

## 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. The primary objective of CSR is to promote responsible and sustainable business philosophy at a broad level and to encourage companies to come up with innovative ideas and robust management systems to address social and environment concerns of the country. Broadly, the CSR mandate is aligned with national priorities such as public health, education, livelihood, water conservation, natural resource management etc. CSR awareness and CSR consciousness has grown vividly among large and medium sized companies, which now look at CSR to build a strategic fit with the community and environment in which they operate.

**Chart: 4.1: Concept of CSR**



The concept of CSR provides a robust framework for companies to collaborate in contributing to the country's development challenges through its managerial skills, technology and innovation. **Chart 4.1** depicts the relationship between long-term success of a firm which addresses social, environmental, and economic concerns simultaneously. Besides providing an overall guidance framework for the Corporates to carry out their CSR initiatives, it also provides them with ample autonomy and flexibility to design and implement programmes. The monitoring is based on

disclosures made by the company in its annual report as per the prescribed format.

#### **Legal Framework:**

Section 135 of the Companies Act, 2013 (hereafter referred to as the Act), deals with the subject of CSR and lays down the qualifying criteria based on net worth, turnover and net profit during immediately preceding financial year<sup>30</sup> for companies which are required to undertake CSR activities. This section *inter alia*,

<sup>30</sup>As per amendment 37 of the 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.

specifies the broad modalities of selection, implementation and monitoring of 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 and Schedule VII of the Act are applicable to companies fulfilling the qualifying criteria based on net worth, turnover and net profit. The Act makes it mandatory for a company to spend, annually at least two *per cent* of its average net profit of three immediately preceding financial years towards CSR activities.

The compliance to the provisions of CSR under the Act *i.e.*, constitution of CSR committee, formulation of CSR policy and spending of the 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 State PSUs *w.e.f.* 01 April 2014.

## **4.2 Audit objectives**

Audit objectives were to ascertain whether the provisions of the Companies Act 2013 and Companies (CSR Policy) Rules 2014 were complied with by State PSUs. In order to assess the efforts of the PSUs, Audit examined the following issues:

- Whether the provisions relating to constitution of CSR committee, formulation of and compliance to the policy have been adhered to;
- Whether the CSR activities selected for implementation are within the list of activities given under schedule VII of the Companies Act, 2013;
- Whether the provisions relating to prescribed amount to be spent on CSR activities have been complied with;
- Whether the needs of the local people have been taken into consideration while prioritising the selection of the activities/projects under CSR activities;
- Whether there is transparency and due diligence in the selection and implementation of activities; and
- Whether the provisions relating to monitoring, reporting and evaluation have been complied with.

## **4.3 Audit scope and coverage**

Audit reviewed the CSR activities carried out by nine PSUs which reported profit of rupees five crore or more and were having accumulated profit in their latest annual accounts. The details of PSUs selected for review as per this criteria are detailed in **Table 4.1**.

**Table 4.1: Details of PSUs selected for review**

SI. No	Name of PSUs	Year of Accounts	Net Profit in reporting year (₹ in crore)
1	The Kerala State Financial Enterprises Limited	2018-19	77.62
2	Kerala State Beverages (Manufacturing and Marketing) Corporation Limited	2018-19	113.13
3	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	2018-19	24.47
4	The Kerala State Backward Classes Development Corporation Limited	2019-20	14.21
5	Transformers and Electricals Kerala Limited	2019-20	6.33
6	Kerala State Industrial Development Corporation Limited	2020-21	25.50
7	Kerala State Power and Infrastructure Finance Corporation Limited	2020-21	7.20
8	The Travancore Sugars and Chemicals Limited	2020-21	8.50
9	The Kerala Minerals and Metals Limited	2021-22	226.91

(Source: Details as per latest finalised accounts)

#### 4.4 Audit Criteria

Audit analysis was carried out against following criteria:

- (i) Provisions contained in Section 135 and Schedule VII of the Companies Act, 2013 (as amended up to 31 March 2021)
- (ii) Provisions of Companies (Corporate Social Responsibility Policy) Rules, 2014 (as amended up to 31 March 2021).

