



Corporate social responsibility audit: Measuring the actual social performance of the company

Hareram Mandal

Department of Commerce and Business Administration, Lalit Narayan Mithila University, Darbhanga, Bihar, India

Abstract

The journey of Corporate Social Responsibility (CSR) in India has been unique, marked by a shift from charitable contributions to strategic corporate initiatives. The earliest traces of CSR in India date back to the pre-industrialization era, when merchants shared a part of their wealth with the community by setting up places of worship, building infrastructure like water tanks, and contributing to local development. During the industrialization period and the time of business expansion, Indian business tycoons like Jamsheji Tata and Ghanshyam Das Birla actively engaged in philanthropy, establishing educational institutions, healthcare facilities, and infrastructure for public welfare. The 1990s, characterized by economic liberalization, marked a significant transition in the CSR approach, from casual philanthropy to institutionalized corporate responsibility. Indian companies began integrating socially responsible practices into their business models, focusing on areas such as environment, education, health, and community development. However, the real shift in the Indian CSR landscape came with the enactment of the Companies Act 2013. This legislation marked a transition from voluntary to mandatory CSR, prompting corporations to strategize their social responsibility initiatives in alignment with business operations. Today, CSR in India is no longer seen as an obligation, but an opportunity to create shared value. Companies are innovating their business models and strategies to incorporate social and environmental considerations, realizing that sustainable business success is intrinsically linked to the well-being of society and the environment. Against this background, the present paper tries to highlight objective, purpose, methodology, conductance and coverage of CSR Audit in Indian context.

Keywords: Accounting Reports, corporate strategy, csr audit, social wellbeing, The Companies Act 2013.

Introduction

Corporate Social Responsibility (CSR) emerges from different sociological settings of each era to influence the way businesses adopt a more considerate and responsible behavior. Earlier businesses used to conduct these activities through especially dedicated charities. Later on, the concept developed to welfare programs and activities in the nature of social responsibility. The concept of CSR has evolved during the last few decades from simple philanthropic activities to integrating the interest of the business with that of the community which is being served by such business. By exhibiting socially, environmentally and ethically responsible behavior in governance of its operations, business can generate value and long-term sustainability for itself while making positive contribution towards the betterment of the society. CSR is a concept whereby companies not only to consider their profitability and growth, but also interests of society and the environment by taking responsibility for the Impact of their activities on the society, environment and communities in which they operate. CSR aims to fulfil expectations that society has from business and it is viewed as a comprehensive set of social policies, practices and programs that are integrated throughout the business operations. The concept of CSR has evolved over the years, and it is now used as a strategy and a business opportunity to earn stakeholders' goodwill.

CSR includes various social and environmentally responsible guidelines, essential for companies that want to maintain a strong connection to the marketplace. Corporate Social responsibility Includes the way a company treats and proactively contributes to its community, promotes fair working conditions and a non-discriminatory environment, conveys transparent and honest accounting reports, and

generally earns a reputation of trust and integrity in the society where it serves.

CSR has become a mandatory part of many Companies vide introduction in Companies Act, 2013 and has changed the dynamics of CSR. An increased emphasis on governance, stricter monitoring and reporting obligations require companies to be more accountable, disciplined and strategic in their CSR approach.

Section 135 of the Companies Act, 2013 provides that every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall

- Constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director;
- In case, where a company is not required to appoint an independent director under sub-section (4) of section 149 of Companies Act, 2013, the company shall have in its Corporate Social Responsibility Committee two or more directors.
- Adopt a CSR Policy in order to develop a sustainable CSR road map to help determine both compliance and social relevance with the Act.
- Spend, in every financial year, at least 2% of its average net profits made during the three Immediately preceding financial years, in pursuance of its CSR policy.

Objective of CSR Audit

Corporate Social Responsibility (CSR) audit help in measuring the actual social performance against the social objectives set by the Company. It also provides that at what

level the decision making, mission statement, guiding principles, and business conduct are aligned with social responsibilities. The audit helps meeting the expectations of stakeholder groups relating to social and environmental responsibilities of the company.

Purpose of CSR Audit

The purpose of CSR Audit is

- To ensure compliance with the provisions of Companies Act, 2013 with respect to constitution of the Committee, adoption of policy and appropriate spending towards CSR activities.
- To facilitate transparent monitoring mechanism and a mentor for the company's CSR activities and Implementation of CSR policy.
- To evaluate internal control and governance framework.
- To assess the project life cycle.
- To conduct financial review of projects to confirm the utilization of budgets for achieving desired outcomes.

Methodology for CSR Audit

The methodology of CSR Audit consists of four steps viz.

1. Review of CSR policy, CSR committee, governance structure, strategy, projects, partner Identification and selection process, monitoring, evaluation and reporting.
2. Interact with beneficiaries, project team, management and other stake holders.
3. Review of beneficiary identification and selection process, budget allocation, outcomes monitoring and reporting.
4. Review of CSR expenditure, project's direct expenditure, overheads and administrative expenses, traceability and genuineness of