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Corporate Social Responsibility (CSR) Audit Need for another Audit

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The idea of corporate social responsibility, or CSR, encourages businesses to act in an ethical and positive manner towards society. It goes beyond making a profit and involves businesses taking on social, educational, economic, and environmental responsibilities. Many companies participate in CSR activities that have a direct or indirect impact on their business, environment, and public image. A company's future is closely linked to the well-being of the society in which its customers live and where it operates, grows, or develops. While most countries do not have specific CSR laws and CSR activities are often voluntary, India is a notable exception with well-defined laws and regulations for CSR. Various scholars have given different interpretations of CSR. Companies and organizations often engage in activities that go beyond their usual operations to benefit society. The concept of corporate social responsibility is about a duty and responsibility to society, driven by the desire to give back in some way, to the best of one's ability. Dr. Jitendra Singh is the Union Minister of State (Independent Charge) for Atomic Energy, Space, Pensions, Public Grievances, Science & Technology, and the MoS PMO.
Some key aspects of CSR are:

➢ Ethical Business Practices – Ensuring fair labour policies, preventing corruption, and maintaining transparency
➢ Philanthropy – Donating to charities, funding education, and supporting community projects.
➢ Environmental Responsibility – Reducing carbon footprints, using sustainable resources, and minimizing pollution.
➢ Employee Well-being – Providing safe working conditions, promoting diversity, and ensuring work-life balance.
➢ Economic Responsibility – Creating jobs, offering fair wages, and contributing to economic growth.

The expenditure made by companies on CSR can have both direct and indirect positive impacts in the following ways:

➢ Contributes to long-term sustainability
➢ Enhances employee satisfaction
➢ Increases customer loyalty
➢ Improves brand reputation
➢ Reduces regulatory risks

The Companies Act of 2013 is a law that has a unique chapter with specific provisions, schedules, and regulations to govern corporate social responsibilities for Indian companies. The following criteria describes how CSR rules apply to Indian companies:

- A company with a net worth of INR 500 crore or more, or
- A turnover of INR 1,000 crore or more, or
- A profit of at least INR 5 crore in the previous financial year must allocate at least 2% of its average net profit from the previous three financial years, or if it has not completed three financial years since

incorporation, during the immediately preceding financial years, to the CSR activities specified in Schedule VII of the Act.

The legal framework for Corporate Social Responsibility (CSR) establishes guidelines to address social and economic inequalities in different sectors of society and resolve development challenges. In India, CSR legislation outlines twelve sectors listed in Schedule VII that are suitable for development efforts, allowing companies to allocate their CSR funds to these areas.
Legislative framework for CSR under Indian laws:
According to Section 135(1) of the Companies Act of 2013 ("the Act"), corporate social responsibility is legally required and must be followed with certain requirements.
Section 135 of the Act discusses the provision related to CSR;
Schedule VII of the Act lists the activities that guide corporations in choosing CSR activities to follow statutory regulations.
The Companies (Corporate Social Responsibility or CSR Policy) Rules, 2014, provide a Standard Operating Procedure (SOP) for compliance with the CSR provision of the Act, both in letter and spirit.
Notice was issued on February 27, 2014, regarding Section 135 of the Companies Act, 2013, Schedule VII, and the Companies (CSR Policy) Rules, 2014, which came into effect on April 1st, 2014. In addition to the aforementioned, changes were made to the law and regulations over time.

Amendment(s) to Sec. 135 of the Companies Act, 2013

On January 22, 2021, Notification No. 324(E) was issued for the Companies (Amendment) Act, 2019, and Notification No. 325(E) for the Companies (Amendment) Act, 2020. These notices are available on the Ministry of Corporate Affairs' website at www.mca.gov.in.

Key Highlights of Companies (Amendment) Act, 2019[1]

a) Determination of CSR Amount: The method for calculating CSR expenditure has been revised for companies with less than three years of operation. Earlier, companies were required to spend 2% of their average net profits from the previous three financial years on CSR activities. However, under the Companies (Amendment) Act, 2019, firms with less than three years of operation must now calculate their CSR spending based on the average net profits of the financial years preceding their incorporation.

b) Treatment of unspent CSR amount [Sections 135(5) and 135(6)]: Each company is expected to allocate a minimum of 2% of its average net profit from the last three years to CSR activities. Previously, matters of non-compliance were reportable in the Directors' Report only. Now, if a company does not meet the spending requirement, it has to consider two options, depending on whether the company has any ongoing projects or not.

i) If the company has no ongoing project, then:
The organization must allocate the unutilized funds within six months from the completion of a particular financial year to a fund yet to be determined under Schedule VII of the Act.

ii) If it is an ongoing project, then:
First, the company has to open a special account in any scheduled bank known as an “Unspent Corporate Social Responsibility Account. ”
Second, the company has to transfer its unspent CSR amount within thirty days from the end of the concerned financial year to this special account.
Third, the company must spend the amount transferred to the “Unspent Corporate Social Responsibility (CSR) Account” within three financial years from the date of transfer to the special account.
Fourth, if the company does not spend the required amount from the "Unspent Corporate Social Responsibility-CSR Account" as mentioned above, such an amount will be moved to the special fund outlined in Schedule VII of the Act within 30 days after the end of the third financial year.

