSR spend over all 4 quarters (₹ 2.30 crore, ₹ 2.34 crore, ₹ 2.27 crore and ₹ 2.71 crore respectively). Though AIEL and HPCL got the budget approved in March 2017 itself, the funds were not spread over the year. HPCL spent ₹ 64.25 crore in first 3 quarters and ₹ 92.62 crore in last quarter. AIEL was under consideration for disinvestment and hence all proposals were put on hold. 9 CPSEs (AIATSL, BLI, CONCORAIR, GAIL GAS, HSCC, HUDCO, KIOCL, NTPVVN and RailTel) had spent only in the last quarter. CSR spend was nil in Q1 for 22<sup>36</sup> CPSEs and nil in Q2 for 15<sup>37</sup> CPSEs.

<sup>36</sup> AIATSL, BHEL, BLIL, CMPDIL, CONCORAIR, Gail Gas, HSCC, HUDCO, IREDA, IRFCL, KIOCL, MECL, MRPL, NFL, NTPL, PHL, RailTel, RECPDCL, SCI, SECI, SPMCIL, TCIL

<sup>37</sup> AIATSL, AIXL, BLIL, CCI, CONCORAIR, Gail Gas, HSCC, HUDCO, IRFCL, KIOCL, MRPL, NFL, RailTel, SECI, TCIL



#### 4.5.2.6 Top spenders



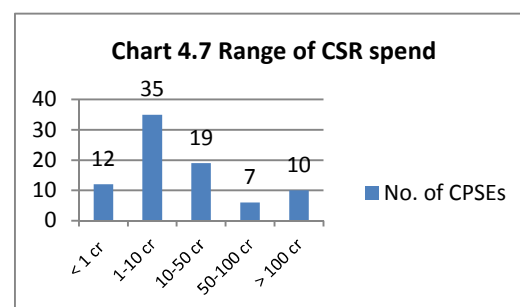
Total spend on CSR activities by 82 CPSEs in 2017-18 was ₹ 3,338.60 crore (including admin overheads). The top spender was ONGC at ₹ 503.44 crore (15.08 per cent of total CSR spend) followed by IOCL, MCL, NTPC, and NMDC. 2 CPSEs are in oil sector, two are in coal and mining sector and one is in power sector. As against total CSR spend of ₹ 3,338.60 crore, the 5 CPSEs

accounted for 45.30 per cent of total spend i.e. ₹ 1,512.92 crore. CSR spend by Maharatna, Navaratna, Miniratna and other CPSEs was as follows:

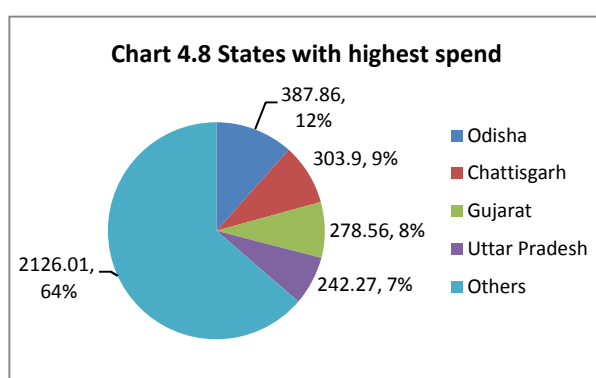
- 7 Maharatna CPSEs: ₹ 1,365.36 crore
- 14 Navratna CPSEs: ₹ 990.36 crore
- 44 Miniratna CPSEs: ₹ 864.17 crore
- 17 Other CPSEs: ₹ 118.51 crore

#### 4.5.2.7 Range of CSR spend

10 CPSEs had spent more than ₹ 100 crore, 7 CPSEs between ₹ 50 and 100 crore, 19 CPSEs between ₹ 10 and 50 crore and 11 CPSEs less than one crore. Maximum CPSEs (35) had spent in the range of ₹ 1-10 crore.



