Chapter IV

Corporate Social Responsibility

Chapter - IV

Corporate Social Responsibility

4.1 Introduction

Definition

Corporate Social Responsibility (CSR) is a self-regulating model that helps a Company be socially accountable to itself, its stakeholders and the public. The inclusion (August 2013) of the CSR mandate under the Companies Act, 2013 (the Act), notified by Ministry of Corporate Affairs (MCA), Government of India, 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.

CSR is a board-driven process and the Board of the company is empowered to plan, approve, execute and monitor the CSR activities of the company based on the recommendation of its CSR Committee.

4.2 Legal framework

Legal Mandate

- Provisions of the Companies' Act, 2013 (as amended from time to time), specifically Section No.135 of the Act and Schedule VII to the Act.
- Provisions of the Companies (Corporate Social Responsibility Policy) Rules 2014 (the Rules) as amended upto[62] September 2022 (the amended Rules 2021/2022).

Applicability

4.2.1 Every company (including Section 8 Companies / newly incorporated companies which have not completed three financial years) satisfying any of the following criteria during the immediately preceding financial year is required to comply with CSR provisions specified under Section 135(1) of the Act read with the Rules / amended Rules made thereunder:

i. **net worth** of ₹ five hundred crore or more, or

ii. **turnover** of ₹ one thousand crore or more, or

iii. **net profit** of ₹ five crore or more.

Section 135 (5) of the Act stipulated that the Board of every such company shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company (computed in accordance with the

[62] Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021 dated 22.01.2021 and Companies (Corporate Social Responsibility Policy) Amendment Rules, 2022 dated 20.09.2022.

provisions of Section 198 of the Act) made during the three immediately preceding financial years.

Compliance with CSR provisions is monitored by the Government through the disclosures made by the companies in the MCA 21 portal. For any violation of CSR provisions, action can be initiated by the Government against such non-compliant companies as per provisions of the Companies Act, 2013 after due examination of records and by following due process of law. Non-compliance of CSR provisions has been notified as a civil wrong w.e.f. 22.01.2021.

4.3 Scope and coverage

32 SPSEs[63], out of 121 SPSEs (excluding statutory corporations) as at end of March 2023, had fulfilled the criteria for CSR provisions specified under the Act / Rules stated above. Audit reviewed the CSR activities undertaken by 22 profit making SPSEs (***Appendix - 12***) during the financial year 2022-23 by excluding ten (10) SPSEs which had reported an aggregate negative profit (loss) in three preceding financial years 2019-20 to 2021-22 and therefore, are not required to spend any amount under CSR activities.

4.3.1 One SPSE (RGHCL), which was required to spend an amount of ₹ 6.00 lakh approximately on CSR during the financial year 2022-23, had failed to comply with any of the provisions of the Act or the Rules during financial year 2022-23 on the premise that it is a “no profit no loss company”.

The contention of the SPSE was not acceptable as the SPSE is not registered under Section 8 of the Act[64] and as stated in ***Para 4.2.1*** as well as clarified [65](August 2021) by MCA**,** provisions of the Act are applicable to every company including Section 8 companies.

The audit findings on review on compliance of provisions related to CSR activities by remaining 21 SPSEs are discussed in subsequent paragraphs.

4.4 Planning

Constitution of CSR Committee

4.4.1 Section 135 (1) of the Act stipulates that every Company fulfilling the specified criteria (referred to in ***Para 4.2.1***) is required to constitute a CSR Committee of the Board. As per Section 135 (9) of the Act[66], said provisions on constitution of the CSR Committee are not applicable to those companies where the amount to be spent by a company under Section 135 (5) of the Act does not exceed ₹fifty lakh and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such

[63] Companies whose financial statements for the year 2021-22, which form the basis for eligibility, have been certified as at end of review period September 2023.
[64] Companies formed with charitable objects *etc.* – Section 8 of the Act.
[65] Clarification No.1.3 of General Circular No.14 / 2021 dated 25.08.2021.
[66] Inserted vide amendment to Section 135 vide Companies (Amendment) Act, 2020 dated 28.09.2020.

company. The exemption under Section 135 (9) of the Act is not applicable[67] to a company having any amount in its Unspent Corporate Social Responsibility Account as per Section 135 (6) of the Act.

Nine SPSEs[68] were not required to constitute the CSR Committee as the amount required to be spent during the financial year was less than ₹ fifty lakhs. However, seven of these SPSEs (other than MPVL and KSSCL) had constituted CSR Committees.

All the remaining 12 SPSEs had complied with the provisions of the Act by constituting a CSR Committee.