#### 4.5 Audit findings

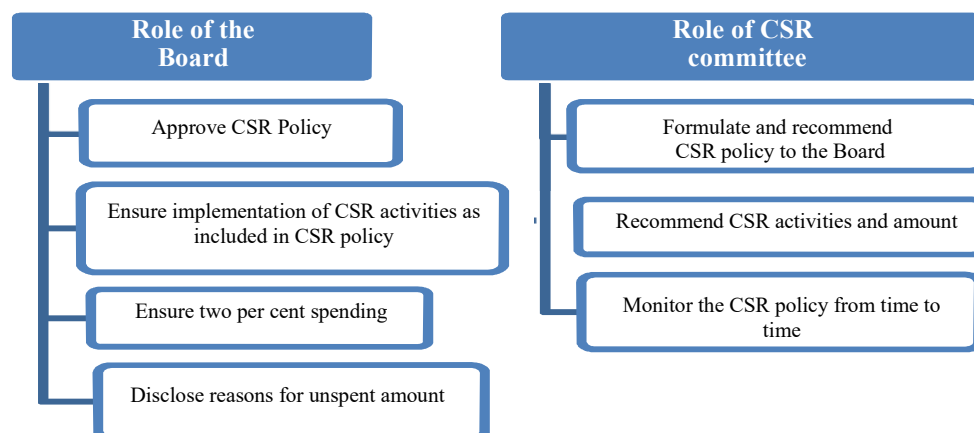
Audit findings on extent of compliance with the provisions of the Act with regard to constitution of CSR committee, formulation and compliance of policy, planning and execution of CSR activities, and monitoring and reporting thereof by the PSUs are given in the following paragraphs.

##### 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 ₹1,000 crore or more or a net profit of ₹ five crore or more during the immediately preceding financial year shall constitute a CSR committee consisting of three or more directors, out of which at least one director shall be an independent director. Role of the Board and CSR committee as per Section 135(3), (4) and (5) of the Act is depicted in **Chart 4.2**.

**Chart 4.2: Role of the Board and CSR committee**



Audit observed that all nine PSUs selected for audit were meeting the above criteria to undertake CSR activities as per the Act. All the nine PSUs had constituted CSR committees and were having minimum of three directors in the Committee in accordance with Section 135(1) of the Act.

#### 4.5.1.2 Independent Directors in the Committee

As per Section 135(1) of the Act, CSR committee shall have at least one independent director. Audit observed that out of nine PSUs which had formed the CSR committee, none of the companies had appointed independent directors in the committee, leading to the violation of the Act.

#### 4.5.1.3 Framing of CSR Policy

Section 135 (3) of the Act requires that the CSR committee shall formulate and recommend a CSR Policy to the Board. Out of the nine PSUs, except The Travancore Sugars and Chemicals Limited, all others had framed the CSR policy and the respective Boards had approved the same. The requirements of Rule 6 with regard to policy and compliance thereof by PSUs are given in **Table 4.2**.

**Table 4.2: Requirement of CSR Rule and its compliance**

Requirement of CSR Rule No.6 Policy <i>inter alia</i> to include	Compliance by PSUs
List of projects which a company plans to undertake along with implementation schedule.	Eight PSUs have adopted common activities as per Schedule VII of the Act in their CSR Policy.
The surplus arising out of the CSR projects or programs or activities shall not form part of the business profit of a company.	Five PSUs <sup>31</sup> have adopted this provision in their CSR Policy

*(Source: Details received from the PSUs)*

<sup>31</sup> The Kerala State Financial Enterprises Limited, Kerala State Beverages (Manufacturing and Marketing) Corporation Limited, The Pharmaceutical Corporation (Indian Medicines) Kerala Limited, The Kerala Minerals and Metals Limited and Kerala State Power and Infrastructure Finance Corporation Limited.