#### 4.5.2.8 State wise CSR spend



75 out of 82 CPSEs had undertaken CSR activities in more than one state thus covering 35 out of 36 states/union territories (**Appendix-XXI**). No CSR activity was carried out in Daman & Diu. ONGC had undertaken CSR activity in maximum states (32) followed by IOCL (30), PGCIL (23) and BHEL (18). 7 CPSEs (AIATSL, CONCORAIR, GSL, MCL, MIDHANI, NTPL & PHL) had spent only in single state i.e. in Rajasthan, Maharashtra, Goa, Odisha, Telangana, Tamil Nadu and Dadra Nagar Haveli respectively. Highest CSR spend was in Odisha (₹ 387.86 crore) followed by Chhattisgarh (₹ 303.90 crore), Gujarat (₹ 278.56 crore) and Uttar Pradesh (₹ 242.27 crore). These four states accounted for

36.32 *per cent* of total CSR spend. The CSR spend was lowest/negligible in Andaman & Nicobar (₹ 0.13 crore), Dadar and Nagar Haveli (₹ 0.20 crore), Manipur (₹ 0.54 crore), Nagaland (₹ 0.57 crore) and Mizoram (₹ 0.59 crore). Two states (Uttar Pradesh and Maharashtra) received maximum attention i.e. from 41 CPSEs and 32 CPSEs followed by New Delhi by 36 CPSEs. Lakshadweep received attention only from one CPSE viz. CSL. Manipur, Mizoram and Pondicherry received attention from 3 CPSEs each and Tripura, Andaman & Nicobar and Chandigarh received attention from 2 CPSEs each. Out of total CSR expenditure of ₹ 3,338.60 crore, the CSR expenditure in J&K and North East States was ₹ 9.57 crore (0.29 *per cent*) and ₹ 288.91 crore (8.65 *per cent*), respectively.

#### 4.5.2.9 Sector wise CSR spend

Audit covered 82 CPSEs in 10 sectors. Highest spend was in petroleum sector (₹ 1,416.12 crore) by 10 CPSEs followed by Coal and Mining by 10 CPSEs (₹ 524.49 crore). Least spend was in Fertiliser by 2 CPSEs at ₹ 10.76 crore only. Though in Other/Infrastructure sector the number of CPSEs was highest (24), CSR spend was only ₹ 223.94 crore.

₹ in crore

Sector and No. of CPSEs	2% amount	Total spent
• Aviation - 4	• 80.22	• 73.51
• Mining -10	• 401.53	• 524.49
• Defence -2	• 88.87	• 95.68
• Fertiliser -2	• 12.08	• 10.76
• Others - 24	• 242.10	• 223.94
• Metal -3	• 126.41	• 174.80
• Petroleum - 10	• 1337.69	• 1416.12
• Power - 13	• 774.78	• 706.46
• Railways -9	• 100.47	• 63.17
• Shipping - 5	• 42.29	• 39.71

Railways with 9 CPSEs spent ₹ 63.17 crore as against prescribed amount of ₹ 100.47 crore and Shipping (5 CPSEs) spent ₹ 39.71 crore. Defence, metal, mining and petroleum sector had spent more than prescribed amount. There was a shortfall in CSR spend in Aviation, Fertiliser, Others/Infrastructure, Power, Railway and Shipping sector.

#### 4.5.2.10 Administrative overheads

As per CSR Rule 4 (6), administrative overheads (OH) are to be restricted to 5 *per cent* of overall CSR funds. The OH to be disclosed separately should include baseline studies, capacity building and other overheads. Out of total CSR spend of ₹ 3,338.60 crore, average percentage of OH for 48 CPSEs was 2.27 *per cent* only i.e. ₹ 75.92 crore. Audit observed that

- 29 CPSEs either did not incur any OH or had not included the same under CSR.
- The major component of OH was salary (₹ 58.36 crore). Total 25 CPSEs included salaries under OH. Salary was more than ₹ 1 crore for 8 CPSEs (BHEL, HAL, IOCL, ONGC, PFCL, PGCIL, REC and SJVN).
- The OH exceeded the limit of 5 *per cent* for 8 CPSEs viz. AAI (14.73 *per cent*), BDL (6.36 *per cent*), BHEL (22.55 *per cent*), GSL (5.9 *per cent*), IREDA (6.09 *per cent*), JCI (29.26 *per cent*), KPL (19.23 *per cent*) and RITES (5.05 *per cent*).

