

Corporate Social Responsibility

6.1 Introduction

Corporate Social Responsibility (CSR) is a Company's commitment to operate in an economically, socially and environmentally sustainable manner, while recognizing the interests of its stakeholders.

The Committee of Public Undertakings (COPU) in 1992 examined the issue relating to social obligation of Central Public Sector Enterprises (CPSEs) and observed that "being part of the 'State', every public sector enterprise (PSE) has a moral responsibility to play an active role in discharging the social obligations endowed on a welfare State, subject to the financial health of the enterprise". Based on the recommendation of the COPU, the Department of Public Enterprises (DPE) issued general guidelines in November 1994. These guidelines essentially left it to the Board of Directors of the PSEs to devise socially responsible business practices in accordance with their Articles of Association, under the general guidance of their respective Administrative Ministry/Department.

6.2 Salient features of DPE's current guidelines on CSR

DPE issued fresh guideline on the CSR on 9th April 2010 which were specific and comprehensive, and required the business plan under CSR to be integrated with social and environment concerns related to respective CPSE. The guidelines laid stress on the link of CSR with sustainable development and defined CSR as a philosophy wherein organizations served the interest of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations.

The guidelines specify the mandate and scope of activities for CSR by the CPSEs and are in the nature of a charter on activities, projects, expenditure, documentation and monitoring of CSR initiatives of CPSEs.

Some important features of the guidelines are detailed below.

- ❖ **CPSEs should consider the parameters specified by DPE for identification of CSR schemes/projects.**
- ❖ **The identified Projects under CSR are to be implemented by specialized agencies and not by its own staff.**
- ❖ **CPSE should set up independent divisions, departments, sections, cell, etc. to deal with CSR activities but salary of the staff will not form part of the CSR budget/expenditure.**
- ❖ **The impact made by CSR activities should be quantified to the best possible extent with reference to baseline data to be created by the CPSEs before start of any CSR project.**

- ❖ Meticulous documentation relating to CSR approaches, policies, programmes, expenditure, procurement, etc. should be prepared and put in public domain (particularly through Internet).
- ❖ Each CPSE should include a separate paragraph/chapter in the Annual Report on implementation of CSR activities/project including facts relating to physical and financial progress.

6.3 Monitoring mechanism of CSR activities

A Memorandum of Understanding (MoU) is signed between each CPSE and the concerned Administrative Ministry/Department of Government of India every year.

Audit noticed that in MoU Guidelines prescribed by DPE for the year 2010-11, 2011-12 & 2012-13, "CSR" was included as a compulsory element under the 'Non-financial parameters' with a mandatory weightage of 5 per cent. Since compliance with the DPE guidelines on CSR has been factored into the MOU parameters, the Administrative Ministry/DPE should ensure that the CPSEs set their own targets to assess its performance under CSR and the performance of these Companies is monitored on a regular basis.

6.4 Shortfall in CSR budget/expenditure by CPSEs during 2012-13

The DPE's guidelines on CSR require that CPSE budget will be compulsorily created every year, through a Board Resolution, as a percentage of net profit in the following manner.

Type of CPSEs Net Profit after Tax (Previous Year)	Expenditure range for CSR in a Financial Year (per cent of net profit after tax)
(i) Less than ₹ 100 crore	3% - 5%
(ii) ₹ 100 crore to ₹ 500 crore	2% - 3% (subject to minimum of ₹ 3 crore)
(iii) ₹ 500 crore and above	0.5% - 2%

The guidelines further clarified that the unspent amount of the budget will be transferred to a CSR Fund, which will accumulate and not lapse. Loss making CPSEs are not mandated for CSR activities.

Audit review of the CSR budget/expenditure by CPSEs during the year 2012-13 was conducted for 103 CPSEs, which earned net profit in excess of ₹ 10 crore during the year 2011-12. The status of compliance to DPE guidelines on CSR, in terms of number of CPSEs, under different classes by size of net profit, is delineated below.