Composition of CSR Committee – Absence of independent directors

4.4.2 Section 135 (1) of the Act stipulates that CSR Committee should consist of three or more directors out of which at least one director shall be an independent director. Where a company is not required to appoint an independent director under section 149 (4) of the Act, its CSR Committee may have two or more directors.

Out of 19 SPSEs who had constituted CSR Committee, two SPSEs (KRIDL and KSPHIDCL) were not required to have an independent director having registered as a private limited company. Out of the remaining 17 SPSEs, where CSR Committees were constituted, 11 SPSEs[69] did not have independent directors.

Framing of CSR Policy

4.4.3 Section 135(3) of the Act requires that the CSR committee shall formulate and recommend to the Board, a CSR policy indicating the activities to be undertaken by the company and the Board shall, as per the Section 135(4) approve the same after considering the recommendations of the committee.

Except one SPSE (KSPHIDCL), all the remaining 20 SPSEs had formulated a CSR Policy to comply with the provisions. Board of directors of KSPHIDCL had only approved (December 2011) a CSR policy statement but not a comprehensive CSR policy.

Updation of CSR Policy

4.4.4 Audit analysis of date of policy formulation furnished revealed that only five SPSEs (KPCL, MEI, MCA, KSSCL and CBIC-Tumkur) have updated their CSR policy consequent to amendments (January 2021) made to Rules. One SPSE (KRIDL) could not provide the date on which its CSR policy was formulated.

[67] Companies (Corporate Social Responsibility Policy) Amendment Rules, 2022 dated 20.09.2022.

[68] MESCOM, MEI, MPVL, MCA, KSSCL, KSPHIDCL, KSSIDC, KEONICS and CBIC-Tumkur.

[69] MESCOM, KREDL, KSMCL, HGML, MCA, KSIIDC, KSSIDC, KEONICS, KSBCL, KFCSCL and CBIC-Tumkur.

Annual CSR plan and budget

4.4.5 The CSR Committee is to recommend to the Board, the CSR activities to be undertaken and the amount to be spent in the financial year. This entails the planning and approval of CSR activity as well as the budget.

As a best practice, the proposed CSR projects / activities and requirement of funds should ideally be assessed and presented to the Board latest by 31st March of the preceding financial year or the first quarter of the financial year. This would ensure that execution of CSR activities/ utilisation of funds is spread across the four quarters and prevent the rush to exhaust CSR funds in the last quarter of the financial year.

Audit analysis of CSR Committee / Board proceedings revealed that:

- Recommendations related to CSR activities were spread across multiple quarters only at three SPSEs viz., KRIDL (3), KSMCL (3) and MSIL (2). Of these, committee of only one SPSE (MSIL) had recommended a few CSR activities in March 2022, prior to commencement of the financial year. In one SPSE (KFCSCL), CSR Committee did not meet and recommend the activities to be undertaken by the Company during the year, as suggested (November 2022) by its Board.

- Only two SPSEs (KRIDL and KSMCL) got their CSR plans / budgets approved by the Board periodically during the year and the CSR plan / budget of the remaining 19 SPSEs were approved by respective Boards in second (02 SPSEs), third (09 SPSEs) and fourth (08 SPSEs) quarters.

4.5 Financial Component

Allocation of funds

4.5.1 As per Section 135(5) of the Act, the Board shall ensure that the company spends annually two *per cent* of average net profit of three immediately preceding financial years in pursuance of its CSR policy.

As against ₹ 68.55 crore required to be spent on CSR activities, expenditure of ₹ 66.91 crore had been approved and an allocation of ₹ 70.22 crore was made by 21 SPSEs for the year 2022-23 as indicated in **Table No. 4.1 below:**

Table No. 4.1: Statement of CSR expenditure required, approved and allocated

(₹ in crore)

Sl. No.	Particulars	No of SPSEs	Two *per cent* Net profit	Expenditure approved	Actual allocation	Excess / (Shortfall)
01	Allocation as per Sec 198 calculation	13	44.81	41.50	44.81	0.00
02	Allocation more than requirement	04	11.60	13.83	13.83	2.23
03	Allocation lower than requirement	04	12.14	11.58	11.58	(0.56)
	Total	**21**	**68.55**	**66.91**	**70.22**	**1.67**

Source: Data compiled by Audit

The details of SPSEs are *as per* ***Appendix – 13.***

The list of SPSEs where shortfall in allocation was noticed along with reasons attributable for shortfall is given in **Table No. 4.2** given below**:**

Table No. 4.2: Statement of shortfall in allocation for CSR expenditure with reasons

(₹ in crore)