- MRPL and OIL are not including OH under CSR. MIDHANI did not include capacity building in OH.
- Though RCF and RITES had worked out the OH separately, it did not disclose the same in the Annual report on CSR.

#### 4.5.2.11 Surplus from CSR project

As per CSR Rule 6 (2), any surplus arising from CSR projects shall not form part of business profit of the company. Out of 82 CPSEs, only 2 CPSE (HAL and SJVN) had reported surplus from CSR project. HAL had ploughed back the surplus (₹ 7.37 crore) generated from windmill into CSR funds and had fully spent the same in 2017-18. SJVN earned interest (₹ 0.65 crore) which was ploughed back into CSR. BDL had invested the surplus CSR funds in term deposit and the interest (₹ 9.59 crore) thereon was taken as business income instead of ploughing back in CSR funds. No other CPSE generated any surplus from CSR projects/activity.

*Point of interest:* Following CSR project of ONGC was a source of revenue to NBCC

Ministry of Petroleum and Natural Gas (MOPNG) asked ONGC to undertake restoration and beautification of four historical Kunds/Ponds in Varanasi as part of CSR and also directed to contract NBCC for the job on cost plus basis (agency charges of 10 *per cent* of project cost). Accordingly, ONGC paid ₹16.68 crore including ₹1.6 crore charges to NBCC for the job. Audit noticed that NBCC which qualifies for CSR activities as per the Act had set up (October 2014) a fully owned subsidiary company viz. NBCC Services Limited (NSL) to act as execution and implementation agency for CSR projects/activities on behalf of its own or for any other Govt. undertaking/Body Corporate/Societies/Trusts/Private Institutions/ NGOs etc. NSL is mandated to act as an execution and implementation agency for sustainability projects, heritage-building restoration works etc. Hence, Ministry should have directed NBCC to carry out the above restoration work through NSL. Also, NBCC should have re-invested ₹ 1.6 crore margin earned by it for its own CSR activities.

### 4.5.3 Project Implementation

#### 4.5.3.1 Selection of CSR projects/activities

**Conduct of Base line survey and assessment:** Out of 82 CPSEs, 69 CPSEs had undertaken baseline survey and need assessment studies for identifying the CSR project/activity out of which 34 CPSEs incurred ₹ 16 crore on conduct of baseline and need assessment studies. 13 CPSEs (AIATSL, AIEL, BDL, BHEL, BLI, CCIL, CWC, GAIL GAS, GAIL, IRFCL, MRPL, NMDC and NTPL) did not conduct any separate baseline survey.

### 4.5.3.2 Manner of implementation of CSR activities

Rule 4 of Companies (CSR) Rules, 2014 exclusively deals with the manner in which the CSR activity is to be undertaken under section 135(1). The Board may decide to undertake its CSR activities as approved by CSR Committee through a registered trust/society or a company established by the company or its holding or subsidiary or associate company under section 8 of the Act or otherwise. Manner of implementation of 9088 CSR projects were as follows:

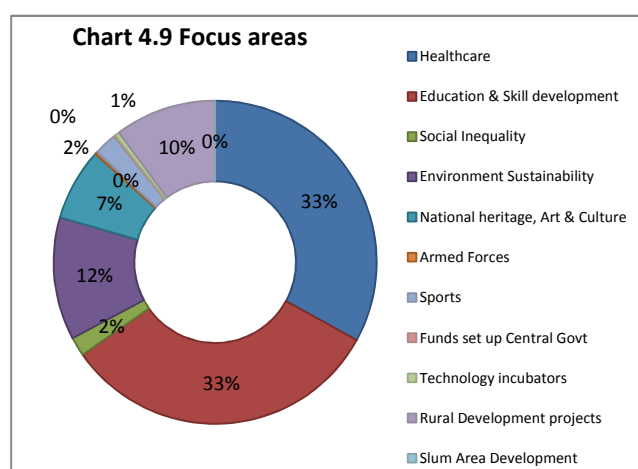
- **Direct/in house:** Total 2616 projects were implemented by CPSEs directly/in house including through Foundation (ONGC, MOIL & REC undertook few CSR projects through Foundation)
- **External agencies:** 6185 projects were executed through Government/external agencies, NGOs, Society etc.

