

CHAPTER–V

Corporate Social Responsibility

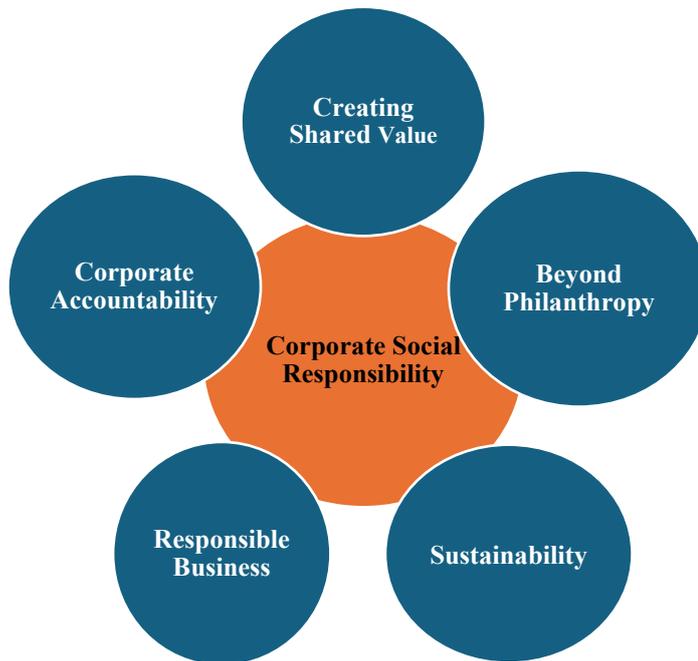
CHAPTER-V

Corporate Social Responsibility

This chapter presents the status of implementation of Corporate Social Responsibility (CSR) by the State Public Sector Enterprises (SPSEs) of Uttar Pradesh, as mandated under Section 135 of the Companies Act, 2013, and the associated CSR Rules. The audit assessed whether eligible SPSEs complied with the CSR-related provisions.

Introduction

5.1 Inclusive growth is widely recognised as a crucial aspect of India's development agenda, emphasizing the need to involve sections of society that



have historically been excluded from the mainstream growth process. In alignment with this national effort, Corporate Social Responsibility (CSR) was conceptualised as a tool to integrate social, environmental, and human development concerns into the entire corporate value chain. The Ministry of Corporate Affairs (MCA), Government of India (GoI) took the first step in mainstreaming responsible business

practices by issuing the 'Voluntary Guidelines on Corporate Social Responsibility, 2009.' These guidelines were later refined and expanded into the 'National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business, 2011.

Further, with the implementation of Section 135 and Schedule VII of the Companies Act, 2013, in April 2014, CSR activities became mandatory for companies fulfilling the specified criteria. The Companies Act, 2013¹, along with the Companies (Corporate Social Responsibility Policy) Rules, 2014², mandates and governs the implementation of CSR activities.

Legal framework

5.2 Section 135(1) of the Companies Act, 2013 provides that 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. Further, Section 135(3) of the Companies Act, 2013 provides that the CSR Committee shall: (a) formulate and recommend to the Board a CSR policy which shall indicate the activities to be undertaken by the company in areas or subjects specified in Schedule VII of the

¹ As amended from time to time.

² As amended from time to time.

Companies Act, 2013; (b) recommend the amount of expenditure to be incurred on CSR activities; and (c) monitor the CSR policy of the company from time to time.

Section 135(5) of the Companies Act, 2013 makes it mandatory for qualifying companies to spend, in every financial year, at least two *per cent* of the average net profits³ made during the three immediately preceding financial years, or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, on CSR activities. It further provides that any unspent CSR amount, unless it relates to any ongoing project, shall be transferred to a fund specified in Schedule VII of the Companies Act, 2013 within a period of six months from the end of the financial year.

Further, Section 135(6) of the Companies Act, 2013 provides that any amount remaining unspent on any ongoing project shall be transferred to the Unspent Corporate Social Responsibility (UCSR) Account within a period of thirty days from the end of the financial year. Such amount shall be spent towards CSR activities within a period of three financial years, failing which it shall be transferred to a fund specified in Schedule VII of the Companies Act, 2013 within a period of thirty days from the date of completion of the third financial year.