Sl. No.	Company Name	Amount to be spent	Expenditure approved and allocated	Shortfall in allocation	Remarks
01	Karnataka Power Corporation Limited	9.77	9.68	(0.09)	Due to revision of profit for FY 2021-22 after audit of financial statements for FY 2022-23.
02	Mangalore Electricity Supply Company Limited	0.16	0.11	(0.05)	Actual requirement after setting off excess expenditure of ₹ 0.09 crore for FY 2021-22 was only ₹ 0.07 crore against which allocation of ₹ 0.11 crore was made.
03	Karnataka Silk Industries Corporation Limited	0.92	0.88	(0.04)	Reasons not stated, but only one project involving an outlay of ₹ 0.88 crore was approved.
04	Mysore Sales International Limited	1.29	0.91	(0.38)	Actual requirement after setting off excess expenditure of ₹ 0.49 crore for FY 2021-22 was only ₹ 0.80 crore against which allocation of ₹ 0.91 crore was made.
	Total	**12.14**	**11.58**	**-0.56**	

Source: Data compiled by Audit

Utilisation of funds

4.5.2 Against an allocation of ₹ 70.22 crore made for CSR activities, 21 SPSEs claimed to have spent ₹ 55.66 crore during the financial year 2022-23. However, Audit analysis revealed that the actual expenditure during the year was only ₹ 50.42 crore (details in ***Appendix - 14***). The SPSE wise details of variation amounting to ₹ 5.24 crore (net) is tabulated in **Table No. 4.3** below:

Table No. 4.3: Statement of variation in expenditure reported and actual expenditure

(₹ in crore)

Sl. No.	Company Name	Expenditure (as reported)	Actual expenditure	Difference
1	Karnataka Soaps and Detergents Limited	3.95	3.24	(0.71)
2	Karnataka Silk Industries Corporation Limited	1.23	0.88	(0.35)
3	Karnataka State Minerals Corporation Limited	8.33	4.13	(4.20)
4	Karnataka State Industrial Infrastructure and Development Corporation Limited	1.15	1.17	0.02
	Total	**14.66**	**9.42**	**(5.24)**

Source: Data compiled by Audit

Expenditure more than allocation

4.5.3 The proviso to Section 135 (5) of the Act read with Rule 7 (3) of the Amended Rules, 2021 allows a company to set off such excess amount only against the amount required to be spent upto immediate succeeding three financial years.

Three SPSEs had incurred CSR expenditure of ₹ 0.06 crore over and above the expenditure approved and allocated for the financial year 2022-23 as stated in **Table No. 4.4** given below:

Table No. 4.4: Statement showing SPSEs spending more than the allocation made

(₹ in crore)

Sl. No.	Company Name	Expenditure allocated	Actual Expenditure	Expenditure more than allocation
1	Mysore Paints and Varnish Limited	0.12	0.15	0.03
2	Karnataka State Industrial Infrastructure and Development Corporation Limited	1.15	1.17	0.02
3	Marketing Communication and Advertising Limited	0.37	0.38	0.01
	Total	**1.64**	**1.70**	**0.06**

Source: Data provided by SPSEs

Shortfall in expenditure over allocation and accounting of unspent amount

4.5.4 As per Section 135 (6) of the Act, any unspent amount pertaining to ongoing projects shall be transferred to a separate bank account called 'Unspent CSR Account' opened in a scheduled bank within 30 days from the end of financial year and the same shall be spent in pursuance of its obligation within three years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within a period of thirty days from the date of completion of the third financial year.

Any unspent amount (not pertaining to ongoing projects) shall be transferred to any fund included in Schedule VII of the Act within six months of expiry of the financial year, as per the proviso to Section 135 (5) of the Act.

Nine SPSEs have incurred CSR expenditure of ₹ 19.86 crore lesser than the allocation made for the financial year 2022-23, as indicated in **Table No. 4.5** below:

Table No. 4.5: Statement showing SPSEs spending less than the allocation for the year

(₹ in crore)

Sl. No.	Company Name	Expenditure allocated	Actual Expenditure	Expenditure less than allocation
1	Karnataka Power Corporation Limited	9.68	2.49	(7.19)
2	Karnataka Renewable Energy Development Limited	1.16	0.90	(0.26)
3	Karnataka Soaps and Detergents Limited	3.95	3.24	(0.71)
4	Karnataka State Minerals Corporation Limited	12.99	4.13	(8.86)
5	The Hutti Gold Mines Company Limited	4.20	2.27	(1.93)
6	Karnataka State Police Housing and Infrastructure Development Corporation Limited	0.27	0.12	(0.15)
7	Karnataka State Electronics Development Corporation Limited	0.48	0.43	(0.05)
8	Karnataka State Beverages Corporation Limited	1.58	0.99	(0.59)
9	Karnataka Food and Civil Supplies Corporation Limited	0.89	0.77	(0.12)
	Total	**35.20**	**15.34**	**(19.86)**