#### 4.5.1.4 Monitoring of CSR Policy

As per Rule 6 (1) (a) of the CSR Rules 2014, the CSR Policy of a company shall, *inter alia*, include a list of CSR projects or programs, which the company plans to undertake falling within the purview of Schedule VII of the Act specifying modalities of execution of such projects or programs and implementation schedules for the same. In the notification dated 31 March 2014, one of the activities under Schedule VII (i) *i.e.*, 'promoting preventive health care' was replaced with 'promoting health care including preventive healthcare'. Further, the Ministry of Corporate Affairs, Government of India issued circular dated 23 March 2020 for spending CSR funds for various activities related to COVID-19 under items (i) and (xii) of schedule VII of the Companies Act, 2013 relating to promoting health care including preventive healthcare and sanitation and disaster management.

Audit observed that the CSR committees of eight PSUs monitored the implementation of CSR policy monthly/quarterly/annually or as and when required. This was not complied with by The Travancore Sugars and Chemicals Limited.

#### 4.5.1.5 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 activities and budget. However, one<sup>32</sup> PSU did not have Annual CSR Plan for the year 2021-22 and all PSUs had disclosed in their CSR Policy that they have taken approval of CSR plan in its business plan from its Board. As a best practice, the proposed CSR projects and the budget for the ensuing financial year should be presented to the Board for approval through the CSR committee latest by 31 March of the preceding financial 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.

### 4.5.2 Financial component

#### 4.5.2.1 Utilisation of Funds

Section 135 (5) of the Act states that the Board shall ensure that the company spends in every financial year, at least two *per cent* of its average net profits of the preceding three years, on CSR activities.

Audit observed that against the prescribed two *per cent* amount of ₹10.08 crore, five PSUs had spent only ₹6.31 crore as against ₹6.97 crore and three PSUs had not spent any amount from the allocated ₹0.74 crore. Thus, the shortfall in spending on CSR activities *vis-a-vis* the prescribed amount was ₹1.39 crore. The shortfall in respect of six PSUs was in the range of 23.82 to 100 *per cent*. Two PSUs had fully spent the CSR allocated amount. The details of utilisation of CSR fund are detailed in **Table 4.3**.

<sup>32</sup> The Travancore Sugars and Chemicals Limited.

**Table 4.3: Details of Utilisation of CSR Fund**

Sl. No.	Name of PSUs	Period of spending <sup>33</sup>	Two percent of average of 3 years Net Profit Before Tax (₹ in crore)	Actual Spent (₹ in crore)	Shortfall/ (Excess) (₹ in crore)	Shortfall/ (Excess) (in percentage)
1	The Kerala State Backward Classes Development Corporation Limited	2019-20	0.46	0	0.46	100
2	Kerala State Power and Infrastructure Finance Corporation Limited	2020-21	0.15	0	0.15	100
3	Transformers and Electricals Kerala Limited	2019-20	0.13	0	0.13	100
4	Kerala State Industrial Development Corporation Limited	2020-21	0.53	0.09	0.44	83.11
5	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	2018-19	0.42	0.32	0.10	23.82
6	The Travancore Sugars and Chemicals Limited	2020-21	0.11	0.003	0.11	97.24
7	The Kerala State Financial Enterprises Limited	2018-19	3.74	3.74	No shortfall	0
8	The Kerala Minerals and Metals Limited	2021-22	2.16	2.16	No short fall	0
9	Kerala State Beverages (Manufacturing and Marketing) Corporation Limited	2018-19	2.38	5.51	(3.13)	(131.51)

The Kerala State Backward Classes Development Corporation Limited attributed its inability to expend the amount allocated for CSR activity during the reporting period of 2019-20 to the outbreak of Covid-19 pandemic. Kerala State Industrial Development Corporation Limited, The Travancore Sugars and Chemicals Limited and The Pharmaceutical Corporation (Indian Medicines) Kerala Limited did not spend CSR amount, since suitable projects within the available CSR funds could not be identified. Transformers and Electricals Kerala Limited did not allocate any amount towards CSR activities as they had incurred huge loss during 2020-21 and

<sup>33</sup> The period of spending means the reporting year in which the amount was expended for CSR activities which is the year of latest finalised accounts.

