

Chapter-IV

Corporate Social Responsibility

Introduction

4.1 Corporate Social responsibility (CSR) is continuing commitment by businesses to integrate social and environmental concerns in their business operations. Changes in the global environment increasingly challenge business around the world to look beyond financial performance, and to integrate social and environmental concerns into their strategic management. 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.



Prior to Companies Act 2013, CSR in India has traditionally been a philanthropic activity. And in keeping with the Indian tradition, it was believed that every company has a moral responsibility to play an active role in discharging the social obligations, subject to the financial health of the company. CSR was influenced by family values, traditions, culture and religion.

India is the first country in the world to make CSR mandatory, with the coming into force of section 135 and schedule VII of the Companies Act, 2013 in April 2014. The Companies Act, 2013 and the Companies CSR Rules 2014 mandate and regulate the social spending by the Companies.

Legal Framework:

4.2 Section 135 of the Companies Act, 2013 (Act), deals with the subject of Corporate Social Responsibility and lays down the qualifying criteria based on net worth, turnover and net profit during the immediate preceding financial year for companies which are required to undertake CSR activities

and inter alia 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 Government Companies.

Section 135 of the Act provides that

Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall constitute a CSR Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director

Provided that where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have in its CSR Committee two or more directors.

The composition of the CSR Committee shall be disclosed in the Board's report.

The CSR Committee shall (a) formulate and recommend to the Board, a CSR Policy indicating the activities to be undertaken by the company (b) recommend the amount of expenditure to be incurred on the activities and (c) monitor the CSR Policy of the company from time to time.

The Board of the company shall (a) after taking into account the recommendations made by the CSR Committee, approve the CSR Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, and (b) ensure that the activities as are included in CSR Policy are undertaken by the company.

The Board of the company shall 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 in pursuance of its CSR Policy provided that:

The company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for CSR activities.

If the company fails to spend such amount, the Board shall, in its report specify the reasons for not spending the amount.

The Act makes it mandatory for the qualified companies to spend, annually at least two per cent of average net profit (calculated as per section 198 of the Act) of three immediate preceding financial years towards CSR activities. Accordingly, for the year 2019-20, the profit for the year 2016-17 to 2018-19 was to be considered. 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. The Ministry of Corporate Affairs (GoI) notified the CSR Rules, 2014 which further provides for the monitoring, execution and reporting of CSR activities. These rules also came into force from April, 2014.

Audit Objective

4.3 Audit objective of compliance audit of CSR activities of the SPSEs was to ascertain whether the provisions of the Act and Companies (Corporate Social Responsibility Policy) Rules 2014 were complied with. In order to assess the efforts of the SPSEs, Audit looked into the following issues:

- Whether the provisions relating to constitution of the CSR Committee, formulation and compliance of policy, have been complied with;
- Whether the provisions relating to prescribed amount to be spent on CSR specified activities have been complied with;
- Whether the provisions relating to implementation of activities/projects under CSR have been complied with; and
- Whether the provisions relating to reporting and disclosure have been complied with.

Audit Scope and Coverage

4.4 Out of total 42 SPSEs in the State, 20 SPSEs, as detailed in the **Annexure-4.1**, were required to constitute CSR Committee as per section 135 (1) in the year 2019-20. Of these 20 SPSEs, 14 SPSEs, having allocable profits in FY 2019-20 based on average net profit as per section 198 in the three preceding financial years, have been selected for detailed scrutiny. Remaining six¹ SPSEs had no allocable profits during FY 2019-20. Besides, two of these six SPSEs *i.e.* one² SPSE having carried forward amount of previous years and one³ SPSE which incurred expenditure on CSR during the year were also reviewed.

Audit Criteria

4.5 Audit analysis was carried out against following criteria:

- Provisions contained in Section 135 and Schedule VII of the Act and as amended upto March 2019; and
- Provisions of Companies (Corporate Social Responsibility Policy) Rules, 2014.

Audit Findings

4.6 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 & execution of CSR activities and monitoring & reporting thereof by the SPSEs are given in the following paragraphs.