Source: Data provided by SPSEs

- Only four SPSEs (KPCL, KREDL, KEONICS and KSBCL) transferred the unspent amount to specified account.
- Two SPSEs (HGML and KFCSCL) did not open a specified unspent CSR account in a scheduled bank to comply with the requirement.
- One SPSE (KSMCL), whose financial statements are yet to be certified (January 2024), claimed to have released ₹ 5.03 crore against ₹ 12.99 crore required to be spent for the year 2022-23, indicating a shortfall of ₹ 7.96 crore. On verification of funds released data, Audit observed that out of ₹ 5.03 crore, only ₹ 4.13 crore had been released during the year and balance amounting to ₹ 0.90 crore was released during November / December 2023 which translated to an actual shortfall of ₹ 8.86 crore during 2022-23.
- In one SPSE (KSDL), shortfall was due to erroneous accounting of entire amount of ₹ 3.95 crore transferred to its trust as CSR expenditure for the year instead of actual amount of ₹ 3.24 crore spent by the trust. The unspent amount was not transferred to specified account by the SPSE.

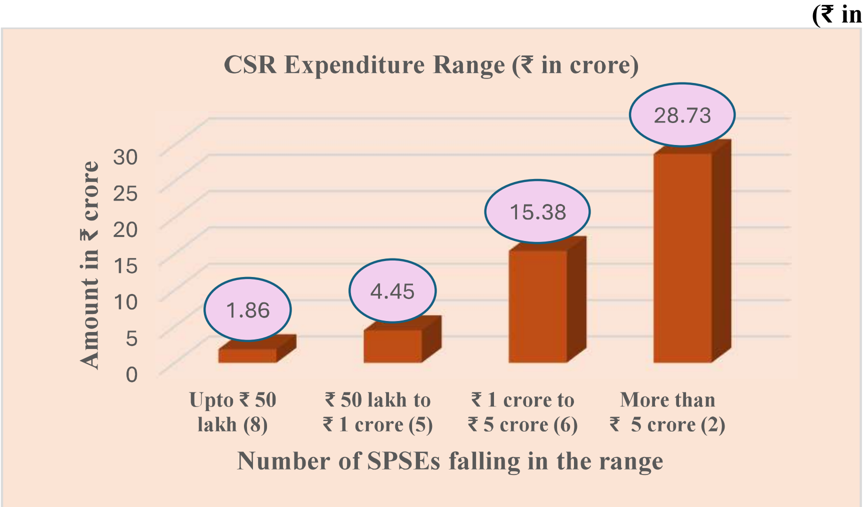
The issues of shortfall discussed above do not include an unspent amount of ₹ 0.04 crore related to one SPSE (KSIC) due to shortfall in allocation (₹ 0.88 crore) against the actual amount required to be spent (₹ 0.92 crore) for the year 2022-23 (refer ***Para 4.5***) and not transferred to specified bank account. The SPSE (KSIC) claimed to have spent ₹ 1.23 crore (refer **Table 4.3)**, *i.e.*, ₹ 0.35 crore more than the allocation of ₹ 0.88 crore made for the year. As per the data furnished by the SPSE, the expenditure of ₹ 0.35 crore pertained to funds released for three works taken up during 2017-18, which does not qualify for CSR expenditure, as the amended Rules do not allow setting off such amount beyond three succeeding years.

Range of CSR spend

4.5.5 As shown in **Chart 4.1** below, only eight SPSEs spent rupees one crore and above individually, out of ₹ 50.42 crore spent by 21 SPSEs during the financial year 2022-23.

Chart No. 4.1: Range wise break up of CSR expenditure for financial year 2022-23

(₹ in crore)