[1] https://www.icsi.edu/media/webmodules/Highlights_of_the_Companies_(Amendment)_Act,_2019.pdf

Section 135(8) explains that the Central Government, through its Ministry of Corporate Affairs, may issue general or specific instructions to a company or group of companies as needed to ensure they follow the provisions of this section. The company or companies are required to follow these directions.

Key Highlights of the Companies (Amendment) Act, 2020[2]

(i) Addition of the third proviso to Section 135(5): If an enterprise incurs expenses that go beyond the specified 2% limit, the extra amount can be subtracted from the company's CSR obligations for the following financial years.

(ii) Amendment to Section 135(7): Failure to follow Sections 135(5) and 135(6) is now considered a civil wrong. If a company does not comply, it will face a penalty of double the amount it was required to transfer to the fund in Schedule VII or the Unspent CSR Account, whichever is less. For each officer who failed in their duty, the company must pay a penalty equal to one-tenth of the required transfer amount or two lakh rupees, whichever is lower.

(iii) Addition of Sub-section 135(9): A company does not need to form a CSR Committee if the amount it must spend is less than Rs 50 lakhs, aiming to reduce its compliance burden.

Amendment to Companies (CSR Policy) Rules, 2014

Notification No. 526(E), issued on August 24, 2020, added the following clause to Rule 2(1)(e) of the Companies (CSR Policy) Rules, 2014:

A company that is involved in the research and development of new vaccines, medical devices, and/or drugs as part of its normal business may carry out R&D activities related to COVID-19 during the financial years 2020-21, 2021-22, and 2022-23, subject to the following conditions:

i. These R&D activities must be carried out in collaboration with any organization or group listed in Schedule VII, item (ix) of the Act.

ii. The Annual Report on CSR must include a separate disclosure of the details of this activity.

iii. The phrase "excluding activities undertaken in pursuance of its normal course of business" must be removed from Rule 4, sub-rule (1) of the aforementioned regulations.

iv. In the aforementioned rules, Rule 6, sub-rule (1) states:

a. The first proviso must be removed;

b. The word "further" must be removed from the second proviso.

By Notification No. 40(E), the Companies (CSR Policy) Amendment Rules, 2021 were announced in January 2021. The Ministry of Corporate Affairs' website (www. mca. gov. in) provides the same information.

Key Highlights of Companies (CSR Policy) Amendment Rules, 2021.

New definitions were introduced to better understand their implications in CSR projects, including administrative overheads, ongoing projects, international organizations, and public authorities.

"Administrative overheads" refer to the costs incurred by the company or organization for general management and administration of CSR functions within the organization. These do not include the costs directly associated with the planning, execution, supervision, and evaluation of a specific CSR project or program.

"Ongoing Project" is defined as a multi-year project that a company undertakes to fulfill its CSR obligations and has a duration of not more than three years, excluding the financial year in which it was started. It also includes projects that were not originally designated as multi-year projects but have been extended for more than one year by the Board of Directors for a valid reason.

"International Organisation" is defined according to Section 3 of the United Nations (Privileges and Immunities) Act, 1947. An organization is considered an international organization if the Central Government has designated it as such, and the provisions of the Schedule to this Act apply to it.

"Public Authority" refers to the definition provided in Section 2(h) of the Right to Information Act of 2005.

[2] https://www.mca.gov.in/Ministry/pdf/AmendmentAct_29092020.pdf

Amendments to Schedule VII of the Companies Act, 2013.[3] \Schedule VII of the Companies Act, 2013 lists the activities that a company or entity may engage in under its CSR obligations. The modifications to this schedule include: Added to item no. (viii):

a) The Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund);

b) Veterans of the Central Armed Police Forces (CAPF) and Central Paramilitary Forces (CPMF), along with their dependents, including widows;

c) Grants to incubators and Research and Development (R&D) projects in the fields of science, technology, engineering, and medicine supported by the Central Government, State Government, Public Sector Undertakings (PSUs), or any agency of the Central or State Government;

d) Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH); Department of Science and Technology (DST); Department of Pharmaceuticals; Ministry of Electronics and Information Technology; Department of Biotechnology (DBT); Indian Institutes of Technology (IITs); and Public Funded Universities.

e) Support for other organizations that conduct science, technology, engineering, and medical research to advance the Sustainable Development Goals (SDGs), such as the Defence Research and Development Organization (DRDO), National Laboratories and Autonomous (NLA) bodies established under the Department of Atomic Energy (DAE), Indian Council of Agricultural Research (ICAR), Indian Council of Medical Research (ICMR), ad Council of Scientific and Industrial Research (CSIR).

