

CORPORATE SOCIAL RESPONSIBILITY

**Concept & Implementation under the Companies Act, 2013
Role of Chartered Accountants**

Presented to: JB Nagar CPE Study Circle

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Contents

CONCEPT & IMPLEMENTATION UNDER THE COMPANES ACT, 2013

- 1. Background and Evolution**
- 2. Highlights of the Legislation**
 - Section 135 of the Companies Act, 2013
 - Schedule VII to the Companies Act, 2013
 - Penal Provision for Non-compliance
 - Significant aspects of Companies (CSR Policy) Rules, 2014
- 3. Clarifications issued by Ministry of Corporate Affairs.**
- 4. Project mode for CSR Initiative Implementation**
- 5. CSR Rationale**

ROLE OF CHARTERED ACCOUNTANTS

Professional Opportunities

CONCEPT & IMPLEMENTATION UNDER THE COMPANES ACT, 2013

Background and Evolution



Corporate Social Responsibility Background and Evolution

What is CSR?

“a commitment to improve community well-being through discretionary business practices and contributions of corporate resources”.

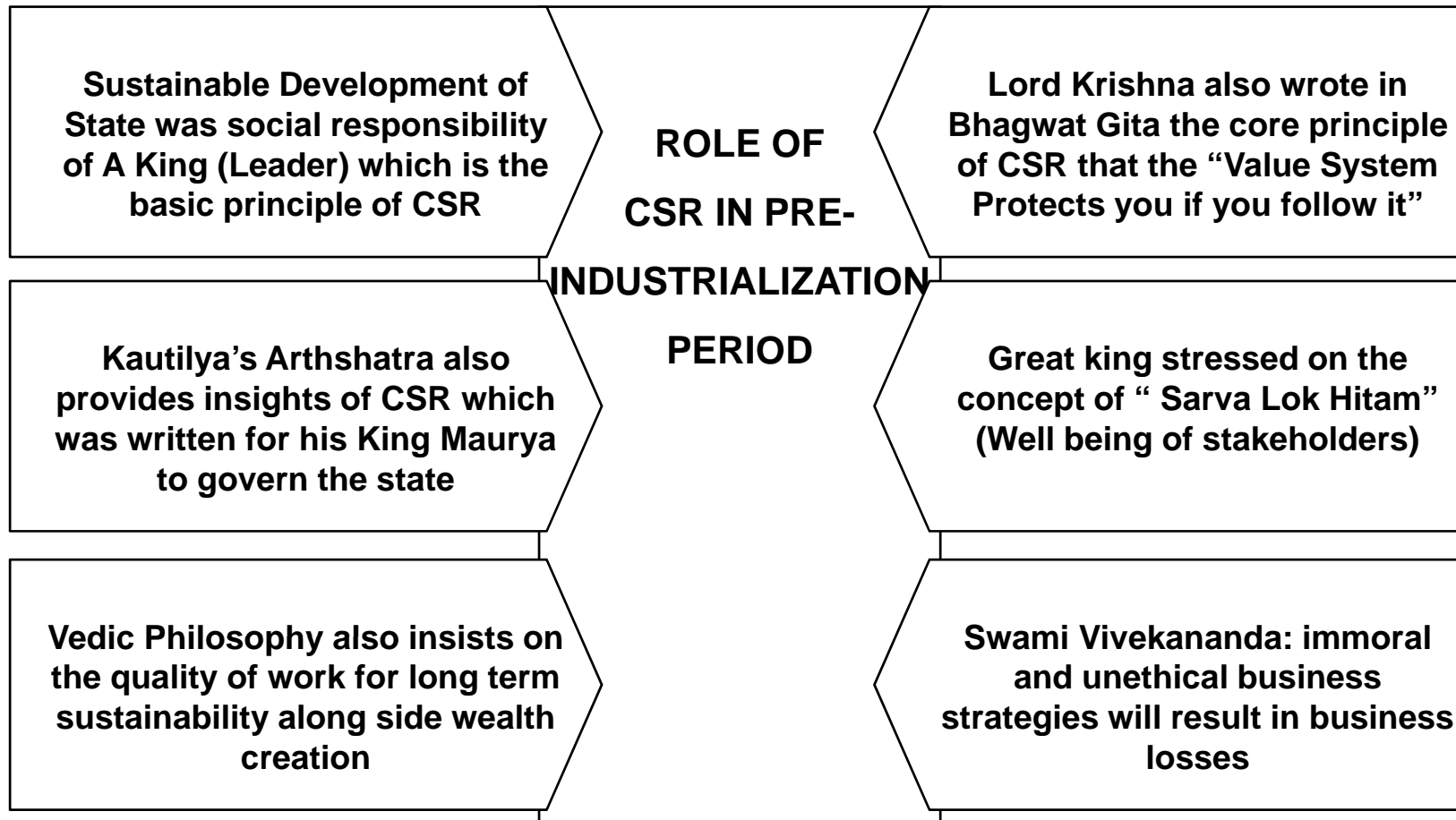
Philip Kotler & Nancy Lee

Corporate social responsibility is a managerial commitment according to which the rights, interests and expectations of the stakeholders are considered, and which aims at the continuous improvement of its performance and risk control.

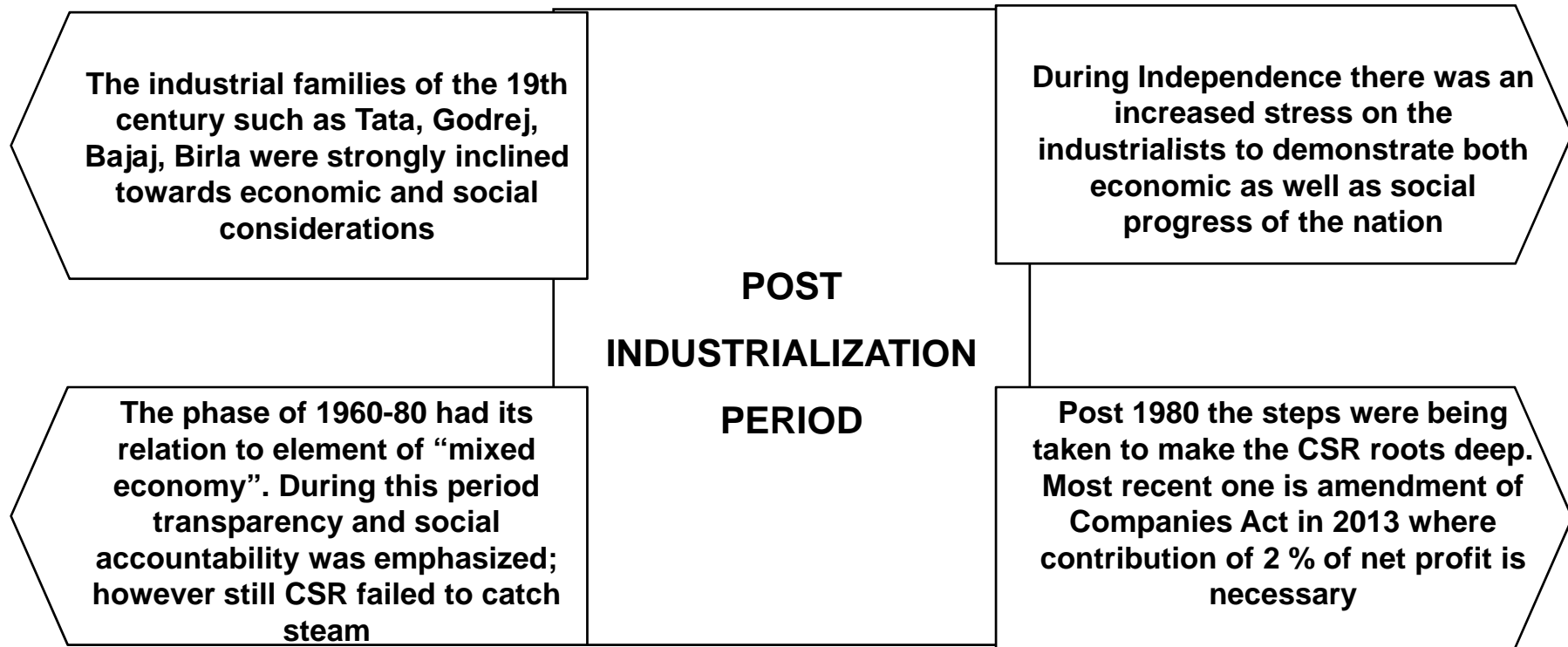
“Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”

