



FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE

ON

**PUBLIC UNDERTAKINGS
(2023-26)**

THIRTY NINETH REPORT

(Presented on 11th February, 2025)

SECRETARIAT OF THE KERALA LEGISLATURE

THIRUVANANTHAPURAM

2025

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THIRTY NINETH REPORT

On

Corporate Social Responsibility of Four PSUs

(Kerala State Financial Enterprises Limited, Kerala Transport Development Finance Corporation, Kerala State Electricity Board Limited and Kerala State Construction Corporation Limited)

(Based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2016)

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**COMMITTEE ON PUBLIC UNDERTAKINGS
(2023-26)**

COMPOSITION

Chairperson:

Shri E. Chandrasekharan

Members:

Shri A.P. Anilkumar

Shri Anwar Sadath

Shri Ahammad Devarkovil

Shri T. V. Ibrahim

Shri P. Mammikutty

Shri K. P. Mohanan

Shri D. K. Murali

Shri P. Nandakumar

Shri Kadakampally Surendran

Shri P. Ubaidulla

Legislature Secretariat:

Dr. N.Krishna Kumar, Secretary

Shri Venugopal R, Joint Secretary

Shri Anil Kumar B, Deputy Secretary

Shri Mohanan. O, Under Secretary

INTRODUCTION

I, the Chairperson, Committee on Public Undertakings (2023-26) having been authorised by the Committee to present the Report on its behalf, present this 39th Report on Corporate Social Responsibility Of Four PSUs (Kerala State Financial Enterprises Limited, Kerala Transport Development Finance Corporation, Kerala State Electricity Board Limited and Kerala State Construction Corporation Limited) based on the report of the Comptroller and Auditor General of India for the year ended 31st March, 2016 relating to the Public Sector Undertakings of the State of Kerala.

The aforesaid Report of the Comptroller and Auditor General of India was laid on the Table of the House on 23-05-2017. The consideration of the audit paragraphs included in this report and examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings (2021-2023) at its meetings held on 12.10.2022, 18.04.2023, 17.05.2022, 23.09.2021, 03.08.2022 and 04.04.2023.

This Report was considered and approved by the Committee (2023-26) at its meeting held on 29.01.2025.

The Committee place on record its appreciation for the assistance rendered to them by the Accountant General (Audit), Kerala in the examination of the Audit paragraphs included in this Report.

The Committee wishes to express thanks to the officials of the Taxes Department, Transport Department, Power Department and Public Works Department of the Secretariat and the Kerala State Financial Enterprises Limited, Kerala Transport Development Finance Corporation, Kerala State Electricity Board Limited and Kerala State Construction Corporation Limited for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government, Taxes Department, Transport Department, Power Department, Public Works Department and Finance Department and the officials of Kerala State Financial Enterprises Limited, Kerala Transport Development Finance Corporation, Kerala State Electricity Board Limited and Kerala State Construction Corporation Limited who appeared for evidence and assisted the Committee by placing their views before the Committee.

Thiruvananthapuram,
11th February, 2025.

E. CHANDRASEKHARAN,
Chairperson,
Committee on Public Undertakings.

REPORT NO. 2
ON
CORPORATE SOCIAL RESPONSIBILITY OF FOUR PSUs.

(Kerala State Financial Enterprises Limited, Kerala Transport Development Finance Corporation, Kerala State Electricity Board Limited and Kerala State Construction Corporation Limited)

Audit Para 3.3(2015-16)

Corporate Social Responsibility of PSUs

Introduction

3.3.1 Corporate Social Responsibility (CSR) refers to operating business in a manner that accounts for the social and environmental impact created by the business. Through CSR, companies give something back to society. CSR means and includes projects or programmes on eradication of hunger, poverty and malnutrition, promoting gender equality, promoting education, empowerment of women, ensuring environmental sustainability, protection of national heritage, etc. CSR is governed by provisions of the Companies Act, 2013 (Act) and Companies (Corporate Social Responsibility Policy) Rules, 2014 (CSR Rules).

According to section 135 of the Act, companies with annual turnover of ₹1,000 crore or more or net worth of ₹500 crore or more or profit (before tax) of ₹5 crore or more in any of the three preceding financial years¹ have to spend at least two *per cent* of average profit² of such preceding financial years on CSR activities from 2014- 15 onwards, giving preference to areas around their operation.

As of June 2016, 23 Public Sector Undertakings (PSUs) in Kerala came

¹ Vide Circular No: 21/2014 dated 18/06/2014 of Ministry of Corporate Affairs, Government of India.