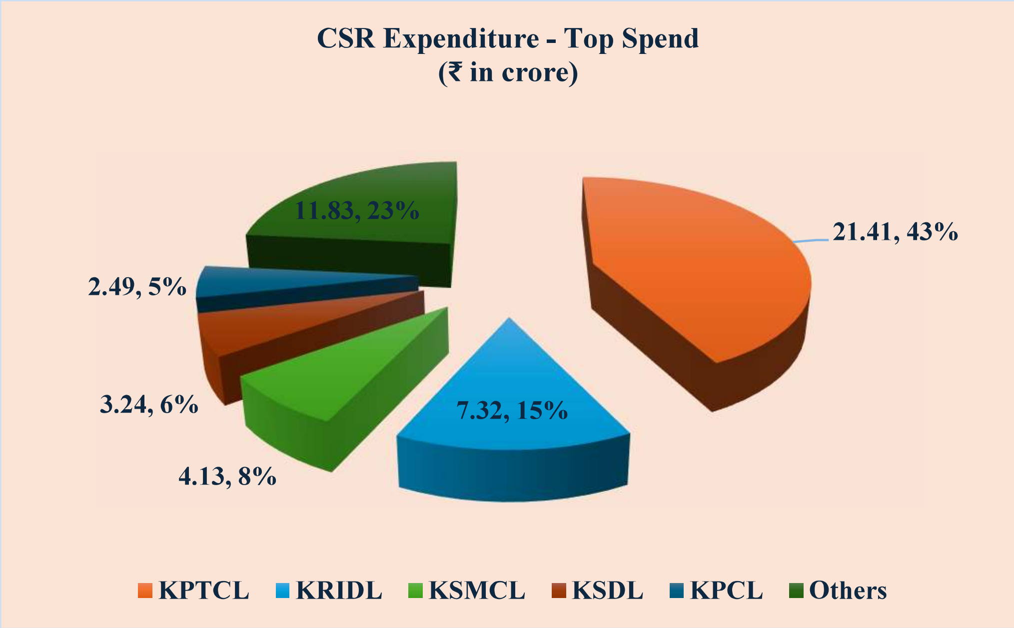


Top spenders

4.5.6 The top five spenders among 21 SPSEs, which are shown in **Chart No. 4.2,** spent ₹ 38.59 crore constituting 77 *per cent* of total CSR expenditure of ₹ 50.42 crore during the financial year 2022-23.

Chart No. 4.2: Top five spenders of CSR expenditure – FY 2022-23

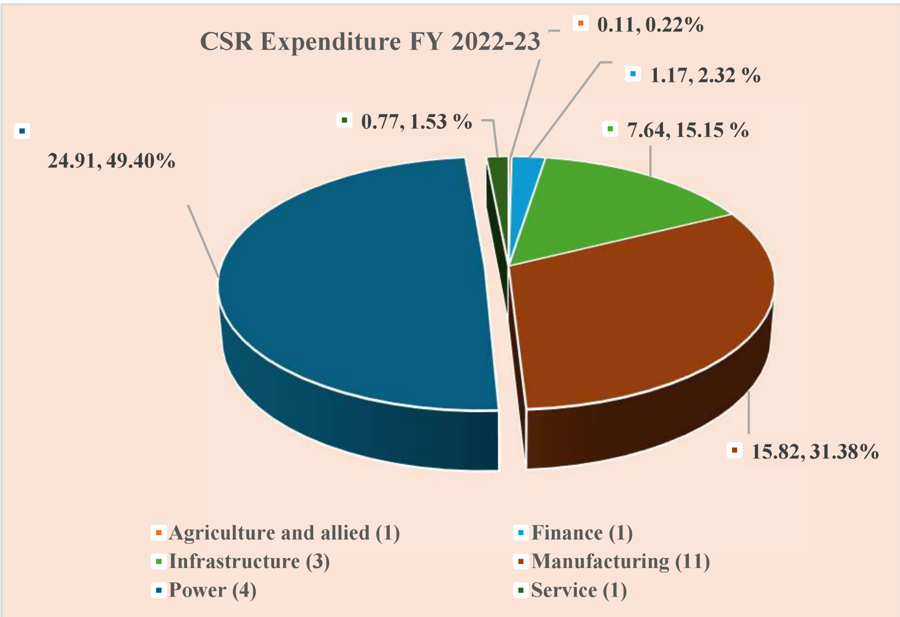
(₹ in crore)



Sector-wise CSR spend

4.5.7 The sector-wise details of CSR expenditure incurred by 21 SPSEs during the financial year 2022-23 is given in **Chart No. 4.3** below. Four SPSEs in power sector accounted for almost half of the total CSR expenditure followed by significant contributions from 11 SPSEs in manufacturing sector (31 *per cent*) and three SPSEs in infrastructure sector (15 *per cent*).

