

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. 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 environmental 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 corporates on 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 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 criteria⁴⁰ based on net worth, turnover and net profit during the immediately preceding financial year for companies which are required to undertake CSR activities. This section *inter alia*, 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.

⁴⁰ Net worth of ₹500 crore or more, turnover of ₹1,000 crore or more or net profit of ₹ Five crore or more during the immediately preceding financial year.

The Act makes it mandatory for a company to spend, in every financial year, at least two *per cent* of its average net profits of the 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, which came into effect in 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 companies. In order to assess the efforts of the PSEs, 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 were from the list of activities given under schedule VII of the Companies Act, 2013;
- Whether the provisions relating to the prescribed amount to be spent on CSR activities were complied with;
- Whether there was transparency and due diligence in the selection and implementation of activities; and
- Whether the provisions relating to monitoring, reporting and evaluation were complied with.

4.3 Audit scope and coverage

Audit reviewed the CSR activities carried out by 14 companies which satisfied at least one of the criteria specified in subsection (1) of section 135 of the Act. The details of companies selected for review as per these criteria are detailed in Table 4.1.

Table 4.1: Details of companies selected for review

								(₹ in crore)
SI. No.	Name of companies	Sector	Period for criteria	Net profit (+) / Loss(-) after tax and interest	Turnover	Net worth	Reporting year	
1	The Kerala State Financial Enterprises Limited	Finance	2020-21	71.46	3,114.35	991.51	2021-22	
2	Kerala State Construction Corporation Limited	Infrastructure	2017-18	9.72	184.19	58.41	2018-19	
3	Kerala State Industrial Development Corporation Limited	Infrastructure	2021-22	54.93	94.89	734.84	2022-23	
4	Kerala Feeds Limited	Manufacturing	2020-21	38.38	495.64	-3.36	2021-22	
5	Kerala State Beverages (Manufacturing and Marketing) Corporation Limited	Manufacturing	2018-19	113.13	5,066.80	1,153.87	2019-20	

Sl. No.	Name of companies	Sector	Period for criteria	Net profit (+) / Loss(-) after tax and interest	Turnover	Net worth	Reporting year
6	Kerala State Electronics Development Corporation Limited	Manufacturing	2019-20	5.23	443.89	5.68	2020-21
7	Malabar Cements Limited	Manufacturing	2020-21	10.71	276.65	204.06	2021-22
8	The Kerala Minerals and Metals Limited	Manufacturing	2021-22	226.91	1,058.26	1,128.09	2022-23
9	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	Manufacturing	2020-21	15.40	141.33	186.72	2021-22
10	The Travancore Cochin Chemicals Limited	Manufacturing	2021-22	25.45	276.14	108.25	2022-23
11	Transformers and Electricals Kerala Limited	Manufacturing	2019-20	6.33	203.13	76.91	2020-21
12	The Kerala State Civil Supplies Corporation Limited	Service	2016-17	-403.81	4,468.44	-618.50	2017-18
13	The Kerala State Backward Classes Development Corporation Limited	Finance	2020-21	23.30	94.28	382.25	2021-22
14	Kerala State Electricity Board Limited	Power	2020-21	-1,822.35	14,420.63	-3,929.11	2021-22

(Source: Details as per latest finalised accounts)

4.4 Audit Criteria

Audit analysis was carried out against the following criteria:

- (i) Provisions contained in Section 135 and Schedule VII of the Companies Act, 2013 (as amended from time to time)
- (ii) Provisions of Companies (CSR Policy) Rules, 2014 (as amended up to September 2022).

4.5 Audit findings

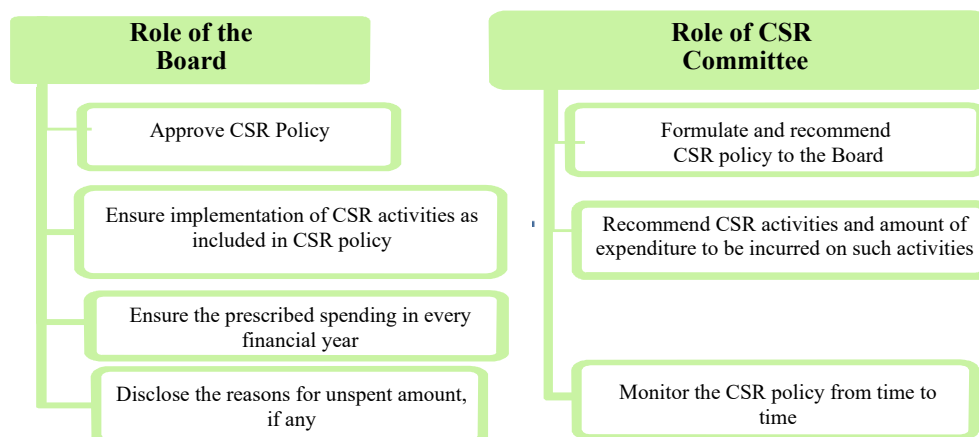
Audit findings on the extent of compliance with the provisions of the Act with regard to constitution of CSR committee, formulation of and compliance with policy, planning and execution of CSR activities, and monitoring and reporting thereof by the companies are given in the following paragraphs.