² Average of profit made by them during the three immediately preceding financial years.

under the purview of CSR during 2014-15 to 2015-16. We assessed compliance of these PSUs with the provisions of the Act/ CSR Rules/ orders and notifications issued by Ministry of Corporate Affairs (MCA), Government of India (Gol), on CSR. Audit findings are discussed in the succeeding paragraphs.

Audit Findings

Formulation of CSR Policy and CSR Spending

Non-Constitution of CSR Committee and non-spending on CSR

3.3.2 As per Section 135(1) of the Act, each of the 23 PSUs was to constitute a CSR Committee consisting of three or more directors, out of which at least one director shall be an independent director. The CSR Committee was to formulate and recommend a CSR Policy and the amount of CSR expenditure to Board of Directors (BoD) and monitor the CSR Policy of the Company.

We noticed that out of the 23 PSUs, 13 PSUs (**Appendix 13**) did not constitute the CSR Committee or formulate the CSR Policy (as of June 2016). Among these 13 PSUs, three PSUs had negative average net profit during the three preceding financial years and hence, were not required to spend on CSR while balance 10 PSUs were required to spend on CSR.

Similarly, eight PSUs were required to spend at least ₹7.93 crore on CSR during 2014-15 and 2015-16 as detailed in **Appendix 14**. But, they did not spend any amount on CSR during the above period.

Non/incorrect reporting on CSR activities

3.3.3 According to Section 135(5) of the Act, in case of failure of a company to spend minimum 2 *per cent* of average profit on CSR, the BoD shall in its report³ include the reasons for non-spending.

Out of the ten PSUs which did not spend the required minimum amount on

³ Report attached to the financial statements laid before a company in general meeting as per Section 134(O) (3) of the Act.

CSR, three PSUs⁴ did not report the reason for non-spending and three PSUs⁵ wrongly reported that CSR Rules were not applicable to them. The remaining four PSUs were yet to publish their Annual Report as of June 2016.

Deficiencies in spending on CSR

3.3.4 Ten out of the 23 PSUs covered in audit had constituted CSR committee as well as formulated a CSR policy and spent ₹10.74 crore (**Appendix 15**) on CSR activities during 2014-15 and 2015-16. The following deficiencies were noticed in the CSR expenditure incurred by these 10 PSUs.

Non-spending on CSR

3.3.4.1 Two PSUs⁶ did not spend any amount on CSR during 2015-16 though they had to spend ₹0.67 crore as per the Act.

Non-display of CSR Policy in website

3.3.4.2 Section 135(4) (a) of the Act and Rule 9 of CSR Rules specify that the approved CSR Policy shall be displayed on the company's website. Four PSUs⁷ did not display the CSR Policy on their website.

At our instance, three PSUs⁸ agreed to display their CSR Policy on their websites.

Inclusion of activities in the CSR Policy undertaken in pursuance of normal course of business.

3.3.4.3 According to CSR Rules, a company shall undertake CSR activities as per its stated CSR Policy. Activities undertaken in pursuance of normal course of business of a company shall not be treated as part of CSR.

4 Kerala State Power and Infrastructure Finance Corporation Limited, Transformers and Electricals Kerala Limited and Oil Palm India Limited.

5 The State Farming Corporation of Kerala Limited, Kerala Forest Development Corporation Limited and Kerala Agro Machinery Corporation Limited.

6 Rehabilitation Plantations Limited and Kerala Transport Development Finance Corporation Limited.

7 Kerala State Backward Classes Development Corporation Limited (KSBCDC), Kerala Transport Development Finance Corporation Limited (KTDFC), The Pharmaceutical Corporation (Indian Medicines), Kerala Limited (TPCKL) and Malabar Cements Limited (MCL).

8 Kerala State Backward Classes Development Corporation Limited (June 2016), Kerala Transport Development Financial Corporation Limited (May 2016) and The Pharmaceutical Corporation (Indian Medicines) Kerala Limited (July 2016).

CSR spending on inadmissible activities

3.3.4.4 Ministry of Corporate Affairs (MCA), GoI stipulated⁹ that expenses incurred by companies for the fulfillment of any Act/Statute or Regulations would not count as CSR expenditure under the Act.

Contribution in kind for CSR activities

3.3.4.5 Section 135(5) of the Act specifies that the BoD of every company shall ensure that the company spends, in every financial year, the required amount in pursuance of its CSR Policy. MCA reiterated (January 2016) that contribution in kind cannot be monetised to be shown as CSR expenditure.