In respect of 287 activities carried out by NPCI break up external and in house is not available.

CPSEs had resorted to tendering in respect of total 1703 projects and 932 projects were undertaken on nomination basis.

### 4.5.3.3 Focus areas

As indicated in the chart, health received the maximum focus (32.66 *per cent*). Total spend under this head was ₹ 1,090.41 crore. Next highest spend (₹ 1,067.79 crore) was in education i.e. 31.98 *per cent*. Least focus areas were Slum development (₹ 0.12 crore) contribution to Central Govt. Fund (₹ 5.40 crore) and welfare of armed forces (₹ 8.35 crore). BLI deposited



entire CSR amount into Prime Ministers Relief Fund. CCIL had spent entire CSR amount on Swachh Bharat (SB) and KPL had contributed 80.63 *per cent* of CSR funds to SB Kosh. Infrastructure support in education was ₹ 395.09 crore and Skill Development was ₹ 187.66 crore. Under Health, water and sanitation comprised ₹ 534.38 crore and Infrastructure support was ₹ 132.31 crore. ONGC had not maintained the item wise break up in focus areas. However, ONGC had spent major amount i.e. more than ₹ 100 crore (out of total ₹ 264.98 crore) in setting up of hospitals at Nagpur and Assam. Total spend on Education by ONGC was ₹ 132.03 crore.

#### 4.5.3.4 Local areas

Section 135 (5) of the Act provides that the company shall give preference to the local area and areas around it where it operates for spending the amount earmarked for CSR activities. Out of 82 CPSEs, 19<sup>38</sup> CPSEs did not define local area in the policy. Out of total CSR spend of ₹ 3,338.60 crore, spend in local areas was ₹ 2,142.28 core (47 CPSEs) i.e. 64.16 per cent. 18<sup>39</sup> CPSEs spent 100 per cent in local areas and 10 CPSEs had spent more than 70 per cent in local areas (BEL, BHEL, CCL, CONCOR, CPCL, EIL, KRCL, NHDC, NLC & NRL). Out of total 191 projects taken up by BPCL, 146 were in local areas i.e. 76.43 per cent. However, in terms of value the local spent was only ₹ 56 crore (approx.) against ₹ 110 crore in other areas i.e. 34 per cent. BLI had contributed entire amount to Prime Ministers Relief Fund. 16 CPSEs (BDL, BLC, BPCL, CCL, CONCORAIR, GAIL, HPCL, IRCON, KPL, MDL, MRPL, NFL, OIL, ONGC, SECL & SPMCIL) had spent between 5 and 70 per cent in local areas. As per the prescribed format for reporting on CSR, the amount spent in local and other areas need to be shown separately. 35 CPSEs (AAI, AIEL, AIATSL, CCI, CWC, ECGC, GAIL Gas, HUDCO, IIFC, IRCTC, IREDA, IRFC, ITPO, JCI, KIOCL, MECL, MIDHANI, MSTC, NBCC, NCL, NEEPCO, NSICL, NTPVVN, PFCL, PHL, RECL, REPDC, RITES, SCI, SECI, SJVN, TCIL, THDC, UCIL & WAPCOS) did not specify the local area in the Annual Report on CSR. 3 CPSEs BDL, MIDHANI and GSL, however, spent in the state where it is located (Telangana/Goa). Annual Report for 2017-18 was awaited in respect of 1 CPSE (HSCC).