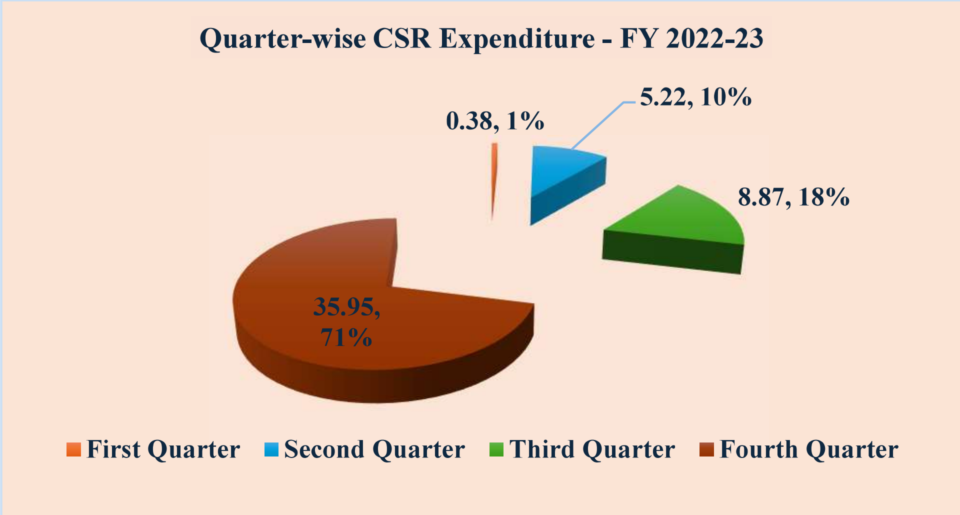
Chart No. 4.3: Sector-wise CSR Expenditure (₹ in crore)



Quarter-wise spend

4.5.8 One reason attributable to shortfall in expenditure against funds allocation approved by CSR Committee / Board is the delay in planning the CSR activities or the release of funds as discussed in ***Para 4.4.5 and 4.5.4.*** The quarter-wise spend on CSR activities by 21 SPSEs has been shown in **Chart No. 4.4**

Chart No. 4.4: Quarter wise expenditure (₹ in crore)



As could be seen from the chart, 71 *per cent* of funds were spent during the last quarter of the financial year.

4.6 Administrative overheads

Expenditure towards administration overheads, as defined in Rule 2 (b) of the amended CSR Rules, 2021 is admissible as CSR expenditure. As per Rule 7 (1) of the amended CSR Rules, 2021, the Board of Directors are required to ensure such expenditure towards administrative overheads does not exceed five *per cent* of total CSR expenditure of the Company for the financial year.

None of the 21 SPSEs had incurred expenditure towards administrative overheads during the financial year 2022-23.

4.7 Surplus from CSR projects, if any

As per Rule 7 (2) of the amended CSR Rules, 2021, any surplus arising out of the CSR activities shall not form part of the business profit of a company and shall be ploughed back into the same project or shall be transferred to the Unspent CSR Account and spent in pursuance of CSR policy and annual action plan of the company or transfer such surplus amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year.

No instance of surplus generated out of CSR activities by 21 SPSEs was noticed during the financial year 2022-23.

4.8 Project Implementation

Selection of CSR projects/ activities

4.8.1 There was no established mechanism for undertaking baseline survey or need assessment studies for identifying the CSR project/activities. Recommendations made in CSR committee meetings of SPSEs indicated that fund allocation to CSR activities was based on review of proposals received and eligibility.

Manner of implementation of CSR activities

4.8.2 The Board of Directors are required to ensure that CSR activities are undertaken by company itself or through agencies specified[70] in Rule 4 (1) of amended Rules, 2022. Such entities or agencies covered under sub-rule (1) are required to register themselves with the Central Government by filing the form CSR-1 electronically with the Registrar, with effect from April 1, 2021.

SPSEs released CSR expenditure of ₹ 50.42 crore for 315 CSR activities during the year. Out of these, 181 activities (amount spent: ₹ 19.95 crore) were carried out by SPSEs on their own either by release of funds directly to beneficiaries or through Deputy Commissioners (DCs). The remaining 134 activities[71] (amount spent: ₹ 30.47 crore) were carried out by eleven SPSEs[72] through trusts / other beneficiaries who require registration with MCA.

Analysis of data revealed that MCA registration details were available for only 68 activities[73] (amounting to ₹ 4.34 crore) of two SPSEs (KSDL-64 / HGML-4). The MCA registration details were not obtained / not available for remaining 66 activities (amount spent: ₹ 26.13 crore) related to nine SPSEs (excluding KSDL and HGML).

