

CSR MADE EASY

Corporate Social Responsibility

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ALL ABOUT CSR REPORTING & DISCLOSURES



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ADITYA BIRLA GROUP
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CSR Centre for Excellence

ALL ABOUT CSR REPORTING & DISCLOSURES

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All about CSR Reporting & Disclosures

Summary of the Provisions

- 1.1.1** With regard to the reporting under CSR there are various statutory requirements as well as recommended practices which should be followed. In this chapter all such issues are discussed.
- 1.1.2** The Board of the company is required to prepare a CSR report under Section 134(3)(o) of the Companies Act, 2014 as provided in the format (*as per Annexure 1*) for reporting CSR activities annually.
- 1.1.3** If the Board of the company is unable to spend the CSR amount during the year then also it is required to be reported under Section 134(3)(o) of the Companies Act, 2014.
- 1.1.4** In case of foreign companies under Rule 8(2), a foreign company is also required to file an annexure on CSR along with its balance sheet under Section 381(1)(b).
- 1.1.5** All companies are required to display the CSR policy and other information on the website of the company.
- 1.1.6** In the audited account the CSR expenditure is required to be disclosed under clause (k) of para 5(i) of Schedule III in the notes to accounts.
- 1.1.7** The expenditure in the audited account should be disclosed on accrual basis of accounting.
- 1.1.8** In the audited accounts it is not required to provide the break up of total CSR expenditure. Further it is also not required to disclose the computation of 2% average net profit.

- 1.1.9** It may be noted that the reporting is required to be done under two different Schedules of the act i.e. Schedule III and Schedule VII. The Schedule VII is only about CSR reporting and details as per format are required to be furnished. On the other hand Schedule III provides the framework of financial reporting and no specific detail or elaboration has been prescribed to be furnished.
- 1.1.10** Under Section 134(3)(o) the Board of the company is required to report the short fall in CSR expenditure, however, there is no such requirement of reporting the short fall of CSR expenditure, in the audited financial statements.
- 1.1.11** Any income or surplus generated from CSR activities should not be added back to the business income of the company. In other words, such surplus should be used for CSR purpose only. However, there is no accounting or disclosure regulation prescribed in this regard.
- 1.1.12** Certain recommended disclosures in the annual accounts have been discussed.
- 1.1.13** All companies are also required to file Annual Return with the Registrar of Companies every year under Section 92 of the Act. In the Annual Return to be filed before the Registrar of Companies it is also required to report on CSR under other disclosures.

Content of CSR report

- 1.2.1** The Board of the company shall prepare a CSR report under Section 134(3)(o) read with the Companies (CSR Policy) Rules, 2014 which provide the format (*Annexure 1*) for reporting CSR activities annually. In the CSR report the CSR committee also is required to provide a responsibility statement regarding proper implementation of CSR activities.
- 1.2.2** The major areas/points to be reported are as under :
1. A brief outline of the company's 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. The Composition of the CSR Committee.
 3. Average net profit of the company for last three financial years
 4. Prescribed CSR Expenditure (two per cent of the amount as in item 3 above)
 5. Details of CSR spent during the financial year.
 - (a) Total amount to be spent for the financial year;

- (b) Amount unspent , if any;
 - (c) Manner in which the amount spent during the financial year is required to be mentioned in the prescribed format (*see Annexure 1*)
6. In case the company has failed to spend the two per cent, of the average net profit of the last three financial years or any part thereof, the company shall provide the reasons for not spending the amount in its 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.

Reporting requirement of Foreign Companies

- 1.3.1 In case of foreign companies under Rule 8(2), a foreign company is also required to file an annexure on CSR along with its balance sheet under Section 381(1)(b).
- 1.3.2 In addition to the above requirement the foreign company should also disclose the CSR related information in its India specific website.
- 1.3.3 It is also recommended that all foreign companies should provide CSR detail as per the prescribed format provided in *Annexure 1* in the India specific annual report, if any.

Display of CSR Policy & Information on Website

- 1.4.1 All companies are required to display the CSR policy and other information on the website of the company. Under Section 135(4)(a) it is required that CSR policy should be placed on the companies website. Therefore, displaying the CSR policy on the website is statutory requirement. Display of other information on the website of the company is a recommended practice.
- 1.4.2 The company which are covered under the CSR criteria are required to have their website, in case, they are not having one.

Disclosure in the Financial Statements

- 1.5.1 In the audited account the CSR expenditure is required to be disclosed under clause (k) of para 5(i) of Schedule III in the notes to accounts.