Contribution to State Government fund

3.3.4.6 According to Notification issued (27 February 2014) by MCA, contribution under CSR is permissible only to Prime Minister's National Relief fund or any other fund set up by Central Government. We, however, noticed that Kerala State Financial Enterprises Limited contributed (September 2015) an amount of ₹0.50 crore to Karunya Benevolent fund, a fund constituted by GoK.

GoK replied (December 2016) that the amount was contributed by the PSU on receiving letter from Administrator of Karunya Benevolent fund with specific reference to make contribution under CSR. The reply was not tenable as contribution to funds set up by the State Government was not permitted by MCA.

Absence of monitoring

3.3.4.7 Rule 5(2) specifies that CSR Committee shall institute a transparent monitoring mechanism for implementation of the CSR Projects or programmes or activities undertaken by the company. We noticed instances of absence of monitoring of CSR as shown in **Appendix 16**.

⁹ Vide Circular No. 21/2014 dated 18/06/2014.

Conclusion

Adherence of companies to the provisions of CSR was not satisfactory as 13 out of 23 companies did not constitute CSR Committee/Policy. There were instances of non-spending and spending on inadmissible activities. GoK may, therefore, formulate appropriate monitoring mechanism for strict adherence to CSR laws.

[The Audit paragraph 3.3 contained in the report of the C &AG for the year ended 31 March 2016.]

The notes furnished by the Government on the audit paragraph are given in Appendix II

Discussion and findings of the Committee

1. Kerala State Financial Enterprises Ltd.

3.3.4. Deficiencies in spending on CSR

3.3.4.6 Contribution to State Government Fund

In response to the audit objection, the Secretary, Taxes Department informed that as promoting health care was included in activities under CSR, the Board of Directors of KSFE, after discussion, had made the contribution to Karunya Benevolent Fund, a State Government initiative providing medical aid to the poor. He added that the above activity falls under the purview of Schedule VII of Companies Act, 2013. He requested the Committee to drop the para considering the above facts. Then the Committee enquired whether at present such contributions was accounted under CSR activities. The witness informed that KSFE had done such a thing only once pertaining to the circumstances and now KSFE is strictly adhering to CSR provisions and utilizing the fund only for activities under CSR such as providing ambulance for hospitals, educational activities etc.

The Committee accepted the reply owing to the good faith that the fund had been utilised for health sector.

3.3.4.7. Absence of Monitoring

In the meeting held on 12.10.2022, the Committee pointed out that the idling of the medical equipment purchased with CSR funds for Attappadi Swami Vivekananda Hospital and Neendakara Taluk Hospital was due to the lack of monitoring. The Managing Director informed the Committee that the equipments purchased with CSR funds are now operational. He added that the audit team and officers are deputed now to conduct regular inspections in such places.

When the Managing Director could not give a clear reply on the current status of dialysis machine purchased for the Neendakara Taluk hospital, the Committee directed the Managing Director to furnish a detailed report.

The Committee directed the Company to ensure clear monitoring of the functioning of the equipments purchased with CSR funds.

In the meeting held on 18.04.2023, the Committee considered the same matter related to CSR and then the Committee sought clarification about the audit observation that CSR funded equipments were not seen in Swami Vivekananda Medical Mission Hospital, Attappadi and the dialysis units in Government Taluk Hospital Neendakara were not functioning due to want of sufficient technical staff. The Committee also enquired about the details regarding the mechanism adopted to monitor the functioning of these CSR funded equipments by the CSR Monitoring Committee.

The witness replied that as it was the initial period after implementation of CSR Scheme, delay occurred in the formulation of CSR Monitoring Committee. Now a transparent mechanism for implementing various CSR

projects were laid down with adequate measures to ensure the complete utilisation of CSR funds. He added that the Monitoring Committee visit the beneficiary institutions and ensure that all activities as per the project were being completed. He informed the Committee that for these two cases a certificate had been received from the beneficiaries that the equipments were functioning properly. But the Committee noticed that these certificates were issued on the same day.

The Committee asked about the CSR amount and company's income for the year 2021-2022. The MD replied that due to covid conditions in 2020-2021 and 2021-2022 profit was less but now things are improving and CSR amount earmarked for 2021-2022 financial year was ₹2.6 crores and profit for the same year was ₹280 crores.

Conclusion/Recommendation

1. The Committee observes that the idling of the medical equipment purchased with CSR funds for Attapadi Swami Vivekananda Hospital and Neendakara Taluk Hospital was due to the lack of monitoring. Therefore the Committee directs the Company to ensure clear monitoring of the functioning of the equipments purchased with CSR funds.