1 Ajmer Vidyut Vitran Nigam Limited, Jaipur Vidyut Vitran Nigam Limited, Jodhpur Vidyut Vitran Nigam Limited, Rajasthan Rajya Vidyut Utpadan Nigam Limited, Rajasthan Rajya Vidyut Prasaran Nigam Limited and Jaipur Metro Rail Corporation Limited.

2 Rajasthan Rajya Vidyut Prasaran Nigam Limited.

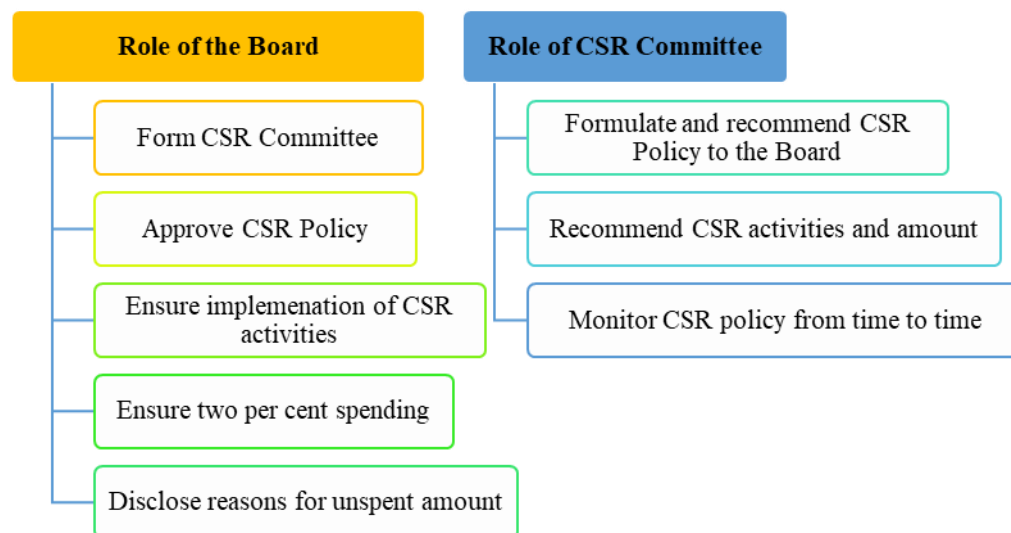
3 Rajasthan Rajya Vidyut Utpadan Nigam Limited.

Planning

Constitution of CSR Committee

4.7 As per the section 135 (1) of the Companies Act, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall constitute a CSR Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director, provided⁴ that where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have two or more directors in its CSR Committee.

During FY 2019-20, all 20 SPSEs, required to constitute CSR Committee, have constituted CSR Committee on the dates mentioned in the **Annexure-4.1**. Further, all these 20 SPSEs except two SPSEs *i.e.* RRVUNL and JVVNL, have minimum of 2 or 3 Directors, as the case may be, in their CSR Committee. Role of the Board and CSR Committee as per section 135 (1) and (3) of the Act is depicted in the chart given below:



Independent Directors in Committee

4.8 As per section 135 of the Act, the CSR Committee shall have at least one independent director if the SPSE is required to appoint independent director as per Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014.

All 20 SPSEs, except three⁵ SPSEs being wholly owned subsidiary companies/ Joint venture Companies, were required to have an Independent Director in their CSR committee. Audit, however, noticed that out of total 17 SPSEs, only four SPSEs had complied with this provision as on 31 March 2020. The status of appointment of independent director in the CSR Committee as on 31 March 2020 has been given in **Annexure-4.1**.

⁴ Proviso inserted vide Companies Amendment Act 2017 effective from 19.09.2018.

⁵ Rajasthan State Solarpark Development Company Limited, Rajasthan State Gas Limited and Barmer Lignite Mining Company Limited.