Rule 7(2) of the Companies (Corporate Social Responsibility Policy) Rules, 2014 provides that any surplus arising out of CSR activities shall not form part of the business profit of the company and shall be ploughed back into the same project, or shall be transferred to the UCSR Account and spent in pursuance of the CSR policy and annual action plan of the company, or shall be transferred to a fund specified in Schedule VII of the Companies Act, 2013 within a period of six months from the end the financial year.

Applicability of CSR provisions to SPSEs

5.3 As on 31 March 2023, there were 66 functional SPSEs⁴ in Uttar Pradesh under the audit jurisdiction of the CAG, that were governed by the provisions of the Companies Act, 2013. Out of these 66 SPSEs, 19 SPSEs fulfilled the criteria prescribed under Section 135 (1) of the Companies Act, 2013, as per their latest finalised financial statements, as detailed in **Appendix 5.1**. Out of these 19 SPSEs, only nine SPSEs were mandated to incur expenditure on CSR activities, based on the average net profits made during the three immediately preceding financial years with reference to the financial year in which the SPSEs were required to spend on CSR activities.

Accordingly, these nine SPSEs were required to spend ₹ 8.75 crore on CSR activities during the respective succeeding financial year⁵. However, only three SPSEs spent ₹ 4.44 crore⁶, and ₹ 4.61 crore remained unspent by the remaining six SPSEs.

³ Profit Before Tax (PBT) is used for the computation of net profit.

⁴ Excluding Statutory Corporations.

⁵ Ranging between 2014-15 and 2021-22.

⁶ Against a minimum of ₹ 4.14 crore required to be spent.

Audit findings

5.4 Audit examined compliance with the provisions relating to the implementation of CSR activities by nine SPSEs that were required to mandatorily spend on CSR activities. The audit findings, specifically regarding the constitution of CSR Committees, formulation and adherence to CSR policies, planning and execution of CSR activities, and monitoring and reporting by the SPSEs, are discussed in the succeeding paragraphs.

Constitution of the CSR Committee

5.5 As discussed in **Paragraph 5.2**, every company that fulfils the prescribed criteria of net worth, turnover, or net profit is required to constitute a CSR Committee of the Board. Section 135(1) of the Companies Act, 2013 provides that the CSR Committee of a company shall consist of three or more directors, out of which at least one director shall be an independent director. It further provides that where a company is not required to appoint an independent director, it shall have in its CSR Committee two or more directors. Additionally, Section 135(9) of the Companies Act, 2013 provides that where the amount to be spent by a company on CSR activities does not exceed ₹ 50 lakh, the requirement to constitute a CSR Committee shall not be applicable, and the functions of such a committee shall be discharged by the Board of Directors of such company.

Audit observed that, out of the nine SPSEs, six SPSEs⁷ were required to constitute a CSR Committee. All six SPSEs had constituted the CSR Committees. However, Uttar Pradesh Medical Supplies Corporation Limited, which was required to constitute its CSR Committee during the year 2020-21, did so only in June 2022. Moreover, the remaining three SPSEs⁸ also constituted CSR Committees despite not being obligated to do so.

Audit further observed that all nine SPSEs had a minimum of three directors in their CSR Committees. However, seven SPSEs⁹ did not comply with the requirement of an independent director in their CSR Committees during the year 2022-23, as mandated under Section 149(4) of the Companies Act, 2013, read with Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014.

Formulation of CSR policy

5.6 As discussed in **Paragraph 5.2**, the CSR Committee is required to formulate and recommend to the Board a CSR policy, which shall indicate the activities to be undertaken by the company.

Audit observed that, out of the nine SPSEs, one SPSE, *viz.*, Uttar Pradesh Rajkiya Nirman Nigam Limited, had not formulated any CSR policy as on

⁷ Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, Uttar Pradesh Power Transmission Corporation Limited, Uttar Pradesh Purva Sainik Kalyan Nigam Limited, Uttar Pradesh Rajkiya Nirman Nigam Limited, Uttar Pradesh Medical Supplies Corporation Limited, and Uttar Pradesh State Bridge Corporation Limited.