#### 4.5.3.5 Funding of schemes/projects introduced by GOI

Government of India (GOI) introduced various schemes and projects for the benefit of society and approached the CPSEs for funding. CPSEs were free to decide on funding of such schemes/projects under CSR subject to fulfilling the conditions of Schedule VII of the Act. i.e. the same should be under the ten broad categories mentioned therein viz. Health, education, employment, skill development, environment, women empowerment, socio equality, protection of national heritage, measure for armed forces, rural development and slum development. The projects and schemes falling under these broad heads will be eligible for funding under CSR. Audit reviewed funding of few GOI projects by CPSEs under CSR and the findings are detailed below:

##### 1. Swachh Bharat (SB) Mission

To achieve the goal of clean India by October 2019, DPE directed (August 2016) CPSEs to spend



<sup>38</sup> Antrix, BDL, BEL, BLI, CSL, ECGC, CWC, HUDCO, IIFC, IOCL, IREDA, ITPO, KIOCL, KRCL, MSTC, PFCL, RPDC, SCI and SJVN

<sup>39</sup> AIEL, BEML, CCI, CMPDIL, CSL, GSL, IOCL, MCL, MOIL, NALCO, NHPC, NMDC, NPCIL, NTPCL, NTPL, PGCIL, RCF and RVNL

33 per cent of CSR funds on SB Mission and Clean Ganga Fund for Ganga Rejuvenation. Also as per guidelines (January 2018) for performance evaluation under MOU, CPSE has to fulfil compliance on SB. The components allowed under SB Mission were contribution to

- (i) SB Kosh,
- (ii) Pradhan Mantri Ujjwala Yojna (PMUY)
- (iii) Clean Ganga Fund.

Total spend on SB Mission by 73 CPSEs was ₹ 1,019.16 crore (₹ 829.27 crore on SB + ₹ 47.04 crore on clean Ganga + ₹ 142.85 crore on PMUY) i.e. 30.52 per cent of total CSR spend. 8 CPSEs did not spend on SB (AIATSL, BEML, BLIL, MSTC, NTPL, RAILTEL, REDPCL and UCIL). 23 CPSEs gave total ₹ 137.08 crore to SB Kosh, 4 CPSEs (BPCL, CPCL HPCL, IOCL) contributed total of ₹ 142.85 crore for PMUY (4.29 per cent of overall CSR spend) and 12 CPSEs (AAI, CSL, CPCL, HSCC, MDL, IRCON, IRFC, ITPO, SECL, SECI, SPMCIL and TCIL) contributed total ₹47.04 crore to the Clean Ganga Kosh. Thus, the overall shortfall on SB was 2.48 per cent. 26 CPSEs spent more than 33 per cent and 47 CPSEs spent less than 33 per cent on SB (Details in **Appendix-XXII**).

Ministry in its response (August 2019) stated that PMUY is not a part of SB Kosh. Audit observed that as per modalities for implementation of PMUY scheme of June 2016 for 6 CPSEs<sup>40</sup>, funds to the extent of 20 per cent<sup>41</sup> of 2 per cent CSR funds would be used under PMUY. Also on the MOPNG website, the PMUY scheme carried the logo of Swachh Bharat.

## 2. Skill Development Institutes

MOPNG in January 2015 directed the oil PSUs to setup Skill Development Institutes (SDIs). Each PSU was to anchor one SDI and provide support to SDI anchored by other PSUs. Total 6 SDIs have been set up (Visakhapatnam-HPCL, Bhubaneswar-IOCL, Kochi-BPCL, Ahmedabad-ONGC, Guwahati-OIL and Rae Bareilly-GAIL). In 2017-18, oil PSUs and EIL contributed total ₹ 38.45 crore for the SDIs (BPCL - ₹ 5.5 crore, GAIL - ₹ 1.5 crore, HPCL - ₹ 9 crore, IOCL-₹ 10 crore, OIL-₹ 4.55 crore, ONGC-₹ 6 crore, EIL- ₹ 2.25 crore). The focus area of SDI Kochi is stated to be “overseas placement”. Out of 6 SDIs, 5 are operational and SDI Rae Bareilly is yet to be made operational.

