

Corporate Social Responsibility - an opportunity to improve the status of Society



By



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This article will provide us the overall idea about corporate social responsibility from root level to top level. The main motive behind the formation of this concept is the economic contribution of companies to society

Introduction

We human owes a lot to this planet, it is first and foremost responsibility to serve the best for the society we live in. As the corporate social responsibility is the concept familiar to everyone in corporate it is we Chartered Accountant are ethically bound to spread awareness and impressed upon doing good for the society. Sharing knowledge by giving presentations to professionals and academic groups that would like to create a more ethical organizational environment, as well as providing tips to improve ethics in financial reporting.

The emerging concept of Corporate Social Responsibility (CSR) goes beyond charity and requires the company to act beyond its legal obligations and to integrated social, environmental and ethical concerns into company's business process.

“There is a strong need for establishing socially responsible business models as Corporate Social Responsibility (CSR) is not merely a question of morality but an example of good economics.”

Former Corporate Affairs Minister Mr. Salman Khurshid

What is Corporate Social Responsibility (CSR)?

It refers to business practices involving initiatives that benefit society.

The term “Corporate social responsibility”, signifies that the corporate are equally responsible for the society where it is doing business. They need to be concerned about the society as well. They are entitled to work towards the societies benefit.

A business's CSR can encompass a wide variety of tactics, from giving away a portion of a company's proceeds to charity, to implementing "greener" business operations.

Corporate social responsibility consists of three words corporate, social and responsibility.

- **Corporate**- relating to a large company or group. The word corporate means an organization formed by a large group of people, having a separate legal entity.
- **Social**-According to dictionary meaning, it is relating to, devoted to, or characterized by friendly companionship or relations.
- **Responsibility**- It means the state or fact of having a duty to deal with something or of having control over someone.



Therefore, in sum total corporate social responsibility means that it is the duty of the corporate or an organization to maintain harmonious relations with society or to work towards the welfare of the society. The society where the organization is established needs to be benefited by its act.

Now the question is Why CSR?

- ✓ CSR improves the public image by publicizing the efforts towards a better society and increase their chance of becoming favorable in the eyes of consumers.
- ✓ CSR increases media coverage as media visibility throws a positive light on the organization.
- ✓ CSR enhances the company's brand value by building a socially strong relationship with customers
- ✓ CSR helps companies to stand out from the competition when companies are involved in any kind of community.
- ✓ CSR helps in minimizing environmental damage.
- ✓ It also provides sense of responsibility towards the society.



Few examples of CSR activities are:

1. Doing charity
2. Improving labor policies
3. Reducing carbon footprints
4. Participating in fair trade

5. Diversity, equity and inclusion
6. Community and virtual volunteering- e.g. campaigning during COVID-19 pandemic
7. Corporate policies that benefit the environment
8. Investing in more sustainable products
9. Socially and environmentally conscious investments

Who brought the concept of CSR?

This concept was first brought by Howard Bowen, an American economist, in 1953. He was also known as the father of CSR. He brought this concept for the first time in his publication named social responsibilities of the businessman. There after many researches have been made.

The Ministry of Corporate Affairs (MCA) in July 2011 has published the National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business. These principles and guidelines have not much impact on the society and business. Therefore, the principle of NVG was afterward interpreted into a mandatory provision of Corporate Social Responsibility (CSR) under Section 135 of the Companies Act, 2013.

The concept of corporate social responsibility was first evolved in India in the Companies Act, 2013. Section 135 was inserted under the Companies Act, 2013 which deals with the Corporate Social Responsibility and the Companies (Corporate Social Responsibility) rules, 2014 were made thereunder. Earlier there were no provisions for corporate social responsibility in Companies Act, 1956. Section 293(1) (e) of the Companies Act, 1956 dealt with the contributions for charitable activities. It provides for contribution to charitable and other funds not directly relating to the business of the company or the welfare of its employees, any amounts the aggregate of which will, in any financial year, exceed fifty thousand rupees or

five per cent. Of its average net profits during the three financial years immediately preceding, whichever is greater?

For the first time in the history of the country, the companies Act, 2013 make it mandatory for the companies to contribute to the social welfare.