World Business Council For Sustainable Development

Corporate Social Responsibility Background and Evolution

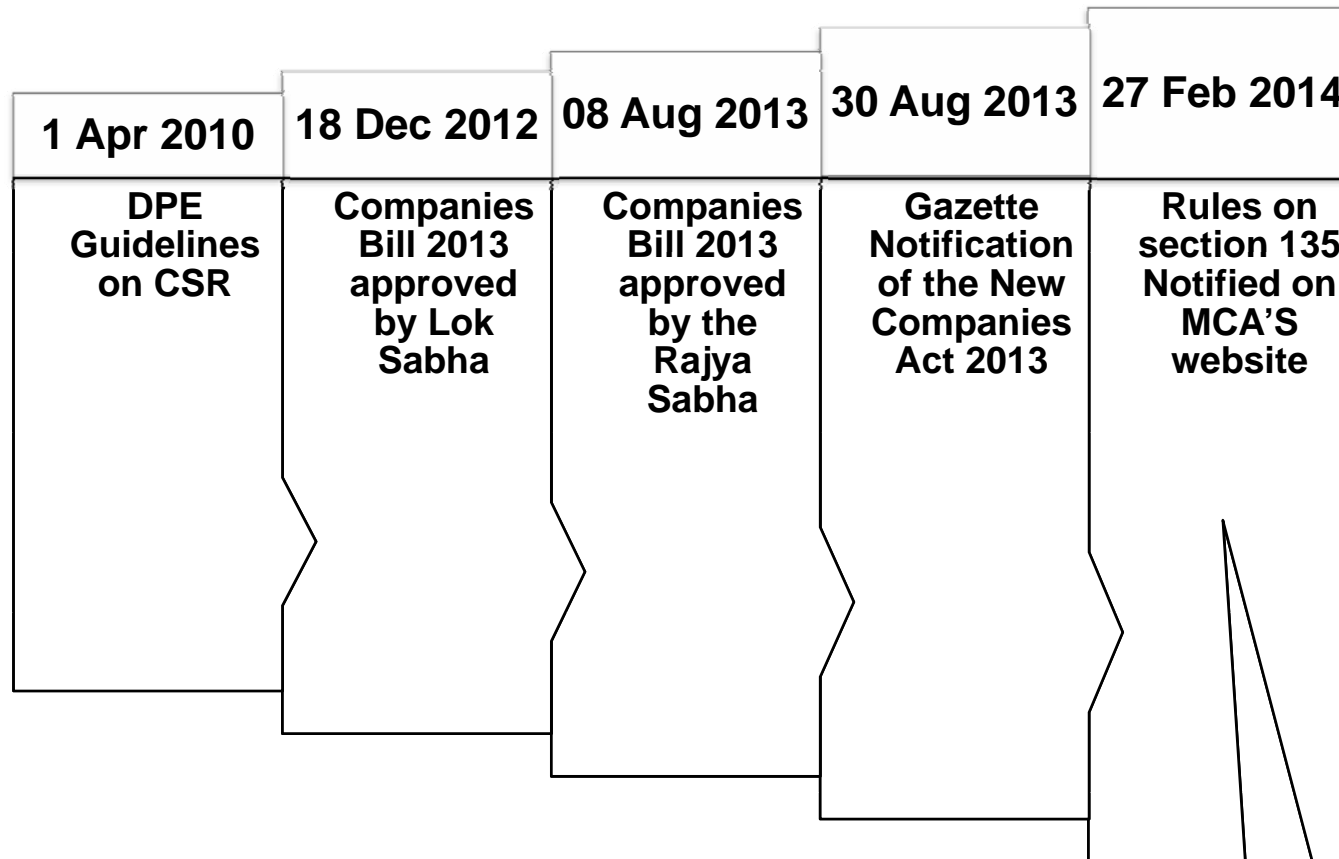


Corporate Social Responsibility Background and Evolution



Corporate Social Responsibility Background and Evolution

Milestones in CSR



Corporate Social Responsibility

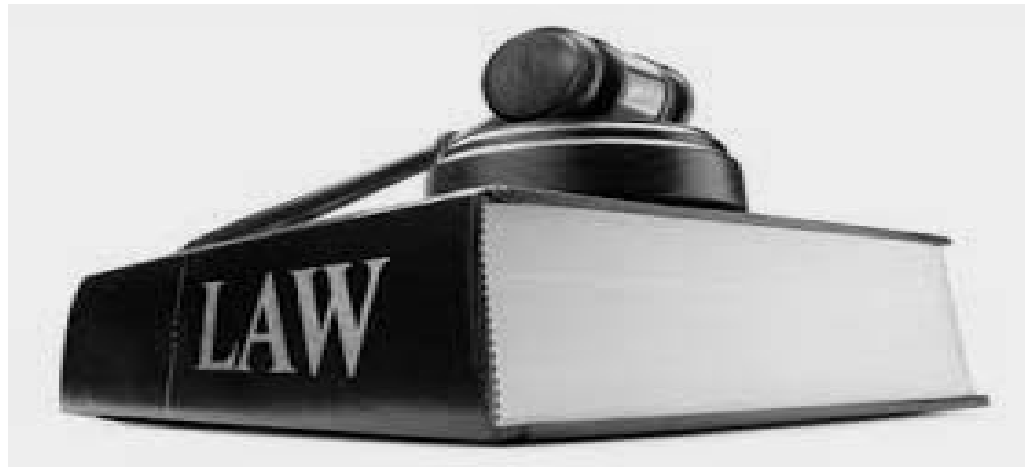
Background and Evolution

CSR related disclosures mandated in Various Countries

USA	UNITED KINGDOM	GERMANY
<ul style="list-style-type: none"> ▪ 2010 : Large emitters of greenhouse gases are to collect and report data with respect to their greenhouse gas emissions. ▪ 2002 : In certifying annual and quarterly reports as fair presentations of companies' financial conditions, CEOs and CFOs of public companies are to scrutinize disclosures of environmental information that affect asset values. 	<ul style="list-style-type: none"> • 2010 : Companies that use more than 6,000MWh per year are to report on all emissions related to energy use. • 2006 : Companies listed on the London Stock Exchange are to disclose information on environmental, workplace, social, and community matters that are material to their business. 	<ul style="list-style-type: none"> • 2011 The German Council for Sustainable Development (GCSD) developed a German Sustainability Code. It includes 20 criteria and 27 GRI Performance Indicators. • 2004 Companies are required to report on key financial and non-financial indicators that materially affect the company.

CONCEPT & IMPLEMENTATION UNDER THE COMPANES ACT, 2013

Highlights of the Legislation



Corporate Social Responsibility

Highlights of the Legislation - Section 135 read with the related Rules.

APPLICABILITY

Section 135 of the Companies Act, 2013 and the Companies (Corporate Social Responsibility) Rules, 2014 is applicable to all companies including a holding or subsidiary company in India, branch or project offices of foreign companies where in any financial any one of the following criteria is fulfilled:

- Net worth is Rs.500 crores or more; or
- Turnover is Rs.1000 crores or more; or
- Net Profit is Rs.5 crores or more.

“Any financial year” referred to above implies ‘any of the three preceding financial years’.

Corporate Social Responsibility

Highlights of the Legislation - Section 135 read with the related Rules.

COMPOSITION OF THE CSR COMMITTEE