## 3. Corpus Fund of Indian Institute of Petroleum and Energy

MOPNG requested (December 2016) oil PSUs (ONGC, IOCL, HPCL, OIL and GAIL) to contribute ₹ 200 crore for setting up Indian Institute of Petroleum and Energy (IIPE) at

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<sup>40</sup> ONGC, OIL, GAIL, BPCL HPCL and IOCL

<sup>41</sup> CPCL though not allowed spent ₹0.92 crore towards PMUY under CSR, IOCL had exceeded the limit of 20% by ₹14.42 crore

Visakhapatnam, Andhra Pradesh. ONGC, IOCL, HPCL and OIL contributed total ₹ 170 crore to the Corpus Fund during 2016-17 (₹ 125 crore) and 2017-18 (₹ 45 crore). As of April 2018 due to dispute, the land was yet to be handed over by the State Government and as such construction work is yet to begin. Meanwhile, IPE is functioning from a temporary campus at Andhra College of Engineering and conducting academic sessions effective 2016-17. Thus, the funds are yet to be utilized.

#### **4. National Oil Museum**

MOPNG way back in 1984 initiated proposal for National Oil Museum. During 1997-2002, oil PSUs contributed ₹ 5.47 crore for the same. Thereafter, there was no progress for over 34 years. The proposal was revived in 2016-17 and OIL entrusted responsibility of overseeing the activities of museum. OIL wrote (August 2017) to the oil PSUs and EIL for funding the estimated cost (₹ 88.96 crore) of the museum (estimated cost in 2005 was ₹ 30 crore). In 2017-18, BPCL was the only CPSE to contribute ₹ 14.83 crore under CSR by considering it under category (v) of Schedule VII i.e. preservation of national heritage, site of historical importance and building of library. The museum is yet to be constructed.

DPE in its reply (July 2019) stated that a number of items reviewed by Audit are those which do not fall within the purview of DPE such as setting up of Skill Development Institutes by Oil Sector CPSEs, Corpus Fund of Indian Institutes of Petroleum and Energy, National Oil Museum etc. These are based on the information gathered by Audit either from the CPSEs or other sources. DPE also stated that comments of concerned Ministries/CPSEs may also be considered by Audit while finalising the report. Action will be taken on the final report.

The reply is to be viewed in light of the fact that the Oil CPSEs have spent the CSR funds on these projects and the status of implementation of the same has been brought out in the Chapter. The Chapter on CSR has been finalised after considering the reply of the CPSEs wherever available.

#### **4.5.3.6 Findings on CSR projects undertaken by CPSEs**

##### **(i) Water benchmarking study for public and private commercial undertakings**

Global Compact Network India (GCNI), the Indian Local Network of UN Global Compact New York, requested (May 2016) ONGC to finance the study on water index/benchmarking to explore water related trends and challenges faced by Thermal power generation, Iron & Steel, Oil and gas, paper-pulp, Fertilisers & automotive sector in India. ONGC supported GCNI for the study for ₹ 0.50 crore in 2017-18. Audit observed that around 30 companies covered in the study were members of GCNI and all were commercial entities like BHEL, GAIL (India) Ltd., JK Paper Ltd., Mahindra & Mahindra, Maruti Suzuki, Tata Motors, etc. The funding of



GCNI is through membership fees. As the study was meant exclusively for the benefit of these private and public commercial member companies, the project cost should have been shared by the member companies from their business funds. Though the theme of the study was in line with Schedule VII, considering the target group the same did not qualify as CSR.

Ministry in reply (August 2019) stated that as per financial statements filed on MCA21 Portal, ONGC has not contributed any amount to GCNI. As per the documents produced by ONGC to audit, ONGC in 2017-18 had supported GCNI for an amount of ₹ 0.50 crore for phase II of the study.

**(ii) Setting up of water purifying plant in private areas**

Based on request of OSD to the Chief Minister of Uttarakhand, ONGC had set up 3 solar based Reverse Osmosis (RO) water purifying plants (₹ 0.31 crore) to provide clean drinking water to the villagers of Doiwala constituency of the Minister. The project was implemented by Sharp Development along with its technology partner GKM Energy, manufactures of solar systems. Audit observed that the locations selected by the OSD were two temples and a wedding hall i.e. a commercial entity. Two RO plants were installed on roof tops of temples and one RO plant inside the campus of wedding hall. As stated in the agenda submitted to CSR screening committee, after 5 years, the system was to be handed over by the implementing agency to the local governing body. However, the temple and marriage hall are not government properties. RO water plant should have been located in public places like municipality, public schools, railway station etc.