Legal Provision in India

The Ministry of Corporate Affairs has notified Section 135 and Schedule VII of the Companies Act as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 (CRS Rules) which has come into effect from 1 April 2014.

A number of significant developments have taken place since then. The Ministry of Corporate Affairs has notified the amendments in Section 135 of the Act as well in the CSR Rules on 22nd January 2021.

Defining the terms

1. **“Corporate Social Responsibility (CSR)”** means the activities undertaken by a Company in pursuance of its statutory obligation laid down in section 135 of the Act, but does not include-

(i) activities undertaken in pursuance of normal course of business of the company:

Note: any company engaged in research and development activity of new vaccine, drugs and medical devices in their normal course of business may undertake research and development activity of new vaccine, drugs and medical devices related to COVID-19 for financial years 2020-21, 2021-22, 2022-23 with certain terms and conditions apply-

✓ such research and development activities shall be carried out in collaboration with any of the institutes or organizations mentioned in item (ix) of Schedule VII to the Act;

- ✓ details of such activity shall be disclosed separately in the Annual report on CSR included in the Board's Report
 - (ii) any activity undertaken by the company outside India except for training of Indian sports personnel representing any State or Union territory at national level or India at international level;
 - (iii) contribution of any amount directly or indirectly to any political party under section 182 of the Act;
 - (iv) activities benefitting employees of the company as defined in clause (k) of section 2 of the Code on Wages, 2019 (29 of 2019);
 - (v) activities supported by the companies on sponsorship basis for deriving marketing benefits for its products or services;
 - (vi) activities carried out for fulfilment of any other statutory obligations under any law in force in India;
2. **"Net profit"** means the net profit of a company as Per its financial statement prepared but does not include-
- (i) any profit arising from any overseas branch or branches of the company' whether operated as a separate company or otherwise; and
 - (ii) any dividend received from other companies in India
3. **"CSR Policy"** means a statement containing the approach and direction given by the board of a company, taking into account the recommendations of its CSR Committee, and includes guiding principles for selection, implementation and monitoring of activities as well as formulation of the annual action plan.

Applicability

The provisions of CSR apply to: Every company

Having in the preceding financial year

- ❖ Net worth > 500 crore
- ❖ Turnover > 1000 crore
- ❖ Net Profit > 5 crore

A holding or subsidiary of a company is not required to comply with the CSR provisions unless the holding or subsidiary itself fulfils the eligibility criteria prescribed under section 135(1) stated above. And the provisions of CSR are applicable to a section 8 Company also.

Note: net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with balance sheet and profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Act.

Preference should be given to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities.

Composition of CSR committee

1. For Listed companies:

- Three or more directors, out of which at least one shall be an independent director.

2. Unlisted public companies:

- Three or more directors, out of which at least one shall be an independent director.

However, if there is no requirement of having an independent director in the company, two or more directors.

3. Private companies:

- Two or more directors. No independent directors are required as mentioned in the proviso under section 135(1).

4. **Foreign company:**

- At least two persons out of which: (a) one shall be as specified under clause (d) of subsection (1) of section 380 of the Act, and (b) another shall be nominated by the foreign company.

Note: In a situation where the amount required to be spent by a company on CSR does not exceed fifty lakh rupees, the requirement for constitution of the CSR Committee is not mandatory and the functions of the CSR Committee, in such cases, shall be discharged by the Board of Directors of the company.

Functions of CSR Committee

- (a) Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company in areas or subject, specified in Schedule VII
- (b) recommend the amount of expenditure to be incurred on the CSR activities
- (c) monitor the Corporate Social Responsibility Policy of the company from time to time.

As per Rule 5(2) of the Companies (Corporate Social Responsibility Policy Rules, 2014-

The CSR Committee formulates and recommend to the Board, an annual action plan in pursuance of its CSR policy, which shall include the following:

- a) The list of CSR projects or programs that are approved to be undertaken;
- b) The manner of execution of such projects or programs;
- c) The modalities of utilization of funds and implementation schedules for the projects or programs;
- d) Monitoring and reporting mechanism for the projects or programs; and

e) Details of need and impact assessment, if any, for the projects undertaken by the company:

For companies covered under Sec 135(9) and not having CSR Committee these functions shall be carried out by the Board itself

CSR Expenditure

It is the duty of the Board of every company to ensure that the company spends, in every financial year, **at least 2% of the average net profits** of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

In case, the company fails to spend such amount, the Board shall, in its auditor's report attached with financial statement, specify the reasons for not spending the amount.