Net Profit after Tax (range during 2011-12)	CPSEs' compliance to DPE guidelines during the year 2012-13, being the amount spent/committed on CSR against the minimum amount specified by DPE.			
	Total	Minimum Requirement	Shortfall	Excess
	(Figures in 'number of CPSEs')			
Above ₹ 500 crore	38	3	12	23
₹ 100 crore – ₹ 500 crore	23	5	10	8
₹ 10 crore – ₹ 100 crore	42	9	19	14
Total	103	17	41	45

The details of top 10 CPSEs, which did not meet the minimum requirement for CSR budget/expenditure during the year 2012-13, are given below:

(₹ in crore)

Sl. no.	CPSE's name	Net Profit	Minimum CSR budget/expense as per guidelines	Amount spent on CSR	Amount provided/reserved for CSR	Shortfall from minimum prescribed CSR
		2011-12	2012-13			
(a)	(b)	(c)	(d)	(e)	(f)	(g)=(e+f)-(d)
1	Mazagon Dock Limited	494.31	9.89	2.63	0	-7.26
2	Eastern Coalfields Limited	962.13	4.81	0	0	-4.81
3	Bharat Coking Coal Limited	822.00	4.11	0	0	-4.11
4	Antrix Corporation Limited	170.98	3.42	0	0	-3.42
5	Madras Fertilizers Limited	111.99	3.00	0.02	0	-2.98
6	Rail Tel Corporation of India	85.85	2.57	0	0.27	-2.30
7	Chennai Metro Rail Limited	71.04	2.13	0	0	-2.13
8	NTPC Vidyut Vyapar Nigam Limited	111.93	3.00	0.12	0	-2.88
9	Bharat Dynamics Limited	288.40	5.77	1.32	3.38	-1.07
10	National Fertilizers Limited	126.73	2.53	1.47	0	-1.06

Audit observed that

- ❖ Out of the total 103 CPSEs earning profit of more than ₹ 10 crore, 41 CPSEs did not comply with the DPE guidelines in terms of the minimum CSR budget/expenditure. As such, the compliance was about 60 per cent only in terms of number of CPSEs.
- ❖ The compliance was not encouraging in case of CPSEs earning profit between ₹ 10 crore and ₹ 500 crore, as 29 out of 65 CPSEs did not comply with the minimum requirement of CSR budget/expenditure and the compliance was only 55 per cent in terms of number of CPSEs.
- ❖ The compliance was comparatively better among large CPSEs which earned profit of more than ₹ 500 crore, considering the fact that the shortfall was in only 12 out of 38 CPSEs and as many as 23 CPSEs spent/provided for CSR in excess of the minimum requirement.

Audit also observed that, as per opinion of Expert Advisory Committee of the Institute of Chartered Accountants, a reserve may be created as an appropriation of profits for the unspent amount towards CSR. However, a few CPSEs were creating a provision of liability for the unspent amount towards CSR instead of appropriating the amount as reserve. DPE may consider issuing a direction to CPSEs insisting on uniform accounting for the unspent amount towards CSR.

6.5 Changes in DPE guidelines on CSR effective from April 2013:

DPE has since revised its CSR guidelines which are effective from 1st April 2013. There is infusion of policy content in a large measure in the revised guidelines. The expectations of the key

stakeholders, including the Government, constitute the policy decision on CSR and Sustainability.

Under the revised guidelines, major changes are highlighted below:

- CPSEs are expected to formulate their policies with a balanced emphasis on all aspects of CSR and Sustainability – equally with regard to their internal operations, activities and processes, as well as in their response to externalities. The earlier guidelines focused mainly on CSR activities for external stakeholders.
- CPSEs are to take up at least one major project mandatorily for development of a backward district.
- CPSEs are expected to act in a socially responsible manner at all times. Even in their normal business activities, CPSEs should try to conduct business in a manner that is beneficial to both, business and society.
- The two tier structure, comprising Board level committee and a group of officials headed by a senior executive of not less than one rank below the Board level – which the CPSEs are mandated to create, is expected to have the authority and influence to be able to steer the CSR and sustainability agenda of the CPSE.
- CPSEs will have to disclose the reasons for not fully utilizing the budget allocated for CSR and Sustainability activities for a year.
- Emphasis is now placed on the scalability of CSR and Sustainability projects, in terms of their size and impact, rather than on their numbers.
- The revised guidelines allow the employees to avail the infrastructure facilities created by the Company from its CSR and Sustainability budget, provided the facilities are originally created essentially for the external stakeholders, and the use of these facilities by the CPSE's employees (internal stakeholders) is only incidental and confined to less than 25 *per cent* of the total number of beneficiaries.
- For all CPSEs, having Profit after Tax above ₹ 500 crore in the previous year, the range of budgetary allocation for CSR and Sustainability activities has been raised to 1%-2% from the earlier range of 0.5% - 2%. Further, for CPSEs having Profit after Tax of ₹ 100 to ₹ 500 crore in the previous year, the minimum budget requirement of ₹ 3 crore for CSR has been removed.