Framing of CSR Policy

4.9 As per the section 135 (3) (a) of the Act, the CSR Committee shall formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company. Further, Rule 6 of the CSR Rules, 2014 provides that the CSR Policy of the company shall, inter-alia, include (a) a list of CSR projects or programs which a company plans to undertake falling within the purview of the Schedule VII of the Act, specifying modalities of execution of such project or programs and implementation schedules for the same; and (b) monitoring process of such projects or programs. The rule further provides that the CSR Policy of the company shall specify that the surplus arising out of the CSR projects or programs or activities shall not form part of the business profit of a company.

Audit noticed that out of 20 SPSEs, only one SPSE *i.e.* Rajasthan State Gas Limited could not frame CSR Policy as on 31 March 2020 as the provisions of the section 135 (1) became applicable for the first time in 2019-20. Remaining 19 SPSEs which have formulated CSR policy included all the required areas in their CSR policy except Rajasthan State Road Development Corporation Limited which had not included monitoring framework while Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL) did not include the provision relating to treatment of surplus from CSR activities.

Annual CSR Plan and Budget

4.10 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 implementation of the CSR activities. This entails planning and approval of CSR activity and budget. As a best practice, the proposed CSR projects and the budget for the ensuing FY should be presented to the Board for approval through CSR committee latest by 31 March every year so that there is no rush to exhaust the funds in the last quarter. Besides, it will also ensure full utilisation of the funds in the financial year.

Audit observed that seven⁶ SPSEs could not get their annual CSR plan and budget approved by the Board through CSR Committee. However, individual project proposals of two SPSEs⁷ were *ex-post facto* approved by their Board. The status of the approval of the annual CSR plan as well as budget in respect of the remaining nine companies is detailed in **Table 4.1**.

Table 4.1 Status of approval of annual CSR Plan and Budget

Sl. No.	Name of the SPSE	CSR Committee's approval	Board's approval
1.	Rajasthan Renewable Energy Corporation Limited	Not approved	11.05.2020
2.	Rajasthan Solarpark Development Company Limited	13.03.2020.	11.05.2020
3.	Rajasthan Medical Services Corporation Limited	30.08.2019	09.10.2019
4.	Rajasthan State Power Finance and Financial Services Corporation Limited	30.01.2020	30.01.2020
5.	Rajasthan State Ganganagar Sugar Mills Limited	22.01.2020	26.05.2020

6 RRVUNL, RSBCL, RSGL, RISL, RF&CSCL, RRVPNL and RSMML.

7 RRVPNL and RSMML.

6.	Rajasthan State Industrial Development and Investment Corporation Limited	06.12.2019	18.03.2020
7.	Rajasthan State Road Development and Construction Corporation Limited	22.09.2020	24.09.2020
8.	Barmer Lignite Mining Company Limited	Not approved	24.03.2020
9.	Rajasthan State Seeds Corporation Limited	19.03.2020	12.05.2020

Source: Compiled on the basis of information provided by the SPSEs.

It could be seen that the CSR Committee of two SPSEs (Sl. No. 1 and 8) did not approve the annual plan/budget for the year 2019-20, however the same was approved by the Board.

Audit observed that the Board of five SPSEs (Sl. No. 1, 2, 5, 7 and 9) approved the annual plan/budget for the year 2019-20 in the year 2020-21 whereas the annual plan/budget of two SPSEs (Sl. No.4 and 8) was approved by their Board in fourth quarter of the year 2019-20.

Thus, the SPSEs were not prompt in getting approval of the annual plan/budget of CSR activities.

Financial Component

Allocation and utilisation of Funds

4.11 As per section 135 (5) of the Act, the Board of every company shall ensure that the company spends at least two *per cent* of its average net profits (as per section 198 of the Act) made during the three immediately preceding financial years in every financial year.

Accordingly, two *per cent* of the average net profit calculated as per section 198 of the Act for 14 SPSEs was ₹ 1181.64 lakh. However, the SPSEs allocated ₹ 1158.84 lakh as detailed in **Table 4.2**.