Every company falling within the purview of Section 135 of the Companies Act, 2013 shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director. The only exceptions being as follows:

- An unlisted public company or a private company which is not required to appoint an independent director pursuant to sub-section (4) of section 149 of the Act, shall have its CSR Committee without such director
- A private company having only two directors on its Board shall constitute its CSR Committee with two such directors:
- With respect to a foreign company, the CSR Committee shall comprise of at least two persons of which one person shall be as specified under clause (d) of sub-section (1) of section 380 of the Act and another person shall be nominated by the foreign company.

Corporate Social Responsibility

Highlights of the Legislation - Section 135 read with the related Rules.

RESPONSIBILITY OF THE CSR COMMITTEE

- Formulate and recommend to Board of Directors a CSR Policy which will indicate the activities to be taken as per Schedule VII
- Recommend the amount of expenditure to be incurred on the activities.
- Monitor the CSR Policy from time to time.
- It shall institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the Company.
- The CSR Committee will issue a Responsibility Statement mentioning that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the Company.

Corporate Social Responsibility

Highlights of the Legislation - Section 135 read with the related Rules.

CSR POLICY

The CSR Policy of the company, inter-alia, shall include the following, namely-

- A list of CSR projects or programs which a company plans to undertake falling within the purview of the Schedule VII of the Act
- Specify the modalities of execution of such project or programs
- Implementation schedules for the same
- Monitoring process of such projects or programs:
- 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.

Corporate Social Responsibility

Highlights of the Legislation - Section 135 read with the related Rules.

CSR FUNDS

The Annual Spending on CSR by the Company will be at least 2% of the average Net Profits of the Company made during the three immediately preceding financial years.

For the purposes of this section “average net profit” shall be calculated in accordance with the provisions of section 198 of the Companies Act.

Corporate Social Responsibility

Highlights of the Legislation - Section 135 read with the related Rules.