Focus Area

4.8.3 As envisaged in Section 135 (3) (a) of the Act, every company is required to undertake CSR activities in the areas or subject specified in Schedule VII to the Act and Schedule VII, as amended from time to time, specified 12 areas / subject. The 21 SPSEs undertook CSR activities in nine out of 12 areas specified in Schedule VII during the year 2022-23. The details of contribution to each focus area are indicated in **Chart No. 4.5 below**:

---

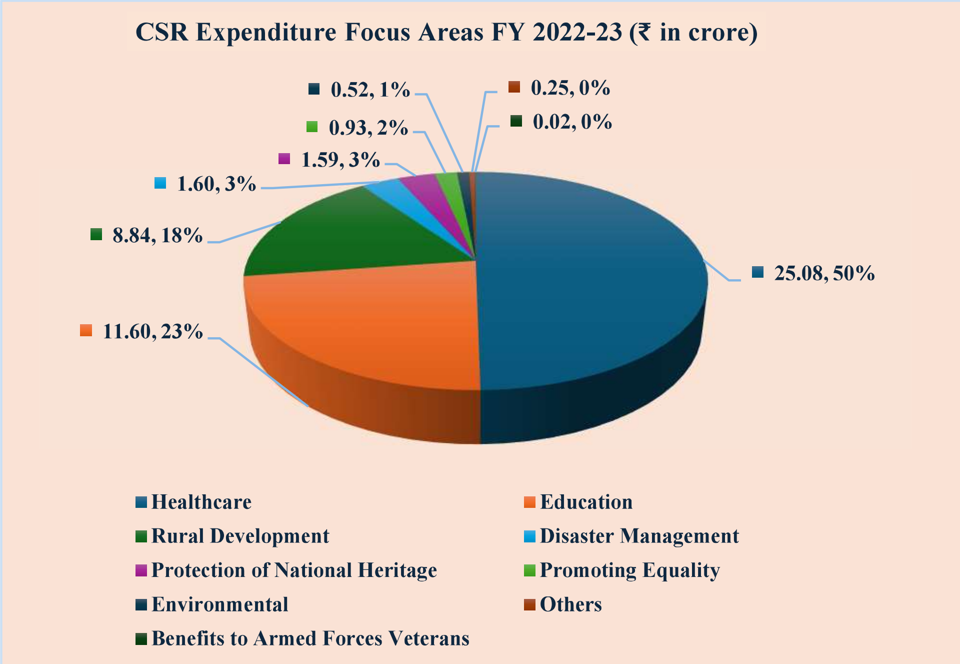
[70] (a) a Section 8 company or a registered public trust/ society (exempted under sub-clauses of Section 10 of the Act) established by the SPSE itself singly or along with any other company, or (b) a Section 8 company, a registered public trust/ society established by Central or State Government, or (c) any entity established under an Act of Parliament or a State legislature; or (d) an independent Section 8 company or a registered public trust/ society (exempted under sub-clauses of Section 10 of the Act) having an established track record of at least three years in undertaking similar activities.

[71] Funds released to registered trust, private trusts and beneficiaries other than public schools considered.

[72] KPTCL, KREDL, KSDL, KSMCL, HGML, MPVL, MESCOM, MSIL, KRIDL, KEONICS and KSBCL.

[73] Includes 64 works (amount spent ₹3.24 crore) executed by registered trust established by KSDL.

Chart No. 4.5: Focus Area-wise CSR Expenditure (₹ in crore)



The above chart indicates that three areas accounted for 90 *per cent* of total CSR expenditure with healthcare being the highest (50 *per cent*), followed by education (23 *per cent*) and rural development (18 *per cent*). No expenditure was incurred in three focus areas (sports, R&D in science and technology and slum development).

The top three SPSEs with major contributions in the above-mentioned specific focus areas were:

- KPTCL (₹ 18.45 Crore), HGML (₹ 1.25 Crore) and KSSIDC (₹ 1.08 Crore), for healthcare
- KSMCL (₹ 1.66 Crore), KSDL (₹ 1.66 Crore) and KPCL (₹ 1.56 Crore) for education,
- KRIDL (₹ 6.21 Crore), KSMCL (₹ 1.02 Crore) and KPCL (₹ 0.82 Crore) for rural development

Spent in local area

4.8.4 The first proviso to 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 Corporate Social Responsibility activities. Stating that the spirit of the Act is to ensure that CSR initiatives are aligned with the national priorities and enhance engagement of the corporate sector towards achieving sustainable development goals, MCA clarified (August 2021) that the said proviso is only directory and not mandatory in nature and companies were required to balance local area preference with national priorities.

Entire amount of ₹ 50.42 crore has been allocated to CSR activities within the State of Karnataka[74].

4.9 Reporting Disclosure

Disclosures in Board's Report

4.9.1 As stipulated in Rule 8 (1) of the amended Rules, 2022, an annual report on CSR containing particulars specified in Annexure II of the rules (notified in September 2022) is required to be included in the Board's Report of a company for the financial year 2022-23.