Table 4.2: Allocation vis-à-vis utilization of funds for current year

Sl. No.	Name of SPSE	Eligible amount (2% of average net profit)	Amount allocated	Amount Spent	Amount unspent
(Amount: ₹ in lakh)					
1.	Rajasthan Renewable Energy Corporation Limited	44.51	44.51	44.51	0.00
2.	Rajasthan Solarpark Development Company Limited	25.54	25.54	25.54	0.00
3.	Rajasthan State Beverage Corporation Limited	59.84	59.84	0.00	59.84
4.	Rajasthan Medical Services Corporation Limited	37.12	14.55	17.63	19.49
5.	Rajasthan State Power Finance & Financial Services Corporation Limited	13.16	13.16	0.00	13.16
6.	Rajasthan State Ganganagar Sugar Mills Limited	107.20	107.20	107.20	0.00
7.	Rajasthan State Industrial	323.85	323.85	55.50	268.35

	Development and Investment Corporation Limited				
8.	Rajasthan State Road Development & Construction Corporation Limited	51.00	51.00	0.00	51.00
9.	Rajasthan State Mines & Minerals Limited	390.88	390.88	193.26	197.62
10.	Barmer Lignite Mining Company Limited	54.35	54.35	54.35	0.00
11.	Rajasthan State Gas Limited	1.17	12.92	0.00	1.17
12.	Rajasthan State Seeds Corporation Limited	24.13	24.13	0.00	24.13
13.	Rajasthan Food & Civil Supplies Corporation Limited	16.62	16.62	0.00	16.62
14.	RajComp Info Services Limited	32.27	20.29	0.00	32.27
	Total	1181.64	1158.84	497.99	683.65

Source: Compiled on the basis of information provided by the SPSEs.

An analysis of the net profits of the SPSEs for the previous three years, amount allocable and actually allocated disclosed that two SPSEs (Sl. No. 4 and 14) allocated short amount worth ₹ 34.55 lakh whereas one SPSE (Sl. No. 11) allocated excess amount of ₹ 11.75 lakh as it did not consider losses of the preceding years (2016-17 and 2017-18).

Audit observed that as against the prescribed two *per cent* amount of ₹ 1181.64 lakh, the amount spent was ₹ 497.99 lakh whereas ₹ 683.65 lakh remained unspent for the year. It was further observed that only four SPSEs (Sl. No. 1, 2, 6 and 10) had fully utilised the CSR funds in FY 2019-20 whereas three SPSEs (Sl. No. 4, 7 and 9) partially utilised the amount. Further, remaining seven SPSEs did not spend any amount of CSR fund. Besides, RRVUNL did not have allocable profit during the year due to accumulated losses, however it spent ₹ 247.54 lakh on CSR activities during the year.

Utilisation of unspent amount

4.12 As per Ministry of Corporate Affairs clarifications (12 January 2016), the Board is free to decide whether any unspent amount from the minimum CSR fund is to be carried forward to the next year. Audit noticed that the SPSEs did not take specific decision to carry forward or not to carry forward the unspent amount of the previous years.

Table 4.3: SPSEs with unspent CSR amount

Sl. No.	Name of SPSE	Carry forward from 2018-19	Spent in 2019-20 ⁸	Unspent amount
		(Amount: ₹ in lakh)		
1.	Rajasthan Renewable Energy Corporation Limited	48.04	47.49	0.55
2.	Rajasthan Rajya Vidyut Prasaran Nigam Limited	734.05	536.64	197.41
3.	Rajasthan Solarpark Development Company Limited	18.08	17.22	0.86
4.	Rajasthan Medical Services Corporation Limited	26.11	0.00	26.11

8 The amount which has been spent over and above of the 2 per cent amount for the current year has been considered spent against the carry forward amount.

5.	Rajasthan State Power Finance & Financial Services Corporation Limited	35.48	0.00	35.48
6.	Rajasthan State Mines & Minerals Limited	1716.26	0.00	1716.26
7.	Rajasthan State Seeds Corporation Limited	34.66	0.00	34.66
8.	RajComp Info Services Limited	119.23	0.00	119.23
	Total	2731.91	601.35	2130.56

Source: Compiled on the basis of information provided by the SPSEs.

Eight SPSEs had carried forward the unspent amount of ₹ 2731.91 lakh from the previous year (2018-19) out of which an amount of ₹ 601.35 lakh only was spent by three SPSEs in FY 2019-20, leaving a balance of ₹ 2130.56 lakh as unspent. Five SPSEs failed to make any expenditure out of the carried forward amount.