**(iii) Activity in normal course of business under CSR**

IREDA had provided financial support (₹ 0.52 crore) for supplying solar power in various places under CSR. As per CSR Rule 6, CSR activities should not include activities undertaken in pursuance of normal course of business. The main objective of IREDA is to give financial support for generating electricity and/energy through new and renewable sources and conservative energy through energy efficiency. Hence the above funding does not qualify as CSR.

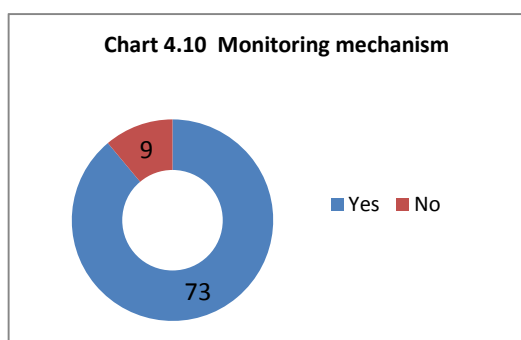
**4.5.3.7 Notable Projects**

82 CPSEs took up total 9088 CSR projects in 2017-18 in four focus areas of Education, Skill Development, Health and Environment. Total spend under education for setting up/constructing schools, providing support for education and therapy for special/differently abled children was ₹ 395.09 crore. Spend on Health was ₹ 132.30 crore which included setting up hospitals, providing mobile medical vans/ambulances, health camps etc. Skill development (₹ 1876.65 crore) included training to the youth and under privileged.

Environment (₹ 410.61 crore) included welfare activities for animals, tree plantation, waste to fuel plant, etc. Few notable projects are listed below:

CPSE	Notable Project
<b>Education</b>	
HPCL	Project Nanhi Kali - education for girls, Project Adapt - Support for education and therapy for children with disabilities
MSTC	School Building for orphans/under privileged/mentally retarded children in West Bengal
NMDC	Residential school for disabled/mentally retarded children
PGCIL	School cum hostel for handicapped
<b>Employment and Skill Development</b>	
BPCL	Vocational training to leprosy affected and underprivileged persons
CPCL, EIL, HPCL, MOIL, NFL, NHDC, NPCIL, OIL, SMPCIL	Skill development training to youths, women, contractual workers etc.
GAIL	Project Uttkarsh- IITJEE coaching to marginalized students
<b>Environment</b>	
EIL, IOCL, NHDC, ONGC	Waste to Fuel plant, Bio CNG bottling and fertiliser plant to convert cow dung/vegetable waste into solid manure/fertiliser

#### 4.5.4 Monitoring Framework



As per Rule 5(2) of CSR Rules, 2014 the CSR Committee shall institute a transparent monitoring mechanism for implementation of CSR projects/ programs/activities undertaken by the company. DPE vide O.M. dated 01.08.2016 also instructed the CPSEs to have an institutionalised mechanism for monitoring, reporting and evaluation of CSR.

Audit observed that out of 82 CPSEs, 9 CPSEs (BLI, CONCORAIR, CWC, EIL, JCI, IOCL, NLC, UCIL and NTPL) did not specify the monitoring mechanism in the policy. While 12 CPSEs did not hold any review meeting, 17 CPSEs held monthly review meetings, 31 CPSEs quarterly (including JCI, which though did not have a CSR policy held the meeting), 6 CPSEs half yearly and 16 CPSEs held regular meetings as per project requirement.

**Evaluation:** CPSEs are carrying out impact assessment on case to case basis depending on type of CSR project/activity. In 2017-18, out of 82 CPSEs, only 14 CPSEs carried out impact assessment. BLI contributed entire CSR funds to PMRF hence there was no need for monitoring and assessment. In BPCL no project was due for assessment in 2017-18.

12 CPSEs (AAI, AIATSL, BHEL, GAIL, GSL, ITPO, MDL, NAL, OIL, ONGC, RITES and SJVN) got the impact assessment done through external agencies. HAL and IOCL assess the impact of CSR activities internally/informally internally through site visit and consultation. Total expenditure on impact assessment stood at ₹ 1.58 crore (for 15 CPSEs).