2021-22. However, it was noticed that the Company had profit before tax during the preceding three financial years ended 2018-19.

#### 4.5.2.2 Utilisation of carry forward amount

As per MCA clarification (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.

**Table 4.4: Utilisation of carry forward amount**

*(₹ in crore)*

Name of the PSU	Carry forward from previous years	Spent in reporting year	Unspent amount
Kerala State Industrial Development Corporation Limited	0.38	0.38	Nil
The Kerala State Financial Enterprises Limited	0.05	0.05	Nil
The Kerala Minerals and Metals Limited	0.95	0.95	Nil

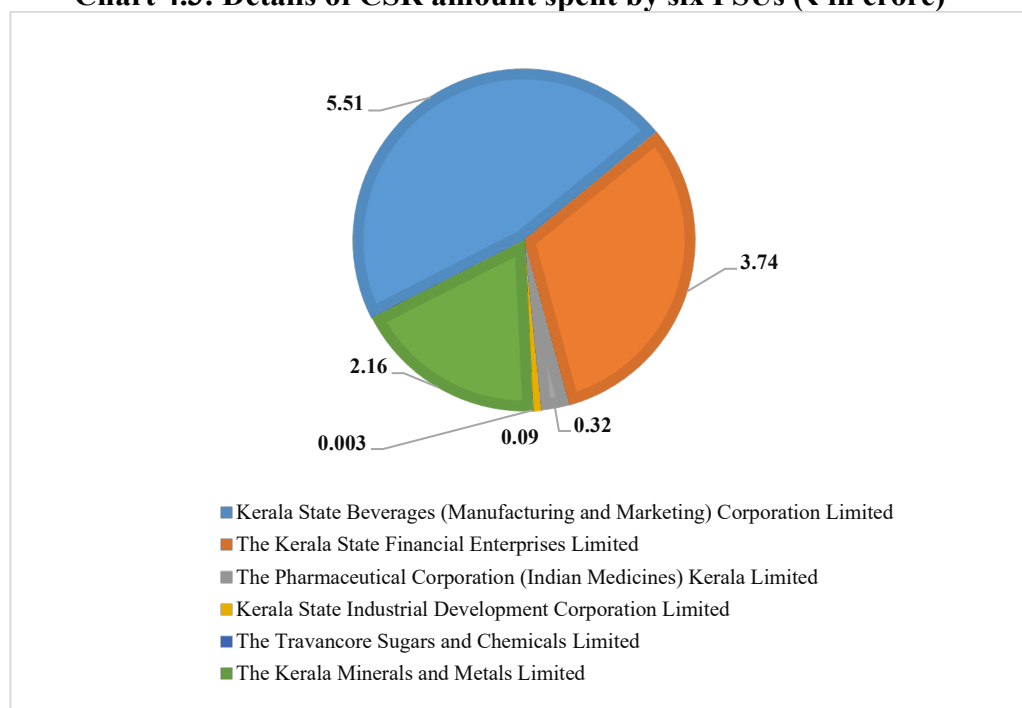
*(Source: Details received from the PSUs)*

The above three PSUs had carried forward the unspent amount of ₹1.38 crore (from previous financial years) and full amount was utilised during the subsequent year.

#### 4.5.2.3 Top spenders

Out of nine PSUs under review, six PSUs spent ₹11.82 crore for CSR activities during 2018-19, 2020-21, and 2021-22. The top spender was Kerala State Beverages (Manufacturing and Marketing) Corporation Limited at ₹5.51 crore (57.04 per cent of total CSR spent) followed by The Kerala State Financial Enterprises Limited. The details of amount spent by six PSUs are depicted in **Chart 4.3**.