The financial statements of four SPSEs (KSIC, KSMCL, KRIDL and KFCSCL) are yet to be certified and approval of Board's Report is pending for one SPSE (KSIIDC) as annual general meeting (AGM) for the financial year 2022-23 is yet to be held (January 2024) to facilitate verification of compliance with disclosure requirements.

In the remaining 16 SPSEs where Board's Report are approved and published or yet to be published, one SPSE (MPVL) did not prepare the annual report in prescribed format and attach the same to the Directors' Report, one SPSE (HGML) has adopted the annexure as per old 2014 Rules and five SPSEs (KSDL, KSPHIDCL, KSSIDC, KSBCL and CBIC-Tumkur) have adopted the annexure as per the amended Rules, 2021 which tantamounts to inadequate compliance.

Display of CSR activities on Company website

4.9.2 Rule 9 of the amended Rules, 2021 states that the Board of Directors of the Company shall mandatorily disclose the composition of the CSR Committee, and CSR Policy and Projects approved by the Board on their website, if any, for public access.

Scrutiny of official websites of 21 SPSEs revealed that:

- One SPSE (CBIC-Tumkur) does not have a website to comply with the provisions and two SPSEs (MPVL and KFCSCL) did not upload these three components on their website.
- 12 SPSEs[75] did not to disclose composition of CSR committees.
    - Two SPSEs (KPTCL and KEONICS) did not disclose the composition of the committee for the year 2022-23 and are partially compliant.

[74] Except for an insignificant amount of ₹ 9,898/- contributed by one SPSE (MEI) to Prime Minister's National Relief Fund.

[75] KPCL, MESCOM, KSDL, MEI, KSIC, HGML, MSIL, MCA. KSSCL, KSPHIDCL, KSSIDC and KSBCL.

- Eleven SPSEs[76] failed to disclose the details of CSR projects approved by the Board on their website.
- Four SPSEs (KPCL, KPTCL, MSIL and KEONICS) have disclosed projects approved prior to the financial year 2022-23 and are partially compliant.

4.10 Monitoring Framework

Institutional Mechanism

4.10.1 Rule 5 (2) (d) of amended CSR Rules, 2021 stipulates that the CSR Committee shall formulate and recommend to the Board, an annual action plan in pursuance of CSR policy which shall include monitoring and reporting mechanism for the projects or programs. MCA further clarified[77] (August 2021) that CSR is a Board driven process and the Board is empowered to monitor the CSR activities based on the recommendations of the CSR committee. The existing legal provisions such as mandatory disclosures, accountability of the CSR Committee and the Board and provisions for audit of accounts of the company provide sufficient mechanisms for monitoring.

The general review of CSR policies of the selected SPSEs (referred to in ***Para 4.4.3***) revealed that the policies of five SPSEs (KPCL, MEI, MSIL, KEONICS and KSPHIDCL) do not mention any specific monitoring mechanism. Further, the non-compliance / inadequate compliance of CSR provisions discussed in earlier paragraphs such as non-updation of CSR policies to incorporate new / modified requirements, approval of CSR plans / budgets in second half of the financial year, non-opening specified account / transfer unspent balances to specified accounts, inadequate reporting disclosures, etc. are indicative of insufficient monitoring mechanism at selected SPSEs.

Audit also observed that out of 315 CSR activities undertaken by 21 SPSEs during the year, utilisation certificates (UCs) were to be obtained for 252 activities for which ₹ 45.70 crore was spent by 15 SPSEs[78]. Against this, UCs were obtained only for 85 activities (amount spent: ₹ 8.37 crore) by 12 SPSEs and UCs were yet to be obtained for 167 activities (amount spent: ₹ 37.33 crore) by 13 SPSEs.

[76] MESCOM, KSDL, MEI, KSIC, HGML, MCA. KSSCL, KRIDL, KSPHIDCL, KSSIDC and KSBCL.

[77] Clarification No.2.5 in General Circular No.14 / 2021 dated 25.08.2021.

[78] HGML, KEONICS, KPTCL, KREDL, KRIDL, KSBCL, KSDL, KSIC, KSIIDC, MCA, MESCOM, MPVL, MSIL, KSMCL and KSSIDC.

Recommendations:

9. ***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.***

10. ***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).***

11. ***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 utilization of CSR funds as well as ensure transfer of unspent amount to specified funds,***
    - ***Establish effective monitoring mechanism and ensure receipt of utilization certificates immediately after completion of activities.***
    - ***Ensure proper compliance to reporting disclosures both in Directors' Report as well as official website.***