If a company spends more than the requirement provided under section 135, that excess amount can be set off against the mandatory 2% CSR expenditure in succeeding financial years (effective from 22nd January, 2021).

The excess CSR amount spent can be carried forward up to immediately succeeding three financial years; thus, in case any excess amount is left for set off, it will lapse at the end of the said period. The amount spent by a company towards CSR cannot be claimed as business expenditure.

Is there any tax benefit under CSR?

No specific tax exemptions have been extended to CSR expenditure.

Modes of CSR Expenditure

- (i) 'Activities route', which is a direct mode wherein a company undertakes the CSR projects or programs as per Schedule VII of the Act, either by itself

or by engaging implementing agencies as prescribed in Companies (CSR Policy) Rules, 2014.

- (ii) 'Contribution to funds route', which allows the contributions to various funds as specified in Schedule VII of the Act.
- (iii) Contribution to incubators and R&D projects, as specified in item (ix) (a) and contribution to institutes/organizations, engaged in research and development activity, as specified under item (ix) (b) of Schedule VII of the Act.

Funds specified in Schedule VII of the Act for the purpose of CSR contribution

- i. Swachh Bharat Kosh
- ii. Clean Ganga Fund
- iii. Prime Minister's National Relief Fund (PMNRF)
- iv. Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund)
- v. Any other fund set up by the Central Government and notified by the Ministry of Corporate Affairs, for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women

CSR Activities

Activities which may be included by companies in their Corporate Social Responsibility Policies Activities relating to:—

- (i) Eradicating hunger, poverty and malnutrition, "promoting health care including preventive health care" and sanitation including contribution to the

Swachh Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water.

- (ii) Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects.
- (iii) Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centers and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
- (iv) 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.
- (v) 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 art and handicrafts;
- (vi) measures for the benefit of armed forces veterans, war widows and their dependents, Central Armed Police Forces (CAPF) and Central Para Military Forces (CPMF) veterans, and their dependents including widows;

- (vii) training to promote rural sports, nationally recognized sports, Paralympic sports and Olympic sports

- (viii) contribution to the prime minister's national relief fund ⁸[or Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund)] or any other fund set up by the central govt. for socio economic development and relief and welfare of the schedule caste, tribes, other backward classes, minorities and women;

- (ix) (a) Contribution to incubators or research and development projects in the field of science, technology, engineering and medicine, funded by the Central Government or State Government or Public Sector Undertaking or any agency of the Central Government or State Government; and

(b) Contributions to public funded Universities; Indian Institute of Technology (IITs); National Laboratories and autonomous bodies established under Department of Atomic Energy (DAE); Department of Biotechnology (DBT); Department of Science and Technology (DST); Department of Pharmaceuticals; Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH); Ministry of Electronics and Information Technology and other bodies, namely Defense Research and Development Organization (DRDO); Indian Council of Agricultural Research (ICAR); Indian Council of Medical Research (ICMR) and Council of Scientific and Industrial Research (CSIR), engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals (SDGs).]

(x) rural development projects

(xi) Slum area development.

Explanation.- For the purposes of this item, the term `slum area' shall mean any area declared as such by the Central Government or any State Government or any other competent authority under any law for the time being in force.

(xii) Disaster management, including relief, rehabilitation and reconstruction activities.

CSR Reporting

As per Rule 8(1) of the Companies (Corporate Social Responsibility Policy) Rules, 2014, the Board's Report of a company pertaining to any financial year shall include an Annual Report on CSR containing particulars specified in Annexure I or Annexure II, as applicable. In case of a foreign company, the balance sheet filed under clause (b) of sub-section (1) of section 381 of the Act, shall contain an Annual Report on CSR containing particulars specified in Annexure I or Annexure II, as applicable.

