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Corporate social responsibility (CSR)

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What is corporate social responsibility ?

As per section 135 of THE COMPANIES ACT 2013 every company has to mandatorily spend 2% of their last 3 year average profit on certain specific areas of social upliftment in discharge of their social responsibilities.

Every company including its holding or subsidiary and includes foreign company defined under section 2(42) of the companies act 2013 having its branch office in India with limits crossing

Net worth :- 500cr or more, or

Turnover :- 1000cr or more ,or

Net profit :- 5cr or more

During the immediately preceding financial year shall constitute a CSR committee of the board.





CSR Committee

Every Company on which CSR is applicable is required to constitute a CSR Committee of the Board:

a. Consisting of 3 or more directors, out of which at least one director shall be an independent director in case of public company

b. Consisting of 2 directors in case of a private company having only two directors on its Board

c. Consisting of at least 2 persons in case of a foreign Company of which one person shall be its authorised person resident in India and another nominated by the foreign company



Role of CSR committee

(i) The main role of the committee is to formulate and recommend to the Board a Corporate Social Responsibility Policy which should indicate the activities to be undertaken by the company.


(ii) The Committee has to also recommend the quantum of expenditure to be incurred on these activities.

(iii) The Committee has to monitor the Corporate Social Responsibility Policy of the company from time to time.



Schedule 7

1. Eradicating hunger, poverty and malnutrition, promoting health care
2. Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled
3. Promoting gender equality, empowering women, setting up homes and hostels for women and orphans
4. Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources
5. Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art
6. Measures for the benefit of armed forces veterans, war widows and their dependents


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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 govt. for socio economic
 9. Contributions or funds provided to technology incubators located within academic institutions
 10. Rural development projects
 11. Slum area development



Amended vide Section 21 of The Companies (Amendment) Act, 2019

1. If the amount, out of provision created, is not spent in the financial year AND the unspent amount does not relate to an ongoing project the such unspent amount shall be transferred to a specified fund in Schedule VII within a period of 6 months from the end of FY and

If unspent amount relates to ongoing projects, such amount shall be transferred within a period of 30 days from the end of the FY to a special account to be opened by the company in a Unspent Corporate Social Responsibility Account and such amount shall be spent within a period of 3 FY from the date of transfer to the fund of CSR , failing which the company shall transfer the same to a fund maintained under Schedule VII within 30 days from the end completion of 3 years of transfer.



2. Contribution to Corpus of a Trust/ society/ section 8 companies etc. will qualify as CSR expenditure as long as

- (a) the Trust/ society/ section 8 companies etc. is created exclusively for undertaking CSR activities*
- (b) where the corpus is created exclusively for a purpose directly relatable to a subject covered in Schedule VII of the Act (i.e., for undertaking CSR activities on behalf of the companies).*

3. It has been observed over number of years that a big chunk of CSR funds goes into education related endeavors. Therefore, Ministry of Education was also recommending use of CSR funds to overcome digital divide in education in COVID times.

4. Earlier CSR was voluntary but with effect from 22 jan 2021 it is made mandatory



Role of Internal Audit in CSR

1. Internal Auditors might facilitate or advise management on CSR self assessment activities
2. Internal Auditors might be involved in auditing CSR programs, either as individual components of the audit plan, or as a broad based review of how CSR is managed.
3. Internal Auditors might become involved in coordinating or participating in CSR Report verifications {assurance audits} or assurance relating to controls over public disclosures of financial and non-financial information relating to CSR



Major Areas of Internal Audit Significance

Economic
performance

Environmental
concern

Labour

Human rights
& society

Product
responsibility



Challenges in initial implementation :-

A. In India, it is not very clear as to what the term Corporate Social Responsibility means.

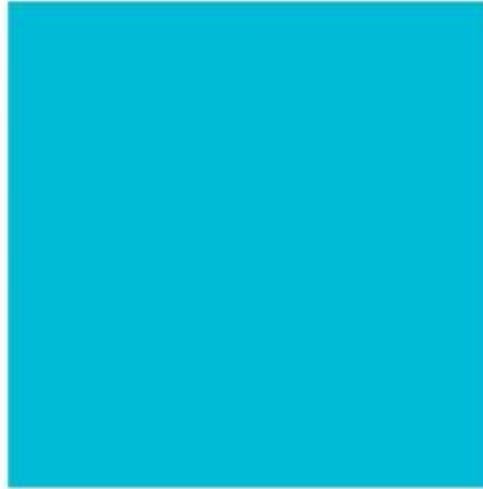
B. Today, CSR to some companies means providing lunch to employees. To others, it's about tackling global warming and environmental issues.

C. The lines between philanthropy and CSR have grown hazier.

D. CSR should actually relate to the way you conduct your business, whereas it gets confused with giving to the local communities in which you operate.

E. . The first Government paper on CSR - released by the Ministry of Corporate Affairs in 2009 - also talks of health, cultural and social welfare, and education coming under the CSR head.

F. The government is also ensuring that the public sector companies participate actively in CSR initiatives.



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