Apart from eight SPSEs mentioned in the table above, one SPSE namely RIICO had unspent amount of ₹ 753.93 lakh carried forward from 2018-19. The CSR Committee of RIICO decided (13 August 2019) that the prescribed expenditure for the year 2019-20 would include the carried forward amount. Later on, the Board of the Directors amended (22 November 2019) the CSR policy which provided that the unspent/unutilized CSR allocation of a particular year will be carried forward to the following year and will be utilized as per the provisions of the Companies Act/Rules. Audit, however, observed that the CSR Committee of RIICO, while approving the budget for 2019-20, considered (6 December 2019) only two per cent amount of the preceding three years *i.e.* ₹ 323.85 lakh without clearly pointing out whether the unspent amount has been carried forward or not which was also noted by the Board of Directors in its meeting held on 18 March 2020. Further, RIICO spent only ₹ 55.50 lakh during FY 2019-20.

Accounting of unspent amount

4.13 As per the Guidance Note on Accounting for CSR issued by ICAI, the unspent amount is to be disclosed in the Board's Report and no provision is to be made in the accounts for unspent amount. However, if a Company has already undertaken CSR activity for which a contractual liability has incurred then a provision for the amount to the extent to which CSR activity was completed during the year, needs to be recognised in the books.

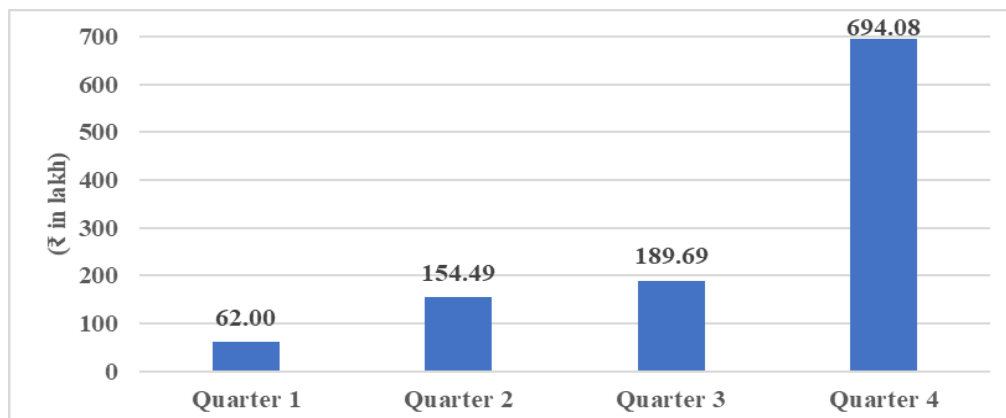
Audit observed that RSGL has made a provision for the unspent amount to the extent of ₹ 35.00 lakh (prescribed amount ₹ 12.91 lakh). RIICO made a provision of ₹ 272.00 lakh on the basis of the commitment made though no contractual liability was incurred as on 31 March 2020. RISL has created reserves for CSR amounting to ₹ 140.52 lakh including transfer of ₹ 20.29 lakh for the year 2019-20. Earlier the Company was making provision for CSR liability from the FY 2014-15 to 2018-19 which was also transferred to reserves. Such accounting treatment of unspent amount contravened the Guidance Note on Accounting for CSR.

Quarter-wise spend

4.14 Nine SPSEs incurred expenditure on CSR activities during 2019-20. Of which, the detail of quarter-wise bifurcation of expenditure was not provided by RRVUNL whereas RMSCL had provided the partial detail of

expenditure incurred by it. The quarter wise details of expenditure incurred by the remaining SPSEs are given in **Chart 4.1**.