Disclosure requirements at the website of the company

As per Rule 9 of the Companies (Corporate Social Responsibility Policy) Rules. 2014, the Board of Directors of the Company shall mandatorily disclose-

- the composition of the CSR Committee;
- CSR Policy and
- Projects approved by the Board on their website, if any, for public access.

CSR spending pertaining to COVID-19

As per **General Circular no. 10/2020 DATED 23.03.2020**, the World Health Organization (WHO) has declared COVID-19 as pandemic. Hence, spending of CSR Funds for COVID-19 is eligible CSR activity. Funds may be spent for various activities related to COVID-19 under item nos. (I) to (xii) of schedule VII relating to promotion of health care including preventive health care and sanitation, an, disaster management.

It is also specified in the General Circular No. 01/2021 DATED 13.01.2021 that the spending of CSR Funds for carrying out awareness campaigns/ programs or public outreach campaigns on COVID-19 Vaccination programmed is an eligible CSR activity under item no. (I), (ii) & (xii) of Schedule VII of the Act relating to promotion of health care, including preventive healthcare and sanitization, promoting education, and, disaster management respectively, subject to fulfilment of Companies (CSR Policy) Rules, 2014 and Circulars related to CSR issued from time to time.



World scenario

Although responsible companies had already existed for more than a century before, the term Corporate Social Responsibility was officially coined in 1953 by American economist Howard Bowen in his publication *Social Responsibilities of the Businessman*. As such, Bowen is often referred to as the father of CSR.

Role of Chartered Accountants

The chartered accountant can provide their expert service in the form of

- CSR Reporting and compliance
- Advisory services

- Implementation of the law
- Audit of projects under CSR
- ensure that the corporate values and social values never come in conflict
- Good corporate governance
- Conduct awareness programs on CSR

Amount spent in CSR year wise

Financial Year	Amount sent in CSR (in crore)
2014-2015	10,065.93
2015-2016	14,517.21
2016-2017	14,344.40
2017-2018	17,097.66
2018-2019	20,150.27
2019-2020	24,688.66
2020-2021	8,828.11

CSR Awards

This initiative has been taken by the Ministry of Corporate affairs in order to increase CSR spending and to give recognition to the companies who made contributions to the societies in large and taken various initiatives. This award has been categorized into 3 parts.

Category I - Corporate Awards for Excellence in CSR

I) Companies having eligible CSR Spend equal and above Rs. 100 Crores;

ii) Companies having eligible CSR Spend equal and above Rs. 10 Crores and less than Rs. 100 Crores;

iii) Companies having eligible CSR Spend equal and above Rs.1 Crore and less than Rs.10Crores; and

iv) Companies having eligible CSR Spend below Rs. 1 Crore.

Category II - CSR Awards for CSR in Aspirational Districts / Difficult Terrains

i) Northern India

ii) North-East India

iii) Eastern India

iv) Western India

v) Southern India

Category III - CSR Awards for contribution in National Priority Areas

i) Education

ii) Skill Development and Livelihoods

iii) Agriculture and Rural Development

iv) Health, Safe Drinking Water and Sanitation

v) Environment, Sustainable Development and Solar Energy

vi) Women and Child Development

vii) Technology Incubation

viii) Promotion of Sports

ix) Slum Area Development

x) Heritage, Art and Culture

xi) Support to Differently-Abled

National CSR Data Portal- <https://www.csr.gov.in/>

The Ministry of Corporate Affairs has also constituted National CSR data portal which provides all CSR related data. It provides all the information related to CSR spending, year wise, state wise and companies wise. All the information is available in one platform. It also provides all the information related to National CSR award.

ISO 26000:2010, Guidance on social responsibility, and OECD Guidelines for Multinational Enterprises (2011)

ISO 26000 mainly deals with the providing assistance to organizations in contributing. It also provides 7 principles of social responsibility-

- Accountability
- Transparency
- Ethical behavior
- Respect for stakeholder interests
- Respect for the rule of the law
- Respect for international norms of behavior
- Respect for human rights

These standards provide that an organization should consider two fundamental practices of social responsibility. Those are:

- recognizing its social responsibility within its sphere of influence, and
- Identifying and engaging with its stakeholders.

