

## **Corporate Social Responsibility Committee: Key Insights from Mehta & Mehta Webinar**

Corporate Social Responsibility (CSR) has evolved from a voluntary philanthropic concept to a structured, board-driven statutory obligation under the Companies Act, 2013. In a recent knowledge-sharing webinar hosted by Mehta & Mehta, experienced panellists deliberated on the legal framework, practical challenges, and governance expectations surrounding CSR, with a special focus on the role of the CSR Committee.

### **1. Evolution of CSR in India**

While CSR was formally introduced through Section 135 of the Companies Act, 2013, its roots in India pre-date the statute. Voluntary guidelines on CSR were issued by the Ministry of Corporate Affairs (MCA) in 2009, followed by the National Voluntary Guidelines in 2011, aligned with the UN Guiding Principles on Business and Human Rights. These initiatives eventually culminated in the statutory CSR framework under the 2013 Act, making India the first country to mandate CSR by law.

### **2. Statutory Framework Governing CSR**

Section 135 of the Companies Act, 2013, read with the Companies (Corporate Social Responsibility Policy) Rules, 2014, and Schedule VII, forms the core CSR framework. CSR applies to companies meeting prescribed thresholds of net worth, turnover, or net profit. The law mandates spending at least 2% of the average net profits of the immediately preceding three financial years on eligible CSR activities.

In addition to Section 135, CSR principles are embedded in other provisions such as:

- ⇒ Section 166 (duties of directors),
- ⇒ Sections 181 and 183 (charitable and national defence contributions), and
- ⇒ SEBI (Listing Obligations and Disclosure Requirements) Regulations, particularly through Business Responsibility and Sustainability Reporting (BRSR).

### **3. Constitution and Composition of the CSR Committee**

The CSR Committee acts as the fulcrum of CSR governance. Ordinarily, it must consist of at least three directors, including at least one independent director. However, the Act provides flexibility for certain categories of companies, including private companies, foreign companies, and companies not required to appoint independent directors.

Where the CSR obligation does not exceed ₹50 lakh, companies may dispense with the CSR Committee, with the Board directly discharging CSR responsibilities. Nevertheless, panellists strongly recommended continuing the CSR Committee as a matter of good governance and continuity, particularly where ongoing projects are involved.

### **4. Roles and Responsibilities of the CSR Committee**

The CSR Committee's responsibilities extend well beyond recommending expenditure. Key functions include:

- ⇒ Formulating and recommending the CSR Policy to the Board;
- ⇒ Identifying CSR projects in line with Schedule VII;
- ⇒ Recommending annual CSR budgets;
- ⇒ Preparing and monitoring the Annual Action Plan;
- ⇒ Overseeing implementation, monitoring progress, and reporting outcomes.

The Committee occupies a fiduciary position, as CSR funds are meant for societal and environmental benefit rather than corporate gain.

### **5. CSR vs Charity – A Critical Distinction**

A recurring theme of the webinar was the clear distinction between charity and CSR. Charity is discretionary and short-term, driven by personal choice. CSR, on the other hand, is institutionalised, structured, and aimed at sustainable and inclusive development. Only activities falling within Schedule VII qualify as CSR, regardless of their charitable intent.

### **6. Implementation, Monitoring, and Utilisation of Funds**

Mere transfer of funds to an implementing agency does not amount to CSR spending unless the funds are actually utilised. Companies are expected to:

- Monitor project execution,
- Ensure proper utilisation within prescribed timelines,
- Obtain utilisation certificates, including certification by the CFO or equivalent officer.

Regular review meetings, site visits, and presentations by implementing agencies were highlighted as best practices to ensure transparency and impact.

### **7. Unspent CSR Amounts and Compliance Risks**

Unspent CSR amounts must be transferred either to an Unspent CSR Account (for ongoing projects) or to funds specified in Schedule VII, within statutory timelines. Importantly, reasons for unspent amounts must also be disclosed in the Board's Report, failing which companies may still be treated as non-compliant.

### **8. Practical Insights and Governance Best Practices**

Panellists shared several practical recommendations, including:

- Treating CSR as a long-term strategy rather than a year-end compliance exercise;
- Preferring local area development while retaining flexibility to undertake projects anywhere in India;
- Avoiding CSR activities that are incidental to normal business operations;
- Ensuring that voluntary constitution of statutory committees is accompanied by full legal compliance.

## **Conclusion**

CSR under the Companies Act, 2013 is not merely a statutory spending obligation but a governance tool that enables companies to contribute meaningfully to sustainable development. A well-functioning CSR Committee, supported by robust policies, monitoring mechanisms, and ethical intent, can transform CSR from a compliance burden into a strategic advantage enhancing stakeholder trust, social impact, and corporate reputation.

To stay informed or access the webinar recording, visit the YouTube channel:

 **"Decoding Corporate Laws with Mehta & Mehta"**