DUTY OF THE BOARD OF DIRECTORS

- Constitute the CSR Committee

- Approve the CSR Policy

- Ensure that the activities as included in CSR Policy are undertaken by the Company.

- Ensure that 2% of the Average Net Profit of 3 preceding financial years is spent and if not, then the reasons should be disclosed in the Board Report.

- Disclose in its report the CSR Committee members, the contents of the CSR Policy and ensure annual reporting of its CSR activities.

Corporate Social Responsibility

Highlights of the Legislation - Section 135 read with the related Rules.

DISCLOSURE IN THE BOARD REPORT

The Board's Annual Report to include the following:

1. Brief outline of the CSR Policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs.
2. Composition of the CSR Committee.
3. Average Net Profit of the Company for the last three years.
4. CSR Expenditure
5. Details of CSR spent during the year
 - Total amount to be spent for the year
 - Amount unspent, if any,
 - Manner in which the amount spent during the financial year.
6. If 2% of the Average Net Profit of the 3 preceding financial years is not spent, then the reason should be disclosed in the Board Report.
7. A responsibility statement of the CSR Committee that the implementation and monitoring of CSR policy is in compliance with CSR objectives and Policy of the Company.

Corporate Social Responsibility

Highlights of the Legislation – Schedule VII to the Companies Act, 2013.

PERMISSIBLE CSR ACTIVITIES:

	Particulars
1	eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation including contribution to the Swachh Bharat Kosh set up by the Central Government for promotion of sanitation and making available safe drinking water
2	promoting education, including special education and employment enhancing vocational skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects
3	promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups
4	Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the clean Ganga fund set up by the Central Government for rejuvenation of river Ganga.
5	protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts
6	measures for the benefit of armed forces veterans, war widows and their dependents;
7	training to promote rural sports, nationally recognised sports, paralympic sports and Olympic sports;
8	contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Caste\$, the Scheduled Tribes, other backward classes, minorities and women;
9	contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government
10	rural development projects.
11	slum area development

Corporate Social Responsibility

Highlights of the Legislation – Penal Provisions.

PENAL PROVISIONS FOR NON COMPLIANCE

Section 135 of the Companies Act, 2013 requires every Company governed by the said section to spend 2% of the Average NP. If the amount remains unspent, then the same needs to be reported in the Annual Board Report giving valid reasons. Thus it is clear that the penal provision will be attracted only on non-reporting of the unspent amount.

Corporate Social Responsibility

Highlights of the Legislation – Significant Aspects of the Companies (CSR Policy), Rules 2014.

WHAT CONSTITUTES CORPORATE SOCIAL RESPONSIBILITY

CSR Constitutes project or program or activities undertaken in pursuance of the CSR Policy of the Company by the CSR Committee covering areas/subjects provided in Schedule VII to the Companies Act.

CSR EXPENDITURE

For any expenditure to be considered as a CSR spend, the Company needs to bear in mind the following:

- CSR amount is preferably spent in and around local areas of operation of the Company.
- CSR activities are undertaken only in India
- Expenditure on capacity building not exceeding 5% of total CSR spent is permissible.
- Activities should be aligned to Schedule VII

Corporate Social Responsibility

Highlights of the Legislation – Significant Aspects of the Companies (CSR Policy), Rules 2014.

ACTIVITIES NOT FALLING IN THE AMBIT OF CSR

- The CSR projects that benefit only the employees of the company and their families shall not be considered as CSR activities in accordance with section 135 of the Act;
- One-off events such as marathons/ awards/ charitable contribution/ advertisement/sponsorships of TV programmes etc. would not be qualified as part of CSR expenditure;
- Activities which are not taken up in project mode.
- Expenses incurred by companies for the fulfillment of any Act/ Statute of regulations (such as Labour Laws, Land Acquisition Act etc.) would not count as CSR expenditure under the Companies Act;
- Contribution of any amount directly or indirectly to any political party shall not be considered as a CSR activity;
- Activities undertaken by the company in pursuance of its normal course of business.

Corporate Social Responsibility

Highlights of the Legislation – Significant Aspects of the Companies (CSR Policy), Rules 2014.