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. Further Section 135(9) states that where the amount to be spent by a company under sub-section (5) does not exceed fifty lakh rupees, the requirement under sub-section (1) for constitution of the CSR Committee shall not be applicable and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company. Role of the Board and CSR committee as per Section 135(3), 135(4) and 135(5) of the Act is depicted in **Chart 4.2**.

Chart 4.2: Role of the Board and CSR committee



Audit observed that all 14 companies selected for audit were meeting the above criteria to undertake CSR activities as per the Act. Out of 14, thirteen companies had constituted CSR committees⁴¹. The Travancore Cochin Chemicals Limited stated that constitution of CSR committee is not applicable as per Section 135(9) and its functions of CSR committee was being discharged by the Board of Directors of the Company.

4.5.1.2 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. Further, Section 135 (4) of the Act states that Board shall take into account the recommendations of the Committee in this regard and approve the CSR Policy for the company. Audit observed that all the 14 companies had framed CSR Policy as approved by their respective Boards.

4.5.1.3 Annual CSR Plan

As per Rule 5.2 of CSR Rules 2014, the CSR Committee shall formulate and recommend to the Board, an annual action plan in pursuance of its CSR policy, which shall include (a) the list of CSR projects or programmes to be undertaken (b) the manner of execution, (c) modalities regarding utilisation of funds and schedules of implementation, (d) monitoring and reporting mechanism (e) details of need and impact assessment, if any, for the projects undertaken by the company.

⁴¹ Kerala Feeds Limited, The Kerala Minerals and Metals Limited, The Kerala State Backward Classes Development Corporation Limited, Kerala State Beverages (Manufacturing and Marketing) Corporation Limited, Kerala State Construction Corporation, Kerala State Electricity Board Limited, Kerala State Electronics Development Corporation Limited, Kerala State Industrial Development Corporation Limited, Malabar Cements Limited, The Kerala State Civil Supplies Corporation Limited, The Kerala State Financial Enterprises Limited, The Pharmaceutical Corporation (Indian Medicines) Kerala Limited and Transformers and Electricals Kerala Limited.

However, nine companies⁴² did not have an annual CSR plan for their reporting 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 immediately preceding three years, on CSR activities.

Audit observed that out of the 14 companies which fulfilled the criteria pertaining to CSR compliance, four companies spent the exact prescribed amount (₹5.90 crore), three companies spent more than the prescribed amount (₹2.77 crore), two companies each spent either less than the prescribed amount or did not spend any amount on CSR activities and three companies did not spend any amount on CSR activities due to negative average profits in their previous years. Thus four companies had non/short payment of CSR to the extent of ₹1.54 crore and the shortfall in respect of the aforesaid companies was in the range of 45 to 100 *per cent* of their CSR obligation. The details of utilisation of CSR fund are detailed in **Table 4.2**.

Table 4.2: Details of Utilisation of CSR Fund

Sl. No.	Name of companies	Period of spending ⁴³	CSR obligation (₹ in crore)	Actual Spent (₹ in crore)	Shortfall/ (Excess) (₹ in crore)	Shortfall/ (Excess) (in percentage)
1	The Kerala State Backward Classes Development Corporation Limited	2020-21	0.37	0.37	No shortfall	
2	The Kerala State Financial Enterprises Limited	2021-22	1.47	1.47		
3	Kerala State Beverages (Manufacturing and Marketing) Corporation Limited	2019-20	3.96	3.96		
4	Kerala State Electronics Development Corporation Limited	2020-21	0.10	0.10		
5	The Kerala Minerals and Metals Limited	2022-23	3.12	5.46	(2.34)	Excess spending
6	The Travancore-Cochin Chemicals Limited	2022-23	0.30	0.66	(0.36)	
7	Kerala Feeds Limited	2021-22	0.11	0.18	(0.07)	

⁴² The Kerala State Backward Classes Development Corporation Limited, Kerala State Beverages (Manufacturing and Marketing) Corporation Limited, Kerala State Construction Corporation, Kerala State Electricity Board Limited, Kerala State Industrial Development Corporation Limited, Malabar Cements Limited, The Pharmaceutical Corporation (Indian Medicines) Kerala Limited, The Travancore-Cochin Chemicals Limited and Transformers and Electricals Kerala Limited.

