

CHAPTER-9

CORPORATE SOCIAL RESPONSIBILITY

9.1 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. The inclusion of CSR mandate under the Companies Act, 2013 is an attempt to supplement the Government's efforts of equitably delivering the benefits of growth and engage the corporate world with country's development agenda.

9.1.1 Legal Framework

Section 135 of the 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 immediate preceding financial year for companies which are required to undertake CSR activities and 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 companies including SPSEs.

The Act makes it mandatory for any company to spend annually at least two *per cent* of the average net profit (calculated as per Section 198 of the Act) of three immediate preceding financial years towards CSR activities. In February 2014, Ministry of Corporate Affairs (MCA) issued Companies (Corporate Social Responsibility Policy) Rules, 2014 made applicable to all companies including SPSEs w.e.f. 1 April 2014. Accordingly, 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.

9.2 Audit Objective

Audit objective of assessment of CSR activities of SPSEs was to ascertain whether:

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

9.3 Audit Scope and Coverage

As per criterion specified under Section 135 (1) of the Act, out of 32 working State Public Sector Enterprises (SPSEs) in 2022-23, 10 SPSEs (*Appendix 9.1*) were required to undertake CSR activities. Additionally, during 2022-23 one SPSE¹ incurred expenditure on CSR activities from unspent balance of previous year. Thus, audit reviewed the CSR activities carried out by 11 SPSEs during the year 2022-23.

9.4 Audit Criteria

Audit analysis was carried out against following criteria:

- Provisions contained in Section 135 and Schedule VII of the Act; and
- Provisions of Companies (Corporate Social Responsibility Policy) Rules, 2014.

9.5 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 SPSEs are given in the following paragraphs.

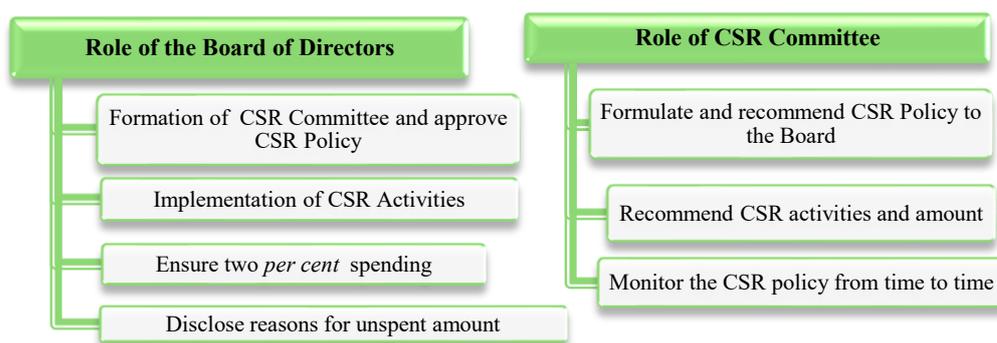
9.6 Planning

9.6.1 Constitution of CSR Committee

Role of the Board and CSR Committee as per Section 135 (1) and (3) of the Act is depicted in *Chart 9.1*.

¹ Haryana State Electronics Development Corporation Limited.

Chart 9.1: Role of the Board and 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 ₹ 5 crore or more during immediate preceding financial year shall constitute a Corporate Social Responsibility (CSR) Committee of the Board consisting of three or more Directors.

Audit noticed that nine out of 11 SPSEs had constituted CSR Committees. Other two SPSEs² (Haryana Medical Service Corporation Limited and Haryana State Financial Service Limited) had not constituted CSR Committee as on 31 March 2023 though these SPSEs met the required criteria under Section 135 (1) i.e. earning profits more than ₹ 5 crore during 2021-22.

9.6.2 Independent Directors in Committee

As per Section 135 (1) of the Act, the CSR Committee shall have at least one independent director. Out of nine SPSEs, which constituted CSR Committee one SPSE i.e. Haryana Forest Development Corporation had not complied with the provision of having at least one Independent Director in their CSR Committee.