1.5.2 The text of para 5(i) of Schedule III in the notes to accounts is as under :

5. *Additional Information*

A Company shall disclose by way of notes additional information regarding aggregate expenditure and income on the following items:—

- (i) (a) Employee Benefits Expense [showing separately (i) salaries and wages, (ii) contribution to provident and other funds, (iii) expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP), (iv) staff welfare expenses].
- (b) Depreciation and amortisation expense;
- (c) Any item of income or expenditure which exceeds one per cent of the revenue from operations or Rs.1,00,000, whichever is higher;
- (d) Interest income;
- (e) Interest expense;
- (f) Dividend income;
- (g) Net gain/loss on sale of investments;
- (h) Adjustments to the carrying amount of investments;
- (i) Net gain or loss on foreign currency transaction and translation (other than considered as finance cost);
- (j) Payments to the auditor as (a) auditor; (b) for taxation matters; (c) for company law matters; (d) for management services; (e) for other services; and (f) for reimbursement of expenses;
- (k) In case of Companies covered under Section 135, amount of expenditure incurred on corporate social responsibility activities;
- (l) Details of items of exceptional and extraordinary nature;
- (m) Prior period items;

1.5.3 The expenditure in the audited account should be disclosed on accrual basis of accounting. There is no specific requirement / direction regarding the accrual basis of reporting of CSR expenditure. However, all companies are required to follow the accrual basis of accounting and the use of the words “*expenditure incurred*” in clause (k) of para 5(i) of Schedule III above also indicates the requirement of accrual basis. As the word ‘payment’ has not been used.

1.5.4 Further, in the audited accounts it is not required to provide the break up of total CSR expenditure. It is also not required to disclose the computation of 2% average net profit.

1.5.5 It may be noted that the 2% Average Net Profit is a across the year computation,

it pertains to more than one financial year. However, it is recommended that the financial statement should show the computation of 2% Average Net Profit as per Section 198.

- 1.5.6** It may be noted that the reporting is required to be done under two prescribed formats i.e. Schedule III and the format under Companies (CSR Policy) Rules, 2014. The format under Companies (CSR Policy) Rules, 2014 specifically prescribed CSR reporting as per format provided. On the other hand Schedule III provides the framework of financial reporting however, there is no specific detail or elaboration prescribed to be furnished. It is recommended that appropriate detail regarding CSR expenditure should also be provided in the financial statements.

Reporting of Shortfall and Surplus

- 1.6.1** Under Section 134(3)(o) the Board of the company is required to report the short fall in CSR expenditure, however, there is no such requirement for reporting the short fall of CSR expenditure in the audited financial statements. It is recommended that the shortfall of expenditure should also be reported clause (k) of para 5(i) of Schedule III as discussed earlier.
- 1.6.2** Similarly, any income or surplus generated from CSR activities should not be added back to the business income of the company. In other words, such surplus should be used for CSR purpose only. However, there is no accounting or disclosure regulation prescribed in this regard. It is recommended that the shortfall should also be reported clause (k) of para 5(i) of Schedule III as discussed earlier.

Disclosure in the Annual Return

- 1.7.1** All companies are also required to file Annual Return with the Registrar of Companies every year under Section 92 of the Act. In the Annual Return it is also required to report on CSR under other disclosures. It may be noted that the Annual Return is different from the Annual Report and the Financial Statements.
- 1.7.2** The Annual Return is required to be filed under Section 92 of the Act, read with the Companies (Management and Administration) Rules, 2014. The return is filed in Form MGT-7. The disclosure pertaining to CSR as per the form is as under :

XV. OTHER DISCLOSURES

- (1) Corporate Social Responsibility

- (a) Amount spent by the company during the financial year in pursuance of its Corporate Social Responsibility policy –
- (b) The amount spent as percentage of the average net profits of the company made during the three immediately preceding financial years-

1.7.3 It can be noted that minimal disclosures in the Annual Return are required to be made regarding the amount spent and the percentage of the amount spent of the average net profits of the company made during the three immediately preceding financial years.

Disclosure issues when the CSR is Implemented through other NPOs

1.8.1 The reporting and disclosure requirement discussed above are most appropriate when the company itself is implementing the CSR programme. However, if the programme is implemented by other NPOs or corporates, then also similar reporting has to be made, but with some diligence, as discussed hereunder.

1.8.2 When the CSR programme is implemented by other NPOs (whether promoted by the company or not) then the reporting should be made, based, on the actual disbursement of the grants to such NPOs, because under law the transfer of grant itself is treated as applied towards charitable purposes. The Company may provide the breakup in Schedule VII as per the proposed activities. However for monitoring and control purposes the Company should obtain the audited utilisation statements.