⁴³ 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.

Sl. No.	Name of companies	Period of spending ⁴³	CSR obligation (₹ in crore)	Actual Spent (₹ in crore)	Shortfall/ (Excess) (₹ in crore)	Shortfall/ (Excess) (in percentage)
8	Transformers and Electricals Kerala Limited	2020-21	0.13	0	0.13	100
9	Kerala State Construction Corporation Limited	2018-19	0.44	0	0.44	100
10	Kerala State Industrial Development Corporation Limited	2022-23	0.82	0.16	0.66	80
11	The Pharmaceutical Corporation (Indian Medicines) Kerala Limited	2018-19	0.56	0.25	0.31	45
12	The Kerala State Civil Supplies Corporation Limited	2016-17	Average profit arrived is negative, hence not mandated to spend for CSR activities			
13	Malabar Cements Limited	2021-22				
14	Kerala State Electricity Board Limited	2021-22				

The Pharmaceutical Corporation (Indian Medicines) Kerala Limited did not spend the CSR amount fully, since suitable projects within the available CSR funds could not be identified and also replied that the unspent CSR amount was transferred to separate account as per Section 135 (6) of the Companies Act, 2013. Transformers and Electricals Kerala Limited made a provision for CSR activities and stated that since audited figures were not available during the period under review, the Company could not ascertain the CSR expenses to be incurred. Kerala State Construction Corporation Limited stated that they had not identified genuine projects for CSR.

4.5.2.2 Utilisation of carry forward amount

Rule 7(3) of CSR Rules, 2014, states that where a company spends an amount in excess of requirement provided under sub-section (5) of section 135, such excess amount may be set off against the requirement to spend under sub-section (5) of section 135 up to immediate succeeding three financial years.

The Kerala State Industrial Development Corporation Limited had a carry forward amount of ₹0.18 crore from financial year 2021-22. None of this amount was spent in the reporting year (2022-23).

4.5.2.3 Top spenders

Out of 14 companies, nine companies had incurred CSR expenses of ₹12.61 crore pertaining to 2018-19 to 2022-23. The Kerala Minerals and Metals Limited, Kerala State Beverages (Manufacturing and Marketing) Corporation Limited, and The Kerala State Financial Enterprises Limited were the top spenders with values of ₹5.46 crore, ₹3.96 crore, and ₹1.47 crore respectively.

4.5.2.4 Range of CSR spending

The amount spent by the nine companies ranged from ₹0.10 crore to ₹5.46 crore. Only three companies *viz.*, The Kerala Minerals and Metals Limited, Kerala State Beverages (Manufacturing and Marketing) Corporation Limited and The Kerala State Financial Enterprises Limited spent more than ₹ one crore from CSR funds during their respective reporting years.

4.5.2.5 Sector wise CSR spending

Audit covered 14 companies in four sectors. The highest spending on CSR activities was by manufacturing sector (five companies⁴⁴, ₹10.43 crore) followed by the finance sector (two companies⁴⁵, ₹1.63 crore) followed by the social sector (one company⁴⁶, ₹0.37 crore) and agriculture sector (one company⁴⁷, ₹0.18 crore).

4.5.2.6 Surplus from CSR project

As per Rule 7.2 of CSR Rules 2014, any surplus arising from CSR projects shall not form part of business profit of a company. None of the 14 companies had reckoned surplus from CSR project as their business profit.

4.5.3 Project Implementation

4.5.3.1 Manner of implementation of CSR activities

Rule 4 of the CSR Rules 2014 states that the Board shall ensure that the CSR activities are undertaken by the company itself or through a registered public trust/society registered under section 12 A and 80G of Income Tax Act, 1961 or a company established under Section 8 of the Act, or an entity established under an Act of Parliament or State Legislature.

All the nine companies which had incurred expenditure on CSR activities 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 health and women empowerment activities received the maximum focus (37 and 36 *per cent* respectively) for utilisation of CSR funds which was followed by welfare and charity activities (17 *per cent*) as shown in **Chart 4.3**. None of the companies have, however, made available the sub-theme-wise break up of CSR spending in each focus area. Notable projects were ₹3.16 crore spent by The Kerala Minerals and Metals Limited for Covid 19 related expenses.