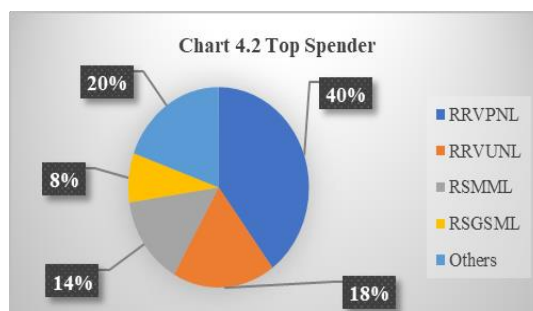
Chart 4.1: Quarter-wise Expenditure



It could be seen that there was rush in spending the CSR fund in the last quarter. Two SPSEs *i.e.* RRECL and RSDCL incurred expenditure in the last quarter only whereas RRVPNL incurred huge expenditure (₹ 476.64 lakh) in the last quarter. Further, only two SPSEs *i.e.* RSMML and BLMCL incurred expenditure in all four quarters.

Top spenders

4.15 The total spend on CSR activities by the nine SPSEs was ₹ 1346.88 lakh. The chart shows that RRVPNL was top spender followed by RRVUNL, RSMML and RSGSML. All these four SPSEs spent more than ₹ one crore during 2019-20.



Range of CSR spend

4.16 An analysis of the amount spent by 16 SPSEs during 2019-20 disclosed that four SPSEs spent more than ₹ one crore, five SPSEs spent upto ₹ one crore on CSR activities whereas seven SPSEs did not spend any amount on CSR activities as given in **Table 4.4**.

Table 4.4: Range of the CSR amount spent by the Companies

Particulars	Range of the amount spent		
	Amount spent more than ₹ one crore	Amount spent up to ₹ one crore	No amount spent
Nos. of SPSEs	4	5	7
Name of the SPSEs	1. RRVUNL 2. RRVPNL 3. RSGSML 4. RSMML	1. RRECL 2. RSDCL 3. RMSCL 4. RIICO 5. BLMCL	1. RSBCL 2. RSPF&FSCL 3. RSRDCL 4. RSGL 5. RSF&CSCL 6. RSSCL 7. RISL

Sector -wise CSR Expenditure

4.17 Sector wise analysis of expenditure on CSR related activities of 16 SPSEs for the year 2019-20 is given in **Table 4.5:**

Table 4.5: Sector-wise Expenditure on CSR during 2019-20

Name of the Sector	No. of SPSEs	No. of SPSEs which spent on CSR	Amount spent (₹ in lakh)
Energy and Power	5	4	918.94
Industry and Commerce	3	3	303.11
Agriculture Food and allied Industries	2	-	0.00
Finance	3	1	107.20
Health and Welfare	1	1	17.63
Public Works	1	-	0.00
IT & Communication	1	-	0.00
Total	16	9	1346.88

Source: Compiled on the basis of information provided by the SPSEs.

It could be seen that three sectors consisting of four SPSEs failed make any expenditure on CSR activities in spite of having allocable profits during 2019-20. Similarly, one SPSE under Energy and Power and two SPSEs under Finance Sector failed to make any expenditure.

SPSEs with negative net profit

4.18 Out of 20 SPSEs, the average net profit of four SPSEs viz; Ajmer Vidyut Vitran Nigam Limited, Jaipur Vidyut Vitran Nigam Limited, Jodhpur Vidyut Vitran Nigam Limited and Jaipur Metro Rail Corporation Limited was negative and hence these SPSEs did not carry out any CSR activities.

Administrative Overhead

4.19 As per CSR Rule 7(1), the board shall ensure that the administrative overheads shall not exceed five *per cent* of total CSR expenditure of the company for the financial year. Further, SPSEs may build CSR capacities of their own personnel as well as those of their Implementing agencies through Institutions with established track records of at least three financial years but such expenditure shall not exceed five *per cent* of total CSR expenditure of the company in one financial year. Audit noticed that none of the SPSE had built CSR capacity of their own personnel or implementing agencies and hence, no expenditure was incurred on administrative overheads.

Surplus from CSR Projects

4.20 As per CSR Rule 7(2), 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 such surplus amount shall be transferred to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year.

All the SPSEs except RRVUNL have specified that any surplus from the CSR projects would not be part of the profit of the Company in their CSR Policy.