9.6.3 Framing of CSR Policy

Section 135 (3) of the Act requires that Company's CSR Committee shall formulate and recommend to the Board, a CSR Policy. It was observed that out of 11 SPSEs, eight SPSEs framed its CSR policy based on recommendation of the CSR Committee while remaining three SPSEs (Haryana Medical Services Corporation Limited, Gurgaon Technology Park Limited and Haryana State Financial Service Limited) did not have CSR policy in place.

9.6.4 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

² As these SPSEs had neither formed CSR Committee nor framed CSR policy, these have not been considered for analysis.

implementation of the CSR activities. The proposed CSR projects and the budget for the ensuing financial year should be presented to the Board for approval before the start of the new financial year or at the earliest so as to avoid rush of expenditure to exhaust the funds at the end of the year and the funds are spent evenly all over the year.

It was observed that only one SPSE viz. Haryana Power Generation Corporation Limited (HPGCL) got its CSR budget approved before start of new financial year, four SPSEs viz. Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL), Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL), Haryana Sate Industrial and Infrastructure Development Corporation Limited (HSIIDC) and Haryana State Electronics Development Corporation Limited (HARTRON) got the CSR budget approved in second quarter and remaining four SPSEs viz. Haryana Vidyut Parsaran Nigam Limited (HVPNL), Haryana Forest Development Corporation Limited (HFDC), Haryana State Roads & Bridges Development Corporation Limited (HSRDC) and Gurgaon Technology Park Limited (GTPL) in third quarter.

HSIIDC in its reply stated (December 2024) that the CSR Committee of the Company in its meeting held on 26 March 2022 had allocated ₹ 2.02 crore for installation of one Pressure Swing Adsorption (PSA) plant at Mahendergarh out of the CSR spendable amount in 2022-23, which was well in advance. The reply is not acceptable as Annual Action Plan for CSR was approved in CSR Committee meeting held on 2 September 2022.

9.7 Financial Component

9.7.1 Allocation of Funds

Section 135 (5) of the Act makes it mandatory for any company to spend, annually, at least two *per cent* of average net profit of the three immediately preceding financial years (calculated under Section 198 of the Act).

The two *per cent* of average net profit, so calculated, by nine³ out of 11 SPSEs aggregated to ₹ 14.77 crore (**Appendix 9.2**). The SPSEs allocated ₹ 48.96 crore including carryover of ₹ 34.19 crore (by seven SPSEs) for previous years.

Audit in this regard observed that:

- Ministry of Corporate Affairs (MCA), Government of India vide its general circular no. 01/2016 dated 12 January 2016 has clarified that, “Computation of net profit for Section 135 is as per Section 198 of the Companies Act, 2013 which primarily is profit before tax”. Audit

³ Haryana Medical Service Limited and Haryana Financial Service Limited neither allocated funds nor spent any expenditure on CSR during 2022-23.

noticed that four SPSEs viz. HVPNL, HPGCL, UHBVNL and GTPL had not considered profit before tax for calculation of average profit as required under Section 198. The average net profits before tax of these SPSEs as per MCA's clarification was ₹ 766.62 crore against ₹ 286.93 crore calculated by these companies (**Appendix 9.3**). This resulted in under provisioning of CSR funds of ₹ 9.59 crore (₹ 15.33 crore - ₹ 5.74 crore) by four SPSEs.

HPGCL in its reply stated (December 2024) that the difference was due to non-considering "Other Comprehensive Income /Expenditure" (OCI). UHBVNL stated (January 2025) that there is no embargo that expenses in respect of terminal benefits appearing under OCI cannot be claimed. The replies are not acceptable as OCI was not to be deducted from the profit before tax as per the requirement of the Act.

9.7.2 Utilisation of Funds

Section 135 (5) of the Act states that the Board shall ensure that the company spends two *per cent* of average net profit of preceding three years. Audit observed that against the required expenditure of ₹ 48.96 crore (including unspent fund of previous year) by nine SPSEs, the actual expenditure was ₹ 7.52 crore leaving unspent amount of ₹ 41.44 crore by seven SPSEs (**Appendix 9.2**). HSRDC fully utilised the unspent balance of previous years and GTPL fully utilised the CSR Funds allocated during 2022-23.