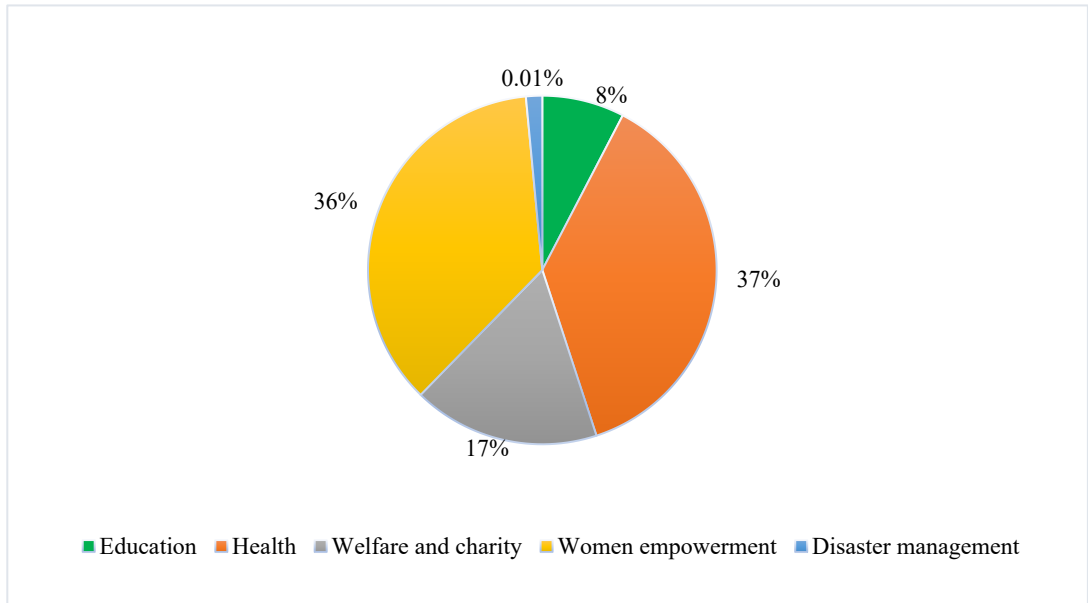
⁴⁴ The Kerala Minerals and Metals Limited, Kerala State Beverages (Manufacturing and Marketing) Corporation Limited, Kerala State Electronics Development Corporation Limited, The Pharmaceutical Corporation (Indian Medicines) Kerala Limited and The Travancore-Cochin Chemicals Limited.

⁴⁵ The Kerala State Financial Enterprises Limited and Kerala State Industrial Development Corporation Limited.

⁴⁶ The Kerala State Backward Classes Development Corporation Limited.

⁴⁷ Kerala Feeds Limited.

Chart 4.3: Focus Areas in CSR



4.5.4 Monitoring Framework

As per Rule 5(2)(d) of CSR Rules, 2014, the CSR Committee shall formulate and recommend to the Board a monitoring and reporting mechanism for the projects or programmes. Audit observed that with the exception of The Travancore-Cochin Chemicals Limited, all other 13 companies specified their monitoring mechanism in their CSR Policy.

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 the details about the policy developed and implemented by the Company on CSR initiatives undertaken during the year in the Report of the Board of Directors laid in the general meeting. According to Rule 9 of CSR Rules 2014, the Board of Directors shall mandatorily disclose the composition of the CSR committee, CSR Policy and projects approved by the Board on their website for public access.

Audit observed that out of 14 companies under review, Kerala State Beverages (Manufacturing and Marketing) Corporation Limited and Kerala State Electricity Board Limited did not prepare Annual Report on CSR activities during their reporting periods.

4.6 Conclusion

Issues related to non-compliance with the statutory provision on CSR were observed as four companies either did not spend or short-spent the mandated amount on CSR obligations by ₹1.54 crore. Additionally, nine companies lacked an annual CSR plan, and two companies did not prepare the mandated Annual Report on CSR activities, indicating issues in reporting. However, all 14 companies audited had framed CSR policies as approved by their respective boards, and majority had established effective monitoring mechanisms for their CSR activities.

4.7 Recommendations

1. *The Finance Department, dealing in all those matters handled by the erstwhile Department of Public Enterprises (DPE), should prepare and issue guidelines on Corporate Social Responsibility duly considering applicable provisions of the Act and Rules.*
2. *The Finance Department, in co-ordination with respective administrative ministries/ departments, needs to ensure compliance to applicable provisions, rules and regulations on Corporate Social Responsibility by all State Public Sector Enterprises (SPSEs).*
3. *All SPSEs should ensure compliance specifically related to:*
 - *Composition of CSR Committee and periodical updation of CSR policies by committee / Board,*
 - *Assessment of requirement in advance and timely approval of CSR plans / budget,*
 - *Proper allocation and effective utilisation of CSR funds as well as ensure transfer of unspent amount to specified funds,*
 - *Establish effective monitoring mechanism and ensure receipt of utilisation certificates immediately after completion of activities.*
 - *Ensure proper compliance to reporting disclosures both in Directors' Report as well as official website.*