2. Kerala Transport Development Finance Corporation

Audit Para 3.3.4.1 - Non- spending of CSR

The Committee asked the witness whether the construction of class room in Govt. L.P.S Vennala had been completed. The witness replied that the fund for the project had been disbursed to the school and the project seems to be completed and the Company had spent ₹35 lakh for the project. He added that a specific reply will be submitted after examining the matter in detail.

Audit Para 3.3.4.2 - Non- display of CSR policy in website

The witness informed that the Company had now displayed the approved CSR Policy in Company's website.

The Committee accepted the reply.

Audit Para 3.3.4.7- Absence of monitoring

The Committee expressed its dissatisfaction on spending CSR Fund for the development of water tourism project at Kodimatha and asked to explain the reason for selecting the project. The witness replied that as per the Circular of 2014, Ministry of Corporate Affairs did not provide any specific provision for spending the CSR Fund only for social justice. He added that though tourism was not included in the list, it might have been selected for the reason that it was related to renewable energy that had already been included in the list and added that a detailed reply will be furnished to the Committee after examining the matter.

The Committee directs that a detailed reply should be furnished on the current status of the project including the circumstances that led to divert CSR fund to the tourism project. The Committee also inquired about the current financial status of the Company. The witness informed that Government had changed the decision to wind-up the company and the proposal for revival was under consideration.

Conclusions/Recommendations

2. The Committee directs that a detailed report should be furnished on the present status of the project of constructing class room in Govt. LPS Vennala without delay.

3.The Committee expresses its dissatisfaction on spending CSR funds for tourism project and recommends to furnish a detailed reply about the

current status of the project including the circumstances that led to divert CSR fund to the tourism project.

3. Kerala State Electricity Board Ltd.

Para 3.3 - Corporate Social Responsibility of PSUs

Para 3.3.2 - Non-Constitution of CSR Committee and non-spending on CSR

The Committee sought explanation about the said audit reference. The Committee also enquired whether K.S.E.B.L earmark funds for Corporate Social Responsibility (CSR) projects.

The witness informed that K.S.E.B Limited has been running at a loss. According to CSR Policy, Companies are expected to utilize 2 percent for CSR activities only if they make profit. He added that K.S.E.B Limited complied with all the legal requirements of the CSR Policy and CSR Committee. The 27th meeting of Board of Directors of K.S.E.B Limited approved the appointment of Independent Director and also reconstituted the CSR Committee by including Independent Directors. The first meeting of CSR Committee was held on 06.09.2016.

The Committee accepted the reply. Hence offer no remarks.

4. Kerala State Construction Corporation Limited

3.3.2. Non-Constitution of CSR Committee and non-spending on CSR

3.3.4. Deficiencies in spending on CSR

In the meeting held on 03.08.2022 to consider the issue of CSR, the Finance Manager informed the Committee that ₹99 lakh was spent on CSR activities during the period 2014 -15 to 2018-19 and the fund could not be utilised in subsequent years due to delay in getting project approval.

The Committee pointed out that the RMT furnished by the Government had stated that no amount had been spent on CSR activities. The Secretary informed that the amount had been spent on CSR activities such as setting up women friendly centres. Thereafter, a report regarding this was placed before the Committee.

Then the Senior Audit officer from AG's Office enquired whether the reasons stated in the RMT for not spending CSR Fund still exists. The witness informed that the amount due from 2014 to 2018 is being spent now. It was the decision of the Board to set aside the amount provisionally even if the case regarding Libya contract had not been settled. But quite different from this, it is said before the Committee that the amount could not be spent due to the delay in getting the project approved. The Committee opined that the Company should utilise the CSR amount when there is profit. Then the Committee doubted the relevance of furnishing such a reply. The Committee expressed its displeasure on the discrepancy between the RMT and the statements furnished during meeting.

The Committee was disgusted to note that the officials present before the Committee had not gone into the details of the matter in consideration and criticised the lethargic attitude on the part of witness to be present in the meeting without due preparation. The Committee asked the Secretary, Industries Department to examine the matter in detail and furnish the replies within a month.

Again on the meeting held on 4.04.2023, the Committee sought clarification regarding formulation of CSR Committee and the amount spent as CSR fund. The Managing Director replied that CSR Committee was constituted vide decision taken in the 187th meeting of Board of Directors held on 30/10/2017. He added that all CSR activities from 2014-15 have been

reported and funds were utilised for the Projects of “Sthree Souhrida Vishrama Kendras”.