*** Clarification by MCA on CSR Expenditure related to COVID-19**

MCA actively allowed companies to use their CSR funds for health-related initiatives during the COVID-19 pandemic to address unforeseen challenges. After the pandemic, MCA continued to issue guidelines to inform stakeholders about what is acceptable for CSR spending. Here is a summary of the circulars released during the pandemic:

(i) During the second wave of the pandemic in India, the Ministry stated that using CSR funds to set up temporary COVID-19 centers and makeshift hospitals is an approved CSR activity under Schedule VII, specifically items (i) and (xii), which relate to disaster management and promoting healthcare, including preventive healthcare.

(ii) It was also stated that using CSR funds for creating medical facilities for treating patients with COVID-19, setting up medical oxygen production and storage units, manufacturing and supplying oxygen concentrators, ventilators, cylinders, and other medical equipment for combating the virus, or similar activities, are all acceptable under Schedule VII of the Act, under the disaster management and healthcare promotion categories.

(iii) It was clarified that spending CSR funds on providing COVID-19 vaccinations for individuals outside the company's employees and their families is considered a valid CSR activity under Schedule VII of the Act, specifically items (i) and (xii), which cover the promotion of healthcare, including preventive healthcare, and disaster management.

(iv) **CSR Expenditure for FY 2020-21 to 2022-23**[4]**:**

As CSR regulations approach their tenth year, the introduction, numerous amendments, and timely guidelines show how critical it is to properly carry out CSR in both letter and spirit. It is also essential for lawmakers or the central government to evaluate if the penalties for non-compliance are sufficient or if additional regulatory measures, such as a CSR audit, are necessary.

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[3] https://resource.cdn.icai.org/62830icai-csr-notification-6.pdf

[4] https://www.mca.gov.in/content/mca/global/en/data-and-reports/reports/annual-reports/companies-2013.html

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(Data up to March 31, 2024)

(in ₹ Cr.)

PSU/ Non-PSU	2020-21		2021-22		2022-23		Cumulative Amount from 2014-15 to 2022-23
	Total Cos.	Amount Spent	Total Cos.	Amount Spent	Total Cos.	Amount Spent	
Non- PSU	20,392	21,724.68	19,526	22,246.10	24,021	25,892.14	1,47,609.37
PSU	448	4,486.27	361	4,370.20	371	4,095.78	36,613.50
Grand Total	**20,840**	**26,210.95**	**19,887**	**26,616.30**	**24,392**	**29,987.92**	**1,84,222.87**

What is a CSR Audit?

CSR audits are meant to check if CSR rules are followed properly and to determine how economic progress benefits society. Every law or act is based on the intent of the legislature. The main goal of CSR is to connect the business sector with society, fulfill its responsibilities to society, and follow rules in a way that considers the interests of all stakeholders.

The Companies (CSR Policy) Rules of 2014 have made it mandatory to monitor and report on CSR efforts, with non-compliance resulting in penalties. The company, through its CSR Committee, is responsible for monitoring the use of CSR funds as per its CSR Policy and the CSR rules. If a company fulfils its CSR obligations by making only authorized contributions under Schedule VII of the Act, it must get a report on how the funds were used. However, the effectiveness of CSR initiatives and the resulting benefits to society in achieving the legislative goals still need to be assessed. Effective monitoring and reporting are crucial for CSR compliance. When CSR activities are carried out by a third party, the company's CSR committee should request a report from the auditors of that third party about the use of funds.

Why CSR Audit?

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The concept of a CSR audit is not mentioned under the Companies Act, 2013 or its rules. However, various provisions of the Act include requirements for proper monitoring and reporting to effectively implement CSR activities, including:

1) Proviso to Sub-rule (2) of Rule (4) - If a company wants to carry out CSR activities through a Section 8 company, Trust, or Society, the company, the society, or the trust must have three years of experience with similar projects or programs. It is also important to consider and confirm the fund usage methods and their monitoring or reporting mechanisms.
2) Sub-Rule (2) of Rule (5) - The CSR committee should set up a transparent monitoring system for the company's social projects, initiatives, and/or activities.
3) Sub-Rule (1) (b) of Rule (6) - The company's adopted CSR policy should include a process for tracking the implementation of its projects or programs. The company must monitor the allocation and use of funds as outlined in its CSR policy under the Companies (CSR Policy) Rules, 2014. The company's CSR policy specifies:

a) The project.
b) The methods of allocating and utilizing funds optimally.
c) The mechanisms for monitoring, controlling, directing, and reporting.