MODES OF IMPLEMENTING CSR INITIATIVES

CSR Activities in accordance with the CSR Policy may be undertaken in any of the manner mentioned below:

	Particulars
Option 1	Directly through designated CSR Department / Staff of the Company
Option 2:	Through a registered trust, society or a company established by the Company.
Option 3:	Through an external trust, society or a company (NGO) having an established track record of three years in undertaking similar projects or programs
Option 4:	The Company may collaborate with other Companies for undertaking CSR activities

CONCEPT & IMPLEMENTATION UNDER THE COMPANES ACT, 2013

Clarifications issued by the Ministry of Corporate Affairs.



Corporate Social Responsibility

Clarifications issued by Ministry of Corporate Affairs

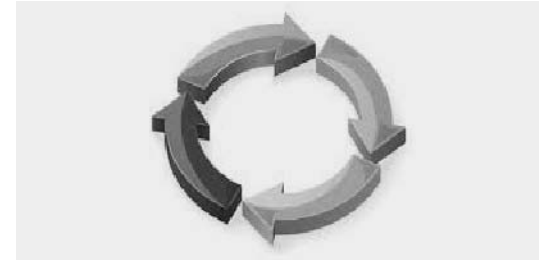
Ministry of Corporate Affairs has come up with several circulars notifying amendments and clarifying provisions relating to Section 135 of the Companies Act, 2013 and related rules. Some of the significant clarifications are:

- ❑ The entries in Schedule VII must be **interpreted liberally** so as to capture the essence of the subjects enumerated in the said Schedule.
- ❑ **One-off events** such as marathons/ awards/ charitable contribution/ advertisement/ sponsorships of TV programs etc. would not be qualified as part of CSR expenditure.
- ❑ Expenses incurred by companies for the **fulfillment of any Act/ Statute of regulations** would not count as CSR expenditure under the Companies Act.
- ❑ Any “financial year” referred under Sub-Section (1) of Section 135 of the Act read with Rule 3(2) of Companies CSR Rule, 2014, implies ‘any of the three preceding financial years’.

Corporate Social Responsibility

Clarifications issued by Ministry of Corporate Affairs

- ❑ Expenditure incurred by Foreign Holding Company for CSR activities in India will qualify as CSR spend of the Indian subsidiary if:
 1. the CSR expenditures are routed through Indian subsidiaries
 2. and if the Indian subsidiary is required to do so as per section 135 of the Act.
- ❑ 'Registered Trust' (as referred in Rule 4(2) of the Companies CSR Rules, 2014) would include Trusts registered under Income Tax Act 1956, for those States where registration of Trust is not mandatory.
- ❑ Contribution to Corpus of a Trust/ society/ section 8 companies etc. will qualify as CSR expenditure if:
 1. the Trust/ society/ section 8 companies etc. is created exclusively for undertaking CSR activities
 2. or where the corpus is created exclusively for a purpose directly relatable to a subject covered in Schedule VII of the Act.