ISO 26000 talks about seven core subjects of social responsibility. The seven core subjects include detailed guidance on 37 issues for social responsibility.

Those seven core subjects and related issues are-

1. Organizational governance

2. Human rights:

It mainly deals with eight issues-

- a. Due diligence
- b. Human rights risk situations
- c. Avoidance of complicity
- d. Resolving grievances
- e. Discrimination and vulnerable groups
- f. Civil and political rights
- g. Economic, social and cultural rights
- h. Fundamental principles and rights at work

3. Labour practices

- a. Employment and employment relationships
- b. Conditions of work and social protection
- c. Social dialogue
- d. Health and safety at work
- e. Human development and training in the workplace

4. The environment

- a. Prevention of pollution
- b. Sustainable resource use
- c. Climate change mitigation and adaptation
- d. Protection of the environment, biodiversity and restoration of natural habitats

5. Fair operating practices

- a. Anti-corruption
- b. Responsible political involvement
- c. Fair competition
- d. Promoting social responsibility in the value chain
- e. Respect for property rights

6. Consumer issues

- a. Fair marketing, factual and unbiased information and fair contractual practices
- b. Protecting consumers' health and safety
- c. Sustainable consumption
- d. Consumer service, support, and complaint and dispute resolution
- e. Consumer data protection and privacy
- f. Access to essential services
- g. Education and awareness

7. Community involvement and development

- a. Community involvement
- b. Education and culture
- c. Employment creation and skills development
- d. Technology development and access
- e. Wealth and income creation
- f. Health
- g. Social investment

Social Audit

Social means relating to society or its organization and audit means an official inspection of an organization's accounts, typically by an independent body. The word social is derived from the Latin word socialis which means 'allied'.

The word audit is derived from the Latin word auditus 'hearing', from audire 'hear', in medieval Latin auditus (compoti) 'audit (of an account)'.

A social audit is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance. It is a process by which the people, the final beneficiaries of any scheme, program, policy or law, are empowered to audit such schemes, programs, policies or laws.

Objectives of social audit

1. To assess the physical and financial gaps between needs and resources available for local development.
2. To create awareness among beneficiaries and providers of local social and productive services.
3. To create an impact upon governance.
4. To Increase the efficiency and effectiveness of local development programs.
5. To scrutinize various policy decisions, keeping in view stakeholder interests and priorities, particularly of rural poor.
6. To encourage proper utilization of funds.
7. To improve quality of service.
8. To Estimate of the opportunity cost for stakeholders of not getting timely access to public services.
9. To promote education, research and development in the techniques of the industry.

MNREGA Social Audit

Examples of social audit: Social audit in Jharnipalli Panchayat, Agaipur block, Bolangir district, Orissa

Website:

- National CSR Data Portal- <https://www.csr.gov.in>
- Indian Institute of Corporate Affairs- <https://iica.nic.in/>
- https://nrega.nic.in/netnrega/SocialAuditFindings/SA_home.aspx
- <https://www.socialaudit.rajasthan.gov.in/>
- <https://pnrd.assam.gov.in/portlets/social-audit>
- Ministry of Corporate Affairs, Government of India <http://mca.gov.in/>
- www.unglobalcompact.org/
- International Labour Organization www.ilo.org
- <http://www.accountability.org>
- Social Accountability International www.sa-intl.org/
- International Organization for Standardization <http://www.iso.org/>
- Organization for Economic Cooperation and Development www.oecd.org
- Social return on investment (SROI) www.thesroinetwork.org/

Conclusion:

We human inhabit a world and therefore owes a duty to make it a better place to live. With the use of technological development and new business models we by taking individual responsibility can create a world which is still habitable for future generations. The time has come for us to embrace a new corporate ethic. Sustainability is becoming more and more important with every year that passes, and an essential component of the business strategy of modern companies in the nature of Corporate Social Responsibility which was initially concerned primarily with environmental issues that has now grown in depth and importance to

encompass. As the Corporate Social Responsibility concerns with social, economic, and environmental challenges, responsibility has become a vital concern to business globally.