⁸ Uttar Pradesh Development Systems Corporation Limited, Jawaharpur Vidyut Utpadan Nigam Limited, and U.P. Projects Corporation Limited.

⁹ One SPSE *viz.*, Uttar Pradesh Medical Supplies Corporation Limited had appointed an independent director ((who remained up to 21 March 2023) in its CSR Committee and one SPSE, *viz.*, Jawaharpur Vidyut Utpadan Nigam Limited was not required to appoint independent directors as it was a subsidiary of Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited.

31 March 2023. Further, Uttar Pradesh Medical Supplies Corporation Limited had not formulated a CSR policy during the year it was mandated to incur CSR expenditure, *i.e.*, 2020-21, thereby not complying with the provisions of Section 135(3) of the Companies Act, 2013. However, it subsequently formulated the CSR policy in June 2022.

Formulation of Annual Action Plan

5.7 Rule 5(2) of the Companies (Corporate Social Responsibility Policy) Rules, 2014¹⁰ provides that the CSR Committee shall formulate and recommend to the Board an Annual Action Plan (AAP) in pursuance of its CSR policy, which shall include: (a) a list of CSR projects or programmes that are approved to be undertaken in areas or subjects specified in Schedule VII of the Companies Act, 2013; (b) the manner of execution of such projects or programmes; (c) the modalities of utilisation of funds and implementation schedules for the projects or programmes; (d) monitoring and reporting mechanisms for the projects or programmes; and (e) details of need and impact assessment, if any, for the projects undertaken by the company.

Audit observed that, out of the nine SPSEs, four SPSEs¹¹ were required to formulate an AAP for the year 2021–22 and onwards, in compliance with the above-mentioned rule. However, none of these SPSEs had formulated the required AAP. In the absence of an AAP, the SPSEs were unable to plan the modalities for fund utilisation and establish implementation schedules for CSR activities before initiating the projects. Instead, individual CSR project proposals were approved on a case-to-case basis by the SPSEs.

Expenditure on CSR activities

5.8 As discussed in **Paragraph 5.2**, the Board of every company is required to ensure that the company spends, in every financial year, at least two *per cent* of the average net profits of the company made during the three immediately preceding financial years, or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its CSR Policy.

The details of the minimum amount required to be spent on CSR activities and the amount actually spent by the nine SPSEs during the relevant financial year are given in **Table 5.1**.

Table 5.1: Details of minimum amount required to be spent and actual amount spent on CSR activities

(₹ in crore)						
Sl. No.	Name of the SPSE	Year of the latest finalised financial statements	Minimum amount to be spent	Amount allocated	Amount actually spent	Amount short spent
1.	Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited	2021-22	1.36	1.36	1.38 ¹²	0.00
2.	Uttar Pradesh Power Transmission Corporation Limited	2021-22	1.65	1.66	1.66	0.00

¹⁰ Amended *vide* amendment dated 21.01.2021

¹¹ Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, Uttar Pradesh Power Transmission Corporation Limited, Uttar Pradesh Purva Sainik Kalyan Nigam Limited, and Jawaharpur Vidyut Utpadan Nigam Limited.

¹² Including ₹ 0.02 crore pertaining to the financial year 2020-21.

Sl. No.	Name of the SPSE	Year of the latest finalised financial statements	Minimum amount to be spent	Amount allocated	Amount actually spent	Amount short spent
3.	Uttar Pradesh Development Systems Corporation Limited	2020-21	0.29	0.00	0.00	0.29
4.	Uttar Pradesh Purva Sainik Kalyan Nigam Limited	2021-22	1.13	1.42	1.40	0.00
5.	Uttar Pradesh Medical Supplies Corporation Limited	2020-21	0.26	0.00	0.00	0.26
6.	Uttar Pradesh Rajkiya Nirman Nigam Limited	2014-15	3.06	0.00	0.00	3.06
7.	Uttar Pradesh State Bridge Corporation Limited	2019-20	0.58	0.00	0.00	0.58
8.	U.P. Projects Corporation Limited	2019-20	0.37	0.00	0.00	0.37
9.	Jawaharpur Vidyut Utpadan Nigam Limited	2021-22	0.05	0.00	0.00	0.05
Total			8.75	4.44	4.44	4.61

Source: Compiled based on information provided by the SPSEs

It can be seen from **Table 5.1** that, out of the nine SPSEs, six SPSEs neither allocated nor spent any amount on CSR activities during the relevant financial year, against the required amount of ₹ 4.61 crore. The remaining three SPSEs allocated and spent ₹ 4.44 crore against the required minimum amount of ₹ 4.14 crore during the relevant financial year.