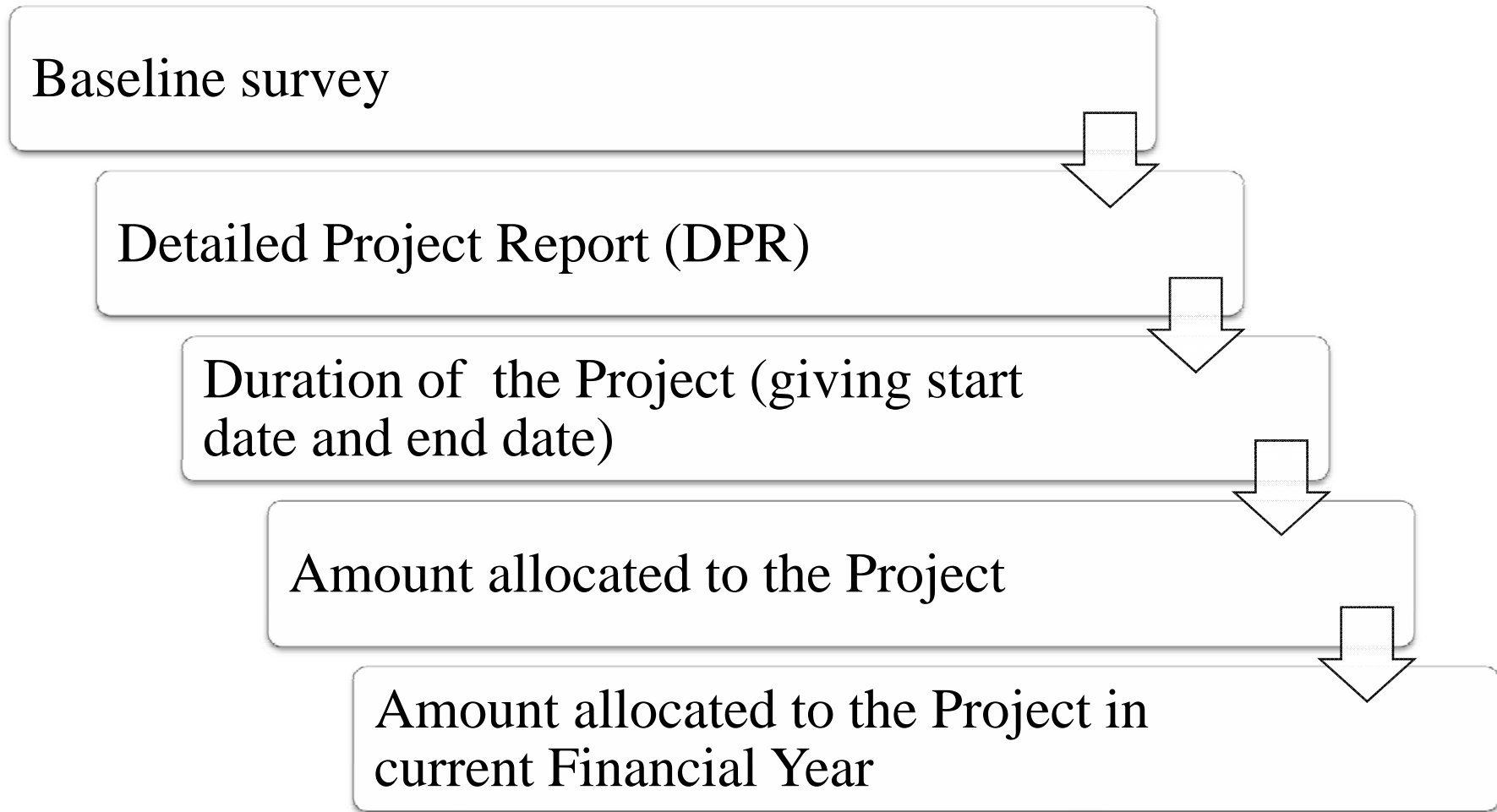


**CONCEPT & IMPLEMENTATION UNDER THE
COMPANES ACT, 2013**

Project Mode for CSR Initiative Implementation

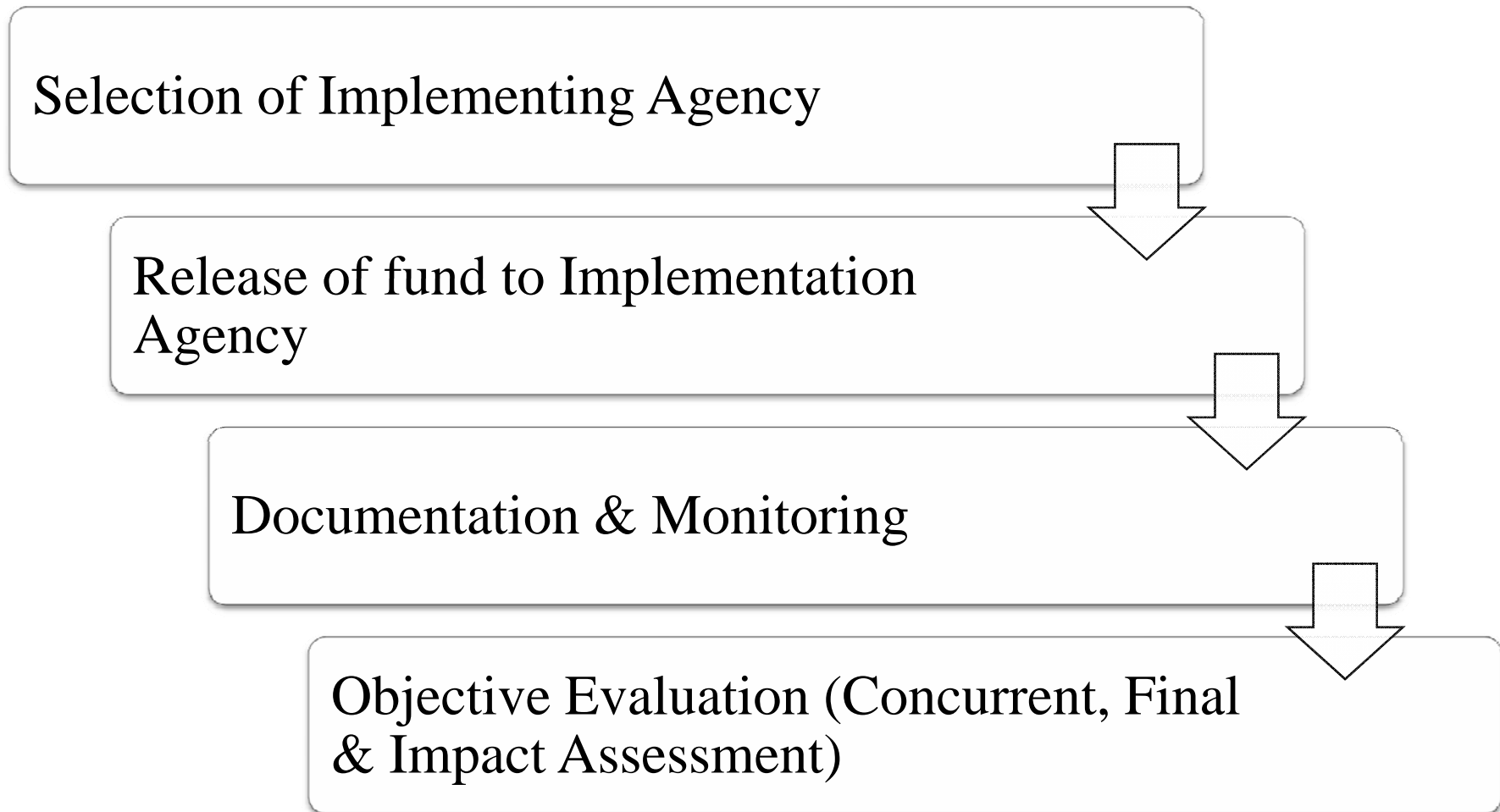
Corporate Social Responsibility

Project Mode for CSR Initiative Implementation



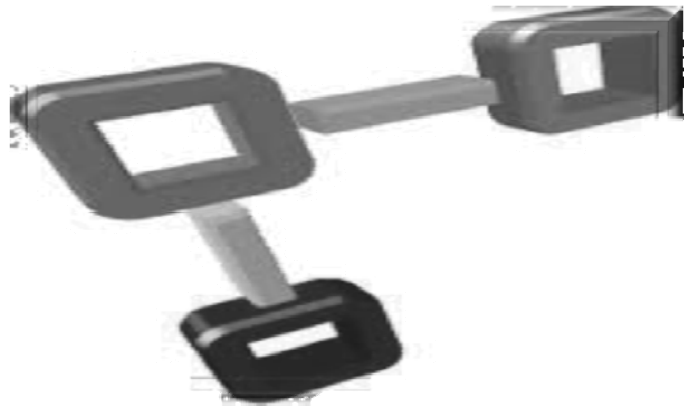
Corporate Social Responsibility

Project Mode for CSR Initiative Implementation



CONCEPT & IMPLEMENTATION UNDER THE COMPANES ACT, 2013

CSR Rationale



Corporate Social Responsibility

CSR Rationale

Track record of Corporates

- ❑ Many Companies already have a track record of good CSR practices;
- ❑ In recent times, organizations in India have shown both innovation and business acumen in taking up CSR initiatives;
- ❑ The CSR provisions of the Act seek to create an enabling environment;
- ❑ They will allow corporates to harness and channelize their core competencies so that CSR efforts acquire greater focus and impact-orientation.

Corporate Social Responsibility

CSR Rationale and Corporate Initiatives.

CSR Provisions as facilitators

- ❑ They will promote and facilitate the efforts of corporates to reach out to poor/marginalized/deprived sections of the community through responsible, capable and credible implementing agencies;
- ❑ They are expected to foster collaboration and synergy among corporates to make a significant impact on our development-centric agenda;
- ❑ They will facilitate a movement from cheque book charity/philanthropy to strategic CSR.

Role of Chartered Accountants

Professional Opportunities



Corporate Social Responsibility

Professional Opportunities

1. Consultancy in CSR
2. Business responsibility reports SEBI
3. Accounting for CSR
4. Taxation for CSR
5. Application of FCRA
6. Application & compliance with FEMA
7. Advising on NPO Governance
8. Grading/ Rating NPOs
9. Social Audit
10. Selection of NPOs –
 - a. Trust
 - b. Society
 - c. Company
 - d. Non Trading Corporations
11. Consultants in funding – India & outside India
12. Complying with Standards
13. Integrated Reporting
14. Internal audit of CSR

Thank you