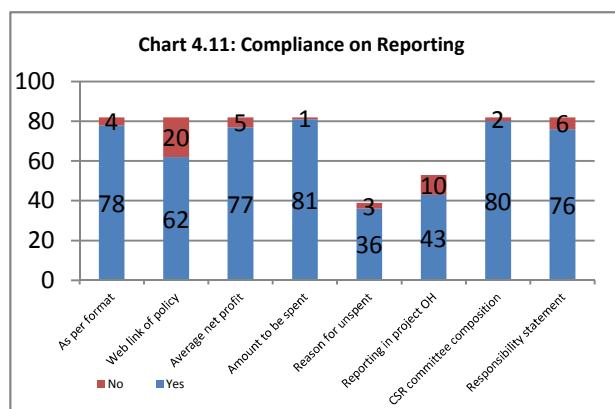
#### 4.5.5 Reporting and Disclosure

As per Section 135 (2) and (4) read with section 134 (3) (o) of the Act, a Company is required to include an annual report on CSR in their Board Report and place it on the official website. The companies have to disclose the following in the prescribed format

1. *Disclose contents of CSR policy, web link of CSR policy, average net profit, composition of CSR Committee, admin overheads, prescribed amount, unspent amount, reasons for unspent amount.*
2. *Include a responsibility statement signed by the CSR Committee that the implementation and monitoring of CSR Policy was in compliance with the CSR objective and Policy of the Company.*

Audit observations on compliance by the 82<sup>42</sup> CPSEs are as follows:

- 4 CPSEs (CWC, HSCC, SECI & UCIL) did not adopt the prescribed format.
- 20 CPSEs (**Appendix XXIII**) did not indicate web link in the report.
- 5 CPSEs (CMPDIL, HSCC, NRL, SECI & UCIL), did not indicate average net profit for last 3 FYs.
- 1 CPSE (HSCC) did not indicate the amount to be spent and 2 CPSEs (CMPDIL & HSCC) did not give unspent details. As against ₹ 38.61 lakh unspent amount, GAIL GAS has shown ₹ 1.12 lakh as unspent amount.
- Out of 53 CPSEs which had incurred administration overheads, 10 CPSEs were not reporting separately on project direct and overhead expenses (CWC, GSL, ITPO, JCI, NSIC, PGCL, RCF, RECL UCIL and WAPCOS).
- Out of 39 CPSEs, which did not fully spend the CSR funds of current year, 3 CPSEs (CCI, CWC, & ECGC) did not provide the reasons for shortfall.
- Except for 2 CPSEs (NRL & SECI) all had given the composition of CSR Committee in the report. HSCC did not give in format.
- 6 CPSEs (CCI, ECGC, HSCC, NSICL, SECI & UCIL) did not include responsibility statement



<sup>42</sup> Compliance to reporting requirement in respect 1 CPSE (HSCC) based on Annual Reports for 2016-17 (Report for 2017-18 awaited).

- Responsibility statement by KPL commented on existence of monitoring mechanism and not on status of compliance of the CSR policy.

#### 4.6 Conclusions

80 CPSEs have complied with the provisions of the Act and CSR Rules with regard to formation of CSR committee and framing of CSR policy. Two CPSEs did not comply with requirement (SECI did not constitute CSR committee and JCI did not have CSR policy in place). Five CPSEs spent exact 2 *per cent* of CSR funds, 43 CPSEs spent more than 2 *per cent* and 34



CPSEs spent less than 2 *per cent*. The Administrative overhead exceeded the limit of 5 *per cent* of the overall CSR budget for 8 CPSEs. HAL and SJVN had ploughed back the surplus into CSR funds and BDL showed the same as business income. Education and Health continue to secure maximum funding as in previous year. Monitoring mechanism was in place in respect of 72 CPSEs. IREDA had included normal business activity under CSR. Barring the projects commented in para 4.5.3.6, there was transparency and due diligence in selection and implementation of the CSR activities.