Analysis of the amount spent on CSR activities

5.9 As discussed in **Paragraph 5.8**, three SPSEs¹³ incurred an expenditure of ₹ 4.44 crore on CSR activities during the relevant financial year. An analysis of the said amount revealed the following:

Sector-wise CSR expenditure

5.10 The details of CSR expenditure incurred by the three SPSEs across various sectors are given in **Table 5.2**.

Table 5.2: Sector-wise expenditure on CSR activities

Sl. No.	Name of the Sector	No. of SPSEs that spent on CSR activities	Amount spent (₹ in crore)
1.	Power	2	3.04
2.	Health and Welfare	1	1.40
Total		3	4.44

Source: Compiled based on information provided by the SPSEs

It can be seen from **Table 5.2** that SPSEs in the Power Sector incurred the highest expenditure on CSR activities, accounting for 68.47 per cent of the total CSR expenditure incurred.

Focus areas for CSR expenditure

5.11 Schedule VII of the Companies Act, 2013 specifies 12 broad areas for CSR activities. The details of the amount spent by the SPSEs across various areas are given in **Table 5.3**.

¹³ Uttar Pradesh Purva Sainik Kalyan Nigam Limited, Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, and Uttar Pradesh Power Transmission Corporation Limited.

Table 5.3: Focus areas for CSR expenditure

Sl. No.	Area	No. of activities	Amount spent (₹ in crore)	Percentage of the total amount spent
1.	Education	3	2.22	50.00
2.	Rural Development	2	0.88	19.82
3.	Healthcare	2	0.34	7.66
4.	Environment	1	0.10	2.25
5.	Sports	1	0.90	20.27
Total		9	4.44	100.00

Source: Compiled based on information provided by the SPSEs

As can be seen from **Table 5.3**, the largest share of CSR expenditure (50 per cent) was on educational activities, followed by 20.27 per cent on sports and 19.82 per cent on rural development.

Surplus from CSR activities

5.12 As discussed in **Paragraph 5.2**, any surplus arising out of CSR activities is not to form part of the company's business profit and is required to be ploughed back into the same project, or is to be transferred to the UCSR Account, and spent in pursuance of the CSR policy and Annual Action Plan of the company, or is to be transferred to a fund specified in Schedule VII of the Companies Act, 2013 within a period of six months from the end of the financial year.

Audit observed that none of the projects undertaken by the three SPSEs generated any surplus from CSR activities.

Expenditure on administrative overheads

5.13 Rule 7(1) of the Companies (Corporate Social Responsibility Policy) Rules, 2014 provides that the board shall ensure that the administrative overheads¹⁴ shall not exceed five per cent of the total CSR expenditure of the company for the financial year.

Audit observed that none of the three SPSEs reported any expenditure on administrative overheads relating to CSR activities.

Monitoring framework

5.14 Rule 5(2) of the Companies (Corporate Social Responsibility Policy) Rules, 2014 provides that the CSR Committee shall institute a monitoring mechanism for the implementation of CSR projects/programmes undertaken by the company.

Audit observed that all eight SPSEs that had formulated a CSR policy as on 31 March 2023, as discussed in **Paragraph 5.8**, had defined a monitoring mechanism in their CSR policies. However, none of the SPSEs had established a mechanism for conducting regular CSR Committee meetings to monitor the implementation of CSR activities.

¹⁴ Salary and training for the employees working in the CSR Division of a company, stationery cost, travelling expenses, etc.