Audit observed that HARTRON remitted ₹ 0.64 crore⁴ to Haryana CSR Trust/Haryana Welfare Society for incurring expenditure under CSR. Similarly, HSIIDC also remitted ₹ 0.90 crore to ADC Jind for incurring expenditure under CSR. However, HARTRON had not furnished utilization certificate (till January 2025) for this amount. Hence, utilization of these funds during 2022-23 could not be verified in Audit.

HSIIDC in its reply stated (December 2024) that ₹ 0.90 crore remitted to ADC Jind for incurring expenditure under CSR was utilized during 2024-25.

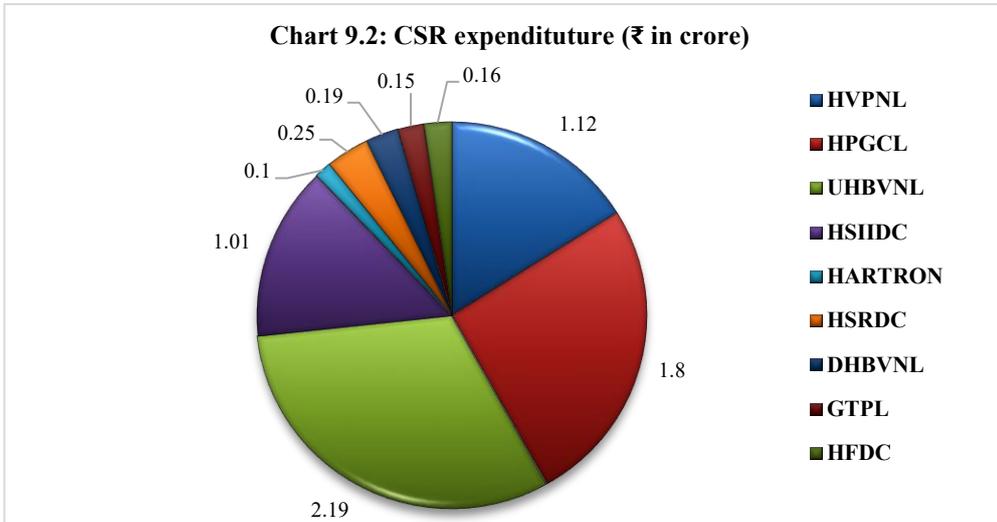
9.7.3 Quarter Wise Expenditure

Total expenditure against CSR during 2022-23 by nine SPSEs was ₹ 7.52 crore. There was rush in CSR expenditure in last two quarters as 68 *per cent* of total CSR expenditure was incurred in these quarters. GTPL, HSRDC and HFDC had spent whole amount of their CSR funds of ₹ 0.15 crore, ₹ 0.25 crore and ₹ 0.16 crore respectively in the fourth quarter.

⁴ Haryana CSR Trust: ₹ 0.59 crore and Haryana Welfare Society: ₹ 0.05 crore.

9.7.4 Top Spenders

Total expenditure on CSR activities by SPSEs is depicted in **Chart 9.2:**



The top spender was UHBVNL at ₹ 2.19 crore (29 per cent of total CSR expenditure) followed by HPGCL at ₹ 1.80 crore (24 per cent).

9.7.5 District Wise CSR Expenditure

Four SPSEs (HSIIDC, UHBVNL, HVPNL and HPGCL) had undertaken CSR activities in more than one District of the State. The remaining five SPSEs spent CSR fund in one District only.

9.7.6 Administrative Overheads

As per CSR Rule 7(1), Administrative Overheads (OH) are to be restricted to five per cent of overall CSR funds. The OH to be disclosed separately should include baseline studies, capacity building and other overheads. Audit, however, observed that CSR expenditure by nine SPSEs did not include any amount on account of administrative overheads.

9.7.7 Surplus from CSR Project

As per CSR Rule 7(2), any surplus arising from CSR projects shall not form part of the business profit of company. None of the SPSEs under review reported any surplus from CSR projects.

9.8 Project Implementation

9.8.1 Selection of CSR Projects/ Activities

None of the SPSEs, which were required to incur CSR expenditure, conducted any separate baseline survey or need assessment study for implementation of their CSR projects.

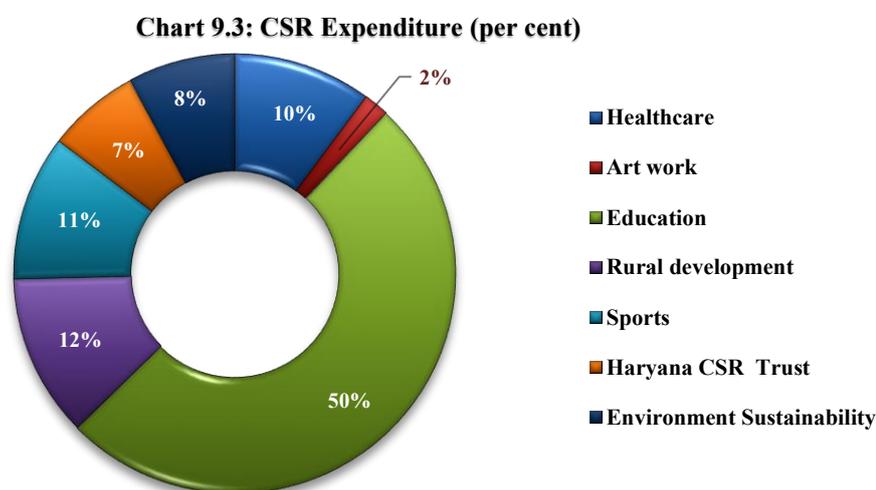
9.8.2 Manner of Implementation of CSR Activities

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) of the Act. The Board may decide to undertake 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.

It was observed that 26 projects were implemented by six SPSEs⁵ directly/in house. Seven projects by five SPSEs⁶ were executed through Government/ external agencies, NGOs, Society *etc.*

9.8.3 Focus Areas

The focus areas are depicted in *Chart 9.3*:



As indicated above, education received the maximum focus (50 per cent) which includes expenditure of ₹ 3.81 crore. Next highest expenditure (₹ 0.90 crore) was in rural development i.e., 12 per cent.

9.9 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/ programmes/activities undertaken by the company. Audit observed that all eight SPSEs, which had framed CSR policy, had specified the monitoring mechanism in the policy.

⁵ HVPNL, HPGCL, UHBVNL, DHBVNL, HSIIDC and HARTRON.

⁶ HSIIDC, HARTRON, HSRDC, HFDC and GTPL

9.10 Reporting and Disclosure

As per Section 135 (4) (a) read with Rule 8 of the CSR Rules, 2014 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:

- Disclose 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.

In this regard, the following was observed:

- Compliance of provisions by four SPSEs (HVPNL, HPGCL, UHBVNL and DHBVNL);
- GTPL did not include annual report on CSR in its Board's Report for the year 2022-23 in prescribed format; and
- In the four SPSEs (HARTRON, HSIIDC, HFDC and HSRDC) Annual Report for 2022-23 had not been prepared, as such, the applicable disclosure requirement could not be complied with in their case.

9.11 Conclusion

Out of 11 SPSEs in Haryana, which were required to carry out CSR activities as per the Act, only nine SPSEs were compliant. The focus area of CSR expenditure were Education and Rural Development. The selection of CSR projects in all SPSEs was done without any need assessment. Reporting and disclosure requirements were not complied with by seven of the 11 SPSEs, which met the criteria.

9.12 Recommendation

All SPSE's who met the criteria should frame CSR Policy and constitute CSR Committee in compliance of provisions of the Companies Act, 2013 and CSR Rules. CSR budget should be prepared as per Section 198 of the Companies Act, 2013 and efforts may be made to spend the entire budget earmarked for the year. SPSEs should cover the focus areas as specified in schedule VII of the Act for covering sustainability and social impact for the general community at large.