**Chart 4.3: Details of CSR amount spent by six PSUs (₹ in crore)**



(Source: Details received from the PSUs)

#### 4.5.2.4 Range of CSR spending

The amount spent by the six PSUs ranged from ₹31,000 to ₹5.51 crore. Only three PSU viz., Kerala State Beverages (Manufacturing and Marketing) Corporation Limited, The Kerala Minerals and Metals Limited and The Kerala State Financial Enterprises Limited spent more than ₹1 crore from CSR funds during their respective reporting years.

#### 4.5.2.5 Sector wise CSR spending

Audit covered six PSUs in three sectors. The highest spending on CSR activities was by manufacturing sector (four PSUs, ₹7.99 crore) followed by the finance sector (one PSU, ₹3.74 crore) and by the infrastructure sector (one PSU, ₹0.09crore).

**Table 4.5: Sector wise CSR spending**

Sl. No.	Sector	No. of PSUs	Two per cent (₹ in crore)	Actual spent (₹ in crore)
1	Manufacturing	4	5.07	7.99 <sup>34</sup>
2	Finance	1	3.74	3.74
3	Infrastructure	1	0.53	0.09

(Source: Information received from the PSUs.)

<sup>34</sup> Including excess CSR amount spent by Kerala State Beverages (Manufacturing and Marketing) Corporation Limited.



As per the data mentioned in **Table 4.5**, there was a shortfall in CSR spending in the infrastructure sector by Kerala State Industrial Development Corporation Limited.

#### **4.5.2.6 Administrative overheads**

As per CSR Rule 4 (6), administrative overhead expenditure shall not exceed five *per cent* of the overall CSR funds. The overhead expenditure is required to be disclosed separately and should include baselines studies, capacity building and other overheads. None of the PSUs had incurred any expenditure towards administrative overheads.

#### **4.5.2.7 Surplus from CSR project**

As per CSR Rules 2014, any surplus arising from CSR projects shall not form part of business profit of a company. None of the PSUs had reckoned surplus from CSR project as their business profit.

#### **4.5.2.8 Asset creation from CSR activities**

No CSR assets were created in the name of PSUs and all the CSR assets have either been transferred to the State Government, Non-Governmental Organisations (NGOs), or to the beneficiary(ies).

### **4.5.3 Project Implementation**

#### **4.5.3.1 Manner of implementation of CSR activities**

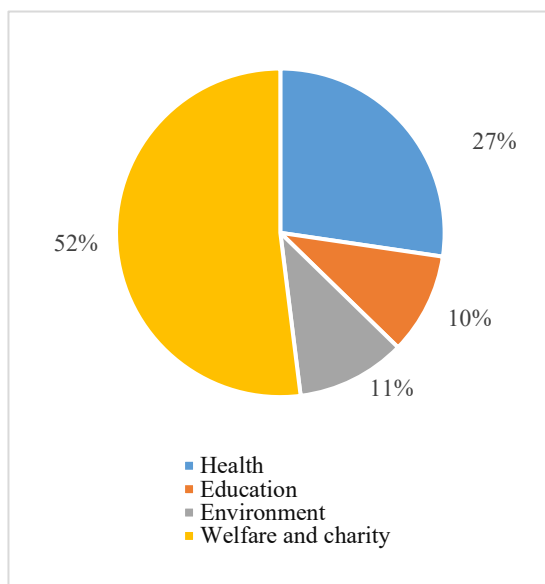
Rule 4 of Companies (CSR) Rules, 2014 exclusively deals with the manner in which the CSR activity is to be undertaken under Section 135(1) of the Act. The Board may decide to undertake its CSR activities as approved by the CSR committee through a registered public trust/society registered under section 12A and 80G of Income Tax Act, 1961 or a company established under Section 8 of the Act. Manner of implementation of CSR activities were as follows:

The six PSUs spent the CSR funds through Government agencies, NGOs/societies and handed over the funds to the Directorate concerned / identified agencies for implementation of the CSR activities.

#### 4.5.3.2 Focus Areas

Data compiled by Audit showed that welfare and charity activities received the maximum focus (52 per cent) for CSR funds which was followed by health activities (27 per cent) as shown in **Chart 4.4**. None of the PSUs have, however, made available the sub-theme-wise break up of CSR spending in each focus area.