In 2023-2024, 24,392 companies in India contributed to CSR through 51,966 projects, spending about Rs. 29,987 crore in 14 development sectors. Some of the top companies involved in CSR in India are Reliance Industries Limited, Apollo Tyres Limited, Adani Group, Tata Consumer Products Limited, Asian Paints Limited, and Procter and Gamble. Although these companies are subject to CSR standards, the contributions are significant but the outcomes are not always clearly visible. As these companies' revenues grow and the criteria for CSR eligibility expand, more businesses will fall under its purview, leading to an increase in CSR contributions. Given the large amount of funds involved, the importance of CSR in promoting social development, the CSR policy, and the need to audit CSR activities for accountability, the Institute of Chartered Accountants of India (ICAI) has published "A Handbook on Audit of CSR Activities. "

Why is a Corporate Social Responsibility (CSR) Audit important?

A CSR audit is a key part of how companies influence society through their responsibilities. It ensures that businesses are responsible and only do things that benefit people like customers, partners, and employees, not just shareholders. A CSR audit helps with planning, making decisions, and assessing CSR efforts. Like a financial audit, it can follow various CSR standards such as:

- Good Business Framework
- Global Compact
- Global Reporting Initiative.

These standards cover basic CSR principles and allow audits based on them, but they vary in how detailed they are.

Generally, a CSR audit looks at many aspects of an organization's CSR work, including:

- How the company deals with CSR issues in its decision-making
- Its CSR goals and intentions
- Its CSR practices, policies, and culture
- Level of achievement of CSR compliance and implementation in consonance with the statutory intention and obligation

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o How well it meets CSR rules and commitments

As organizations have grown, they have started acting more responsibly. This is now seen as part of "sustainability. " Being sustainable means more than just running a business fairly or helping society—it means making CSR part of the company's goals to create a "virtuous circle" that helps everyone involved.

On February 25, 2020, the Companies (Auditor's Report) Order, 2020 (CARO) was introduced. It applies to financial years starting on or after April 1, 2019. However, the Central Government extended it for another year in March 2020, making it apply to financial years starting on or after April 1, 2020. CARO now includes a clause XX that requires CSR reporting.

This clause is:

(a) Whether the company has transferred unused money to a specific fund within six months after the end of the financial year for projects other than ongoing ones.

(b) Whether any unused funds for ongoing projects have been moved to a special account under the same law.

Even though CSR regulations have been changing for over ten years since the 2013 Companies Act, CSR is still in its early stages. Although CSR audits are still ideas, the goal of improving society through CSR is clear. The amount of money spent on CSR by eligible companies is growing each year. In 2022–2023, these companies spent Rs. 29,987. 82 crores on CSR. From 2014–15 to 2022–23, over Rs. 1,84,222. 92 crores were spent on CSR activities. So, it's important to use these funds properly, and a CSR audit can help monitor and track how well this is done.

SOCIAL AUDIT

A new initiative by the central Government, called a social audit, is also developing. It checks official records to see if the money spent on welfare programs matches what was planned. The goal is to review and report on how much money was approved and actually spent on various social programs like MANREGA, PMAY, PDS, Midday Meal Scheme, NSAP, and others, to make sure it benefits the most vulnerable in society.

Objectives of a Social Audit:[5]

- To ensure transparency and fairness in how programs are carried out.
- To give people a way to voice their concerns and needs.
- To involve the public in all stages of program implementation.
- To strengthen local democracy and institutions.

[5] https://samarthan.org/admin/img/resources/10_Social%20Audit%20Training%20Manual.pdf

- To educate and empower people about their rights.
- To build the skills of those involved in social audits.
- To improve programs by using feedback from audits.
- To detect mismanagement, fraud, and inefficiencies in CSR spending.

Through social audits, communities engage in monitoring processes to evaluate how effective and useful a program is in an empowering way. Unlike financial or statutory audits, which are done by experts checking documents and data, social or CSR audits focus on measuring the results, gathering facts, and listening to the people affected.

CONCLUSION:

The Central Government, through the Ministry of Corporate Affairs (MCA), has taken proactive steps by regularly reviewing CSR regulations and updating them on time. This shows how seriously it takes CSR application, the spending on CSR, and how well it benefits the public. Currently, CSR applies to specific companies that meet certain requirements, but in the future, these requirements might expand to include more companies. According to MCA's annual reports, Indian companies spent Rs. 29,987. 92 crore on CSR activities in 2022–2023 and Rs. 1,84,222. 87 crore from 2014–15 to 2022–2023. Out of 24,392 companies involved in CSR, 24,021 are non-PSUs and 371 are PSUs. A CSR audit could become a required step, or the government might consider including professional audits of CSR applicability and how well CSR funds are used.

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