

CORPORATE SOCIAL RESPONSIBILITY (CSR)

CSR seems to be the buzz word today in India Inc.! Why?

CSR was a voluntary contribution by companies to have a better society and environmental sustainability - at least until the passage of the Companies Act, 2013. However, effective 1st April, 2014 the new Act and the CSR Rules notified thereunder, mandates certain class of companies to contribute to CSR activities as listed in the Rules.

Broadly, CSR refers to the way the businesses are managed to bring about an overall positive impact on the communities, cultures, societies and environments in which they operate.

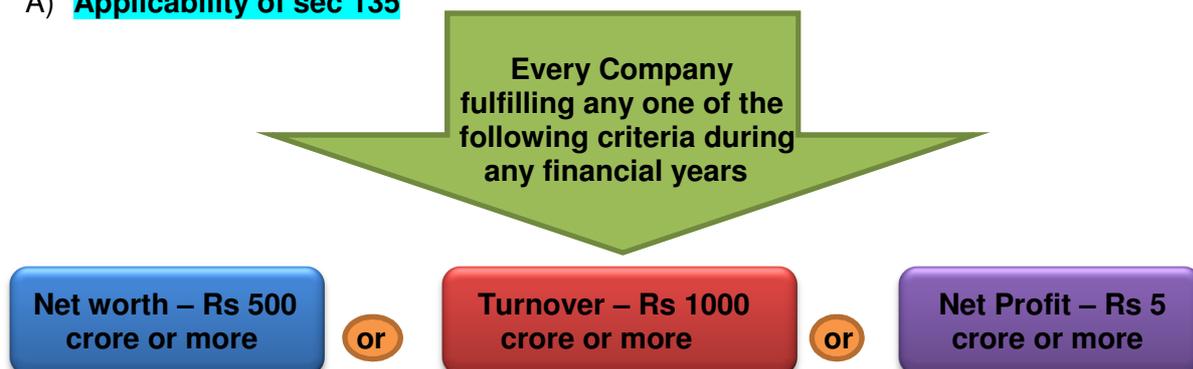
Companies like Tata group, Aditya Birla Group, Indian Oil, Bharat Petroleum and many others have adopted strategies in promoting CSR for the past several decades. These companies are playing an inspiring role in fulfilling the core objective of CSR i.e. to maximize the company's overall impact on society, serve the community and improve the overall quality of life of its stakeholders.



CHAPTER IX - CORPORATE SOCIAL RESPONSIBILITY AS PER COMPANIES ACT 2013

The Companies (Corporate Social Responsibility Policy) Rules, 2014 which were notified on 27.02.2014 and the amendments made to Schedule VII of Companies Act, 2013 will be effective from **1st April, 2014**.

A) **Applicability of sec 135**



B) **Composition of CSR committee**

As per section 135 of the Companies Act, 2013, the CSR Committee should contain minimum 3 directors out of which 1 should be an independent director, which is **mandatory**. There is no limit for maximum number of directors in the Committee.

In case of a Private Company which has only two directors on its Board, the CSR Committee will be composed of those two directors.

As per section 134(3) the composition of the CSR Committee shall be disclosed in the Board's Report.

C) **Functions of CSR Committee:**

1. To frame CSR Policy to carry on the activities (projects and programs) specified in Schedule VII of the Companies Act, 2013, recommend the Policy to the Board and monitor the same from time to time.
2. To recommend the Board regarding the amount of expenditure to be incurred for the activities referred in clause (1).

D) **Duties and Responsibilities of Board of Directors:**

1. To consider the recommendation made by CSR Committee.
2. To approve the CSR Policy for the company.
3. To disclose the contents of such Policy in the form "Annual Report on CSR" in Board's Report.
4. To display the contents of CSR policy on the company's website as prescribed.
5. To ensure that the activities mentioned in CSR Policy are undertaken by the company directly or through trusts, societies or charitable companies operating in India or through holding company or subsidiary company.
6. To make sure that the company spends at least 2% of the average net profits of the company made during the 3 immediately preceding financial years on activities specified in CSR Policy.
7. To make sure that 2% is spent for exhilarating the communities in local area or areas in which the company operates.
8. If the company fails to spend such amount, the Board in its Report shall specify the reasons for not spending the amount u/s 134 (3) (o).



E) **Computation of Net Profit (section 198)**

1. It includes Net Profit before Tax (NPBT) as per books of accounts.

2. Shall not include profits arising from branch outside India and any dividend received from other companies in India which come under the purview of Sec.135.
3. In case of Foreign Company, net profit is as per profit and loss account prepared u/s 381 (1) (a).

F) **Schedule VII of Companies Act, 2013**

Following activities have been notified for the purpose of CSR contribution.

- (i) Eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation measures and safe drinking water.
- (ii) Promoting education and vocational skills for all age groups.
- (iii) Promoting gender equality, empowering women, providing shelter and other facilities for needy including old-age homes.
- (iv) Ensuring ecological balance, environmental sustainability, conservation and maintaining quality of natural resources.
- (v) Protection and promotion of national heritage.
- (vi) Measures for the benefit of armed forces veterans and their dependents.
- (vii) Training to promote sports (right from Rural up to Olympic).
- (viii) Contribution to 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 Castes, the Scheduled Tribes, other backward classes, disabled, minorities and women.
- (ix) Contributions or funds provided to technology incubators located within academic institutions for controlling temperature which are approved by the Central Government.
- (x) Rural development projects.



Conclusion

The Companies Act 1956 neither had any provisions nor any prescribed guidelines relating to CSR. The Act has framed mandatory provisions for an estimate of 16000 companies in India which comes under the purview of sec 135 to spend on CSR activities or provide reasons for not spending. It requires these companies to assimilate CSR as one of the objectives to be achieved along with the other long term objectives in order to build a good affinity with all the stakeholders and society at large. It remains to be seen how India Inc will respond to this mandate.

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