**Chart 4.4: Focus Areas in CSR expenditure**



None of the PSUs have, however, made available the sub-theme-wise break up of CSR spending in each focus area.

Notable projects were ₹1.25 crore spent by The Kerala State Financial Enterprises Limited for Alleppey Water Challenge which focussed on environment and ₹1.24 crore spent by The Kerala State Beverages (Manufacturing and Marketing) Corporation Limited on financial assistance for the setting up of Modern Cardiology Department at EMS Memorial Co-operative Hospital &

Research Centre Limited.

#### 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. Audit observed that eight PSUs reviewed in this Chapter specified their monitoring mechanism in the CSR Policy. There was no monitoring mechanism in The Travancore Sugars and Chemicals Limited.

CSR Committees are required to hold review meetings based on the periodicity specified in the Policy. Only two PSU viz., The Kerala State Backward Classes Development Corporation Limited and The Kerala Minerals and Metals Limited had conducted one review meeting each during 2019-20 and 2021-22 respectively. Seven PSUs did not hold review meetings during their respective reporting periods.

#### 4.5.5 Reporting and Disclosure

As per Section 135 (2) read with Section 134 (3) (o) of the Act, a Company is required to include an Annual Report on CSR in their Board meeting and place it on the official website. According to Rule 9 of CSR Rules 2014, companies have to disclose the following in the prescribed format:

- Contents of CSR Policy, web link of CSR Policy, average net profit, composition of CSR Committee, administrative overheads, prescribed amount, unspent amount, reasons for unspent amount.
- 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 of the above are:

- Three out of nine PSUs under review *viz*, The Kerala State Backward Classes Development Corporation Limited, The Travancore Sugars and Chemicals Limited and Kerala State Beverages (Manufacturing and Marketing) Corporation Limited did not prepare Annual Report on CSR activities as stipulated, during their reporting periods 2019-20, 2020-21 and 2018-19 respectively.
- Out of the nine PSUs under review, five PSUs<sup>35</sup> did not include responsibility statement of the CSR Committee in their Annual Report on CSR in accordance with Rule 9 of CSR Rules, 2014.

#### 4.6 Good Practice

Though the provisions of the Companies Act are not applicable for Statutory corporations, Kerala Financial Corporation (KFC) is the first corporation in Kerala to initiate CSR activity. As part of its CSR, KFC has set up KFC-CARE (Centre for Assistance and Rehabilitation) to rehabilitate and serve the marginalized sections of the community.

#### 4.7 Reply of the Government of Kerala

Government of Kerala replied (March 2023) that issues pertaining to social responsibility of Public Sector Undertakings are under consideration of Government and necessary instructions are being given to the institutions concerned to expedite and clear the issues.

#### 4.8 Conclusion

This chapter dealt with the adherence to Corporate Social Responsibility principles by the Government companies. Issues related to monitoring of Corporate Social Responsibility policy, utilisation of Corporate Social Responsibility funds, compliance of reporting and disclosure, etc. are highlighted in this chapter.


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<sup>35</sup>The Kerala State Backward Classes Development Corporation Limited (2019-20), Transformers and Electricals Kerala Limited (2019-20), Kerala State Industrial Development Corporation Limited (2020-21), The Travancore Sugars and Chemicals Limited (2020-21) and Kerala State Beverages (Manufacturing and Marketing) Corporation Limited (2018-19).

#### 4.9 Recommendations

1. *Government should direct the companies to appoint independent directors in the CSR Committee for better governance and transparency.*
2. *Companies should focus on spending the allocated funds on eligible activities in a timely manner.*
3. *Government must ensure that The Travancore Sugars and Chemicals Limited establishes monitoring mechanism for CSR activities, and*
4. *The CSR Committees of the companies should review and strengthen the monitoring mechanism through review meetings.*


Thiruvananthapuram,  
The 20 June 2024



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New Delhi,  
The 03 July 2024



(GIRISH CHANDRA MURMU)  
Comptroller and Auditor General of India