

QUESTION BOOK

ESG

CHAPTER 14:

CORPORATE SOCIAL RESPONSIBILITY

QUESTION 1:

Mehoon Textiles Ltd, is textile manufacturing company based in Tamil Nadu. The Company has been on a growth trajectory, due to savings in operating cost and increased demand for its products. The financial performance of the Company has been on a positive trend and since last two years, it is also spending towards Corporate Social Responsibility (CSR) as per the requirements of the Companies Act, 2013. The management of the Company is informed by the Company Secretary, that there are some new compliances relating to impact assessment of CSR spent. The management reaches out to you, to help them with the details of compliances. In the light of the provisions of the Companies Act, 2013, read with the Rules made thereunder, prepare a brief note covering the following: **(DEC 2024) (5 MARKS)**

- (i) When is a company obligated to undertake 'impact assessment' through an Independent Agency?

Ans:

1. All those companies which have an average CSR expenditure of 10cr or more in the three preceding financial years shall mandatorily take up impact assessment for those CSR projects which have an outlay of 1 cr or above and which have been completed not less than 1 yr before undertaking the impact assessment.
2. The independent agencies in india which provide the services relating to impact assessment are KPMG, EY etc.

(ii) What is the ceiling of expenditure on impact assessment?

Ans:

The ceiling limit on the expenditure of impact assessment has been capped to 2% of the total CSR expenditure of current financial year or 50 lakhs whichever is higher.

(iii) Whether the impact assessment reports shall be placed before the Board and annexed to the Annual Report on CSR?

Ans:

Yes, the impact assessment report shall be placed before the board and annexed to the annual report.

QUESTION 2:

What are the new norms under Rule 7 of the Companies (Amendment) Act, 2020 introduced for carrying forward and setting off excess CSR expenditure? (JUNE 2023) (5 MARKS)

Ans.

- (i) CSR also known as corporate citizenship is how a company manages its activities in a way which creates an overall positive impact on the society.
- (ii) According to rule 7 of CSR rule, any surplus arising out of the CSR activities shall not form part of the business profit of a company and it shall be ploughed back to the same project or it shall be transferred to the unspent CSR account and spent in pursuance of CSR policy or transfer such surplus amount to a fund specified in schedule VII, within a period of six months of the expiry of the financial year.
- (iii) Where the company spends an amount in excess of its obligation, such excess amount may be set off for up to immediately succeeding three financial years excluding the surplus arising from the CSR activities.

QUESTION 3:

As a Company Secretary of a growing multinational deeply rooted with the belief of Triple Bottom Line (TBL) approach, specify the areas where and how the company can focus.

(JUNE 2023)

Ans:

- (i) The concept behind triple bottom line is that the companies should focus on people and planet which means social and environmental issues as much as they do on profits.
- (ii) The triple bottom line aims to measure the financial, social, and environmental performance of a company over time.
- (iii) Triple bottom line strategy may also result in increased long-term profitability. Though short term costs may increase, a company may become more efficient in the long run.
- (iv) Therefore, the company can work on any issue based on the needs, in any way that helps. The people-related concerns the company faces include Health, Safety, Diversity, ethnicity, Education and literacy, Prevention of child labour etc.
- (v) The planet related concerns that the company might face include Climate change, Energy, Water, Biodiversity and land use , Chemicals, toxics and heavy metals, Air pollution, Waste management, Ozone layer depletion, Ocean and fisheries , Afforestation etc.

QUESTION 4:

You are a company secretary of ABC Ltd. Your company comes under the purview for creation of CSR committee, the bboard wants your advice on the following: (ADDITIONAL QUESTION) (10 MARKS)

- (i) **Composition of CSR committee.**

Ans:

The CSR committee needs to be mandatorily formed when the CSR expenditure of a given year exceeds 50 lakh or if the company has unspent CSR.

The composition of the CSR committee is as under:

1. Listed companies: 3 or more directors, out of which at least one shall be an independent director.
2. Unlisted public companies: 3 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, 2 or more directors.
3. Private companies: 2 or more directors.

4. Foreign companies: 2 persons out of which one should be a resident director and 1 nominated by the foreign company.

(ii) What shall be the duty of board of directors?

Ans:

The duty of board with respect to CSR are as follows:

1. Approve the CSR policy.
2. Formulate recommend and monitor the CSR policy.
3. Disclose contents of such policy in its report and also place it on the company's website.
4. Ensure that the activities included in the CSR policy are implemented by the company.
5. Ensure that the company spends, in every financial year, at least 2 per cent of the average net profits of the company made during the three immediately preceding financial years.
6. If the company fails to comply with its CSR obligations, the board shall specify the reasons for the same in its board report specifying the reasons for not spending the amount and transfer the unspent CSR amount as per provisions.

(iii) What shall be the annual action plan of the board?

Ans:

An Annual Action Plan in the context of Corporate Social Responsibility (CSR) is a yearly roadmap prepared by a company to outline its CSR activities for the financial year.

This plan helps ensure that CSR efforts are organized, transparent, and aligned with the company's CSR policy and legal requirements.

The CSR committee shall formulate and recommend to the board, an annual action plan, which shall include the following:

1. The list of CSR projects or programmes that are approved to be undertaken by the organization.
2. The manner of execution of such projects and programmes as specified under the act.
3. The modalities of utilization of funds and implementation schedules for the projects.
4. Monitoring and reporting mechanism for the projects or programmes undertaken by the company.

QUESTION 5:

What are the activities that do not qualify as eligible CSR activity? **(ADDITIONAL QUESTION)**
(5 MARKS)

Ans:

Certain activities are specifically excluded from being considered as eligible CSR activities they are as follows:

- (i) Activities undertaken in pursuance of normal course of business of the company shall not qualify for CSR expenditure. The only exception being investment into research and development for the purpose of making vaccine related to COVID-19 only for the year 2022-23.
- (ii) Activities undertaken outside India except for the of Indian sports personnel representing India at national or international level.
- (iii) Contribution of any amount, directly or indirectly, to any political party.
- (iv) Activities benefitting employees of the company.
- (v) Sponsorship activities for deriving marketing benefits for products/ services.
- (vi) Activities which are done pursuant to statutory obligations.