Audit noticed that no project undertaken by the SPSEs had fetched surplus during 2019-20.

Project Implementation

Selection of CSR projects and activities

4.21 Conduct of Base line survey and assessment: Out of 20 SPSEs which were under the ambit of CSR, nine SPSEs have spent on CSR during 2019-20. However, none of the SPSE had undertaken baseline survey and need assessment studies for identifying the CSR project/activity during the year 2019-20.

4.22 Expenditure as per Schedule VII & CSR Rules- Section 135 (3) (a) of the Act provides that the CSR policy shall indicate the activities to be undertaken by the Company in areas or subject specified in the Schedule VII. The expenditure on six activities amounting to ₹ 250.80 lakh was not in accordance with the Schedule VII of the Act as well as CSR Rules as detailed below:

- i. Audit noticed that RSGSML framed (June 2015) its CSR policy wherein contribution to Rajasthan Chief Minister's Relief Fund (CMRF) was included under CSR activities. Accordingly, it transferred a sum of ₹ 93.93 lakh and ₹ 96.80 lakh to the CMRF on account of CSR in the FY 2018-19 and FY 2019-20 respectively. Audit observed that the contribution to CMRF was not eligible for CSR activities under Schedule VII of the Act. Hence, the policy provision for contributing funds to CMRF as well as the contribution made to CMRF was in contravention to the provisions of the Act.

RSGSML stated (April 2021) that the contribution was made in CMRF in compliance with circular (June 2014) of MCA wherein it was clarified that the entries in the Schedule VII must be interpreted liberally so as to capture the essence of the subject enumerated in the said schedule.

The reply is not acceptable as the said circular although clarified to interpret the entries in the Schedule VII liberally but neither the Schedule VII nor the said circular allow to make contribution in the CMRF. Hence, contribution in the CMRF was not eligible for CSR activities under Schedule VII of the Companies Act, 2013. This was further clarified by the Ministry of Corporate Affairs' General Circular No. 15/2020 dated 10 April 2020 which states that Chief Minister's Relief fund is not included in Schedule VII of the Companies Act, 2013 and therefore, any contribution to such funds shall not qualify as admissible CSR expenditure.

- ii. Audit also observed that the following SPSEs had also spent on activities which were not covered in schedule VII of the Act:

Name of SPSE	Activity	Amount spent (₹ in lakh)
RRVUNL	Road works, infrastructure development works, agriculture connections	42.00
RRVUNL	CC Road footpath with interlocking of tiles	75.00
RSMML	Repair work in Government buildings, police line etc.	20.00

RSMML	Procurement of electronic items for Anveshan Bhawan	10.00
RIICO	Construction at Police Station	7.00

Manner of implementation of CSR activities

4.23 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). The Board may decide to undertake its 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.

Direct/in house: Total eight projects were implemented by SPSEs directly/in house. Further, no SPSE has established its own foundation for carrying out CSR activities.

External agencies: 34 projects were executed through Government/ external agencies, NGOs, Society *etc.*

Focus area

4.24 Schedule VII of the Act provides 12 major activities/areas in which the expenditure on CSR can be carried out. The expenditure incurred by the SPSEs on various CSR activities/areas, excluding the expenditure which was not in accordance with Schedule VII, is given in **Table 4.6**.

Table No. 4.6: Focus areas for CSR activities

Area	No. of projects/Activity	Amount spent (₹ in lakh)
Healthcare	16	772.18
Education	12	152.93
Environment	5	54.97
Heritage	1	5.00

It could be seen that the maximum expenditure was made on healthcare activities while the education sector received the second preference.

Local areas

4.25 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 CSR activities. Audit noticed that all the nine SPSEs, which spent on CSR during 2019-20, have defined the local area in their CSR policy. Most of these SPSEs have defined the local area as the area in which the Company operates or local populace. RRVUNL has specifically specified the development of local community surrounding its power station. Audit noticed that the expenditure incurred by all the Companies during 2019-20 is covered in local area as defined in their policy.

Funding of the Schemes/projects introduced by GoI/GoR

4.26 Government of India (GOI) as well as Government of Rajasthan (GoR) introduced various schemes and projects for the benefit of society. SPSEs were free to decide on funding of such schemes/projects under CSR subject to fulfilling the conditions of Schedule VII of the Act. *i.e.* the same should be under the twelve broad categories mentioned therein *viz.* health, education,

employment, skill development, environment, women empowerment, socio equality, protection of national heritage, measure for armed forces, rural development, slum area development and disaster management. Audit noticed that no SPSEs has funded the schemes/projects introduced by GoI/GoR.

Monitoring framework

4.27 As per Rule 5(2) of CSR Rules, 2014 the CSR Committee shall institute a transparent monitoring mechanism for implementation of CSR projects/ programs/activities undertaken by the company. Audit noticed that all the 19 SPSEs, which have framed CSR policy, have defined monitoring mechanism in their CSR Policy except RSRDCCL. Audit, however, observed that SPSEs did not evolve a mechanism to conduct regular meetings of the CSR Committee at specified intervals. Further, seven SPSEs did not hold any meeting of the CSR Committee during FY 2019-20 whereas only one meeting was conducted by 11 SPSEs during the period. RRVPNL and RIICO conducted two and three meetings respectively during FY 2019-20.

Reporting and Disclosure

4.28 As per Section 135 (2) and (4) read with section 134 (3)(o) of the Act, 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:

1. 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.
2. 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.

Rule 8 of CSR Rules 2014 provides that the Board's Report of a company covered under these rules shall include an annual report on CSR containing particulars specified in Annexure. Further, Rule 9 provides that the Board of Directors of the company shall, after taking into account the recommendations of CSR Committee, approve the CSR Policy for the company and disclose contents of such policy in its report and the same shall be displayed on the company's website, if any, as per the particulars specified in the Annexure.

The review of the annual reports for the year 2018-19 showed following shortcomings;

- Brief of the CSR policy was not disclosed by AVVNL and JdVVNL.
- RSBCL, JMRCL and RSSCL did not disclose average net profits for last three years, Web-link of CSR Policy/Projects, reasons for unspent amounts *etc.*
- Composition of CSR Committee and opening unspent amount was not disclosed by RSMML.
- A separate report on CSR was not given by RSSCL.

- Responsibility statement was either not included or not signed by RSSCL, RFCSCL, RSMML, RRVUNL, AVVNL, JVVNL, JdVVNL, RSBCL and JMRCL.
- RSDCL, RSBCL, RSSCL and RFCSCL did not upload the report on their website.

Conclusion

All 20 SPSEs, required to constitute CSR Committee, have constituted CSR Committee. Out of total 17 SPSEs (except three SPSEs being wholly owned subsidiary/JV companies), only four SPSEs had complied with the provision of having at least one independent director in the CSR Committee.

CSR policies framed by Rajasthan State Road Development and Construction Corporation Limited and Rajasthan Rajya Vidyut Utpadan Nigam Limited had certain shortcomings as they did not include monitoring framework and provision relating to treatment of surplus from CSR activities respectively. Further, seven SPSEs could not get their annual CSR plan and budget approved by the Board through CSR Committee. There were instances of short/excess allocation of funds for CSR activities. Only four SPSEs had fully utilised the CSR funds in FY 2019-20 whereas three SPSEs partially utilised the amount and seven SPSEs did not spend any amount of CSR fund.

SPSEs were not able to utilize the carried forward unspent amount of the previous years. There was rush in spending the CSR fund in the last quarter. Besides, one SPSE *i.e.* RSGSML has made expenditure in violation of activities given in Schedule VII of the Companies Act 2013 as the SPSE has transferred the amount in Rajasthan Chief Minister's Relief Fund. Moreover, SPSEs did not evolve a mechanism to conduct regular meetings of the CSR Committee.

Recommendations

SPSEs may

- **Take steps to appoint Independent Directors;**
- **Strengthen the system of getting approval of annual plan and budget;**
- **Focus on spending the allocated funds on eligible activities in timely manner; and**
- **Strengthen the monitoring mechanism.**