Disclosure issues when the CSR is implemented through other Corporates

1.9.1 When the CSR programme is implemented in collaboration with other corporates including the holding or subsidiary companies, then the proportionate amount pertaining to that particular corporate should be reported. For instance if the holding company is implementing the CSR on behalf of its two subsidiaries then as far as reporting is concerned all these 3 companies should report to the extent of their share/contribution of the CSR activities. It may be noted in case of inter-corporate pooling of expenditures the reporting should be made, based, on actual utilisation and not on the basis of transfers made from one corporate to the other.

Other Disclosure Issues

1.10.1 The CSR law and rules are not very explicit about the CSR disclosures. However, it is suggested that the following issues should be disclosed by the company :

- ◆ The expenditure in Schedule VII should be supported by the break up of expenditures. Similar break up should find a place in the Annual Report on CSR by the Directors.
- ◆ The report should also specify the mode of implementation i.e. whether implementing directly or through other NPOs or other corporates.
- ◆ When CSR expenditures are pooled together by various corporates, then it is advisable to provide the break up of the share of each corporate. It is also important to specify the corporate responsible for the implementation.
- ◆ The computation of the average profit for past 3 years and also the surplus or short fall should be reported.

FORMAT FOR THE ANNUAL REPORT ON CSR ACTIVITIES

FORMAT FOR THE ANNUAL REPORT ON CSR ACTIVITIES TO BE INCLUDED IN THE BOARD’S REPORT

1. A brief outline of the company’s 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. The Composition of the CSR Committee.
3. Average net profit of the company for last three financial years
4. Prescribed CSR Expenditure (two per cent. of the amount as in item 3 above)
5. Details of CSR spent during the financial year.
 - (a) Total amount to be spent for the financial year;
 - (b) Amount unspent , if any;
 - (c) Manner in which the amount spent during the financial year is detailed below.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
S. No	CSR project or activity identified.	Sector in which the project is covered	Projects or programs (1) Local area or other (2) Specify the State and district where projects or Programs was undertaken	Amount outlay (budget) project or program wise	Amount spent on the projects or programs Subheads : (1) Direct expenditure on projects or programs. (2) Overheads :	Cumulative expenditure upto to the reporting period.	Amount spent: Direct or through implementing agency
1							
2							

3							
	TOTAL						

* Give details of implementing agency:

6. In case the company has failed to spend the two per cent, of the average net profit of the last three financial years or any part thereof, the company shall provide the reasons for not spending the amount in its 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.

Sd/- (Chief Executive Officer or Managing Director or Director)	Sd/- (Chairman CSR Committee)	Sd/- (Person specified under clause (d) of sub-section (1) of section 380 of the Act) (wherever applicable)
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About Publishers

Credibility Alliance (CA) is a consortium of Voluntary Organizations committed towards enhancing Accountability and Transparency in the Voluntary Sector through good Governance. Registered in May 2004 as an independent, not-for-profit Organization, CA emerged as an initiative from within the Sector after an extensive consultative process over a period of two years involving thousands of VOs all over India. As an Organization, CA aspires to build trust among all stakeholders through improving Governance within the Voluntary Sector. As an initiative whose hallmark has been the participatory approach, CA has developed suitable Norms through wide-ranging consultation with & participation of diverse Organizations within the Sector by developing a large membership base.

With the mission 'to build credibility of the Voluntary Sector through creation and promotion of Norms of Good Governance and Public Disclosure', CA's core programme areas comprise of: Accreditation, Capacity Building, Networking and Information Dissemination.

Centre for Promoting Accountability (CPA) is an organisation "To promote accountability and sustainability amongst organisations in the non-profit & CSR sector". It is promoted by Financial Management Service Foundation and is a part of FMSF family.

CPA assists civil society organisations to achieve development effectiveness by promoting transparency and accountability. CPA achieves this through an integrated process of accompaniment, systems development in financial management and governance, training and capacity building, research and publication, reviews and evaluations.

CPA came into existence in the year 2007. CPA firmly believes on the values of accountability, transparency and good governance. CPA is also involved in research and publication of materials that promotes accountability and involved in information dissemination on financial management, governance and legal regulations.

FICCI-Aditya Birla CSR Centre for Excellence has evolved in consonance with Mahatma Gandhi's dream: ethics-based business practices leading to improvement in the quality of life for the common people. The centre envisions- To incubate, nurture and accelerate a paradigm of sustainable and inclusive CSR in India and across the globe, thereby raising the Human Development Index through poverty alleviation.

The Centre for Excellence is a joint endeavor of Federation of Indian Chambers of Commerce & Industry (FICCI), a rallying point for free enterprise in India since 1927 and the Aditya Birla Group - a prominent business group with a mission to deliver superior value to customers, shareholders, employees and society at large.



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