The Committee understands that CSR policy was prepared by CSR Committee in the meeting held on 16/01/2020 and the same was approved by the Board of Directors vide Item No. 196/4/5/1 in the 196th Board meeting of 24/02/2020. According to the recommendation of the Board of Directors dated 16-01-2020, an amount of ₹28 lakh was sanctioned in connection with the utilisation of CSR funds for the year 2014-15, ₹33 lakh for the year 2015-16 and ₹ 38 lakh for the year 2016-17 and with that amount “Sthree Souhrida Visrama Kendras” were constructed at Ernakulam St. Theresa's College, Alappuzha SD College, Alappuzha ST. Joseph's College, Alappuzha TDHSS, Haripad Government Girls High School, Mattannur Municipal Bus Stand and Varkala SN College.

The Committee inquired about the criteria for selection of organizations for spending CSR funds. The MD informed that the information regarding the selection of organisation is advertised on the website of KSCC and once the application is received, the officials visit the institution and make the selection after checking the eligibility. He further added that mainly these are for government, aided and public sector institutions, so no specific criteria has been adopted.

To a query of the Committee regarding the allocation of CSR fund for the years 2017 to 2020, the Secretary, Public Works Department informed the Committee that the approval for the amount for CSR fund from 2017 to 2019 was given by the Managing Director in the last board meeting and it was approved on that day. The Managing Director, KSCC added that since the institution could not make a profit of ₹5 crore after 2018-19, it was not required to spend on CSR projects and currently a list of 10 schools has been

selected to spend CSR funds.

The Committee observed that though the concerned officer explained about the utilisation of CSR funds for the years 2017-18 and 2018-19, details such as list of institutions and amount spent etc were not mentioned. Hence the Committee suggested that a detailed report should be given regarding the utilization of CSR funds for the years 2017-18 and 2018-19

The Committee pointed out that in the Government reply it was stated that the statutory audit for the financial year 2019-20 of the Company had been completed; the provision for the year ₹29.62 lakh was booked for CSR activities and the audit report being forwarded to Accountant General for finalisation. The witness stated that amount could be spent only after finalisation of the audit report.

The Committee observed that there was a contradiction between the government reply regarding the CSR fund booked for the year 2019-20 and the witness' reply. Hence the Committee suggested to give a detailed report regarding this.

Conclusions/Recommendations

4. The Committee recommends that a detailed report should be furnished regarding the utilisation of CSR funds for the years 2017-18 and 2018-19 along with the list of institutions and the amount spent, thereon.

5. The Committee observes that it is stated in the Government reply that for the financial year 2019-20 an amount of ₹29.62 lakh was booked for CSR activities and that the amount will be spent only after the finalisation of the audit report. But the witness informed the Committee that since the institution could not make a profit of ₹5 crore after 2018-19 no CSR

spending is required as per the rule. So the Committee observes that there is a contradiction between the Government reply and reply of the witness before the Committee. Hence the Committee recommends to furnish a detailed reply regarding the profits made, if any, after 2018-19 and any amount had been set apart for CSR activities after the Company turned profit.

Thiruvananthapuram,
11th February, 2025.

E.Chandrasekharan,
Chairperson,
Committee on Public Undertakings.

APPENDIX-I
SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl No.	Para No.	Department Concerned	Conclusions/Recommendations
(1)	(2)	(3)	(4)
1	1	Taxes Department	The Committee observes that the idling of the medical equipment purchased with CSR funds for Attapadi Swami Vivekananda Hospital and Neendakara Taluk Hospital was due to the lack of monitoring. Therefore the Committee directs the Company to ensure clear monitoring of the functioning of the equipments purchased with CSR funds.
2	2	Transport Department	The Committee directs that a detailed report should be furnished on the present status of the project of constructing class room in Govt. LPS Vennala without delay.
3	3	Transport Department	The Committee expresses its dissatisfaction on spending CSR funds for tourism project and recommends to furnish a detailed reply about the current status of the project including the circumstances that led to divert CSR fund to the tourism project.
4	4	Public Works Department	The Committee recommends that a detailed report should be furnished regarding the utilisation of CSR funds for the years 2017-18 and 2018-19 along with the list of institutions and the amount spent, thereon.
5	5	Public Works Department	The Committee observes that it is stated in the Government reply that for the financial year 2019-20 an amount of ₹29.62 lakh was booked for CSR activities and that the amount will be spent only after the finalisation of the audit report. But the witness informed

		<p>the Committee that since the institution could not make a profit of ₹5 crore after 2018-19 no CSR spending is required as per the rule. So the Committee observes that there is a contradiction between the Government reply and reply of the witness before the Committee. Hence the Committee recommends to furnish a detailed reply regarding the profits made, if any, after 2018-19 and any amount had been set apart for CSR activities after the Company turned profit.</p>
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