Audit further observed that during the year 2022-23, five SPSEs¹⁵ conducted only one CSR Committee meeting each, one SPSE¹⁶ conducted two CSR Committee meetings, and two SPSEs¹⁷ conducted three CSR Committee meetings each. Moreover, one SPSE, viz., Jawaharpur Vidyut Utpadan Nigam Limited, did not conduct any CSR Committee meeting during the year 2022-23.

Reporting and disclosure

5.15 Section 135(4) of the Companies Act, 2013, read with Rule 9 of the Companies (Corporate Social Responsibility Policy) Rules, 2014, provides that that the Board of every company shall, after taking into account the recommendations made by the CSR Committee, approve the CSR policy for the company and disclose contents of such policy, the composition of CSR Committee, and the projects approved by the Board in its report, and also place them on the company's website.

Audit observed the following shortcomings in the disclosure of CSR-related information:

- Out of the nine SPSEs, one SPSE, viz., Jawaharpur Vidyut Utpadan Nigam Limited, did not have a website. Only one SPSE, viz., Uttar Pradesh Power Transmission Corporation Limited, had disclosed its CSR Policy, the composition of its CSR Committee, and the projects approved by the Board on its website. One SPSE, viz., Uttar Pradesh Rajkiya Nirman Nigam Limited, which had not formulated a CSR policy, had not disclosed the composition of the CSR Committee or the projects approved by the Board on its website.
- Of the remaining six SPSEs, five SPSEs¹⁸ had disclosed only the CSR policy on their websites. One SPSE, viz., Uttar Pradesh Purva Sainik Kalyan Nigam Limited, had disclosed the composition of its CSR Committee and the projects approved by the Board on its website, but had not disclosed the CSR policy.
- Out of the nine SPSEs, only five SPSEs¹⁹ had finalised their Annual Reports for the respective years of their latest finalised financial statements. Among these, three SPSEs disclosed the required information relating to CSR activities in their Annual Reports. However, the remaining two SPSEs²⁰ did not provide complete disclosures regarding CSR activities in their Annual Reports.

¹⁵ Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, Uttar Pradesh Rajkiya Nirman Nigam Limited, U.P. Projects Corporation Limited, Uttar Pradesh State Bridge Corporation Limited, and Uttar Pradesh Medical Supplies Corporation Limited.

¹⁶ Uttar Pradesh Development Systems Corporation Limited.

¹⁷ Uttar Pradesh Power Transmission Corporation Limited and Uttar Pradesh Purva Sainik Kalyan Nigam Limited.

¹⁸ Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, Uttar Pradesh State Bridge Corporation Limited, Uttar Pradesh Medical Supplies Corporation Limited, U.P. Projects Corporation Limited, and Uttar Pradesh Development Systems Corporation Limited.

¹⁹ Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, Uttar Pradesh Power Transmission Corporation Limited, U.P. Projects Corporation Limited, Uttar Pradesh Development Systems Corporation Limited, and Jawaharpur Vidyut Utpadan Nigam Limited.

²⁰ Uttar Pradesh Development Systems Corporation Limited and Jawaharpur Vidyut Utpadan Nigam Limited.

Conclusion

Although the statutory framework for CSR is well-established under the Companies Act, 2013, its implementation by SPSEs in Uttar Pradesh remained inconsistent and often fell short of the mandated requirements. While most SPSEs fulfilled their basic obligation of forming CSR Committees and formulating CSR policies, lapses were observed in several other critical aspects of CSR governance. None of the four SPSEs required to formulate Annual Action Plans had done so. Out of the nine SPSEs required to incur CSR expenditure, six SPSEs did not allocate or spend the mandated amount. CSR Committee meetings were irregular or infrequent, and the disclosure of CSR-related information remained inadequate, undermining transparency and accountability.

Recommendations

- *SPSEs may formulate Annual Action Plans to ensure the structured implementation of CSR initiatives.*
- *SPSEs may ensure timely allocation and full utilisation of CSR funds as per the mandated thresholds. Non-utilisation may be strictly monitored, and unspent amounts dealt with as per legal provisions.*
- *Regular CSR Committee meetings may be held to track the implementation of projects, monitor fund utilisation, and review the progress of CSR activities.*
- *SPSEs may publish CSR policies, CSR Committee composition, and project details on their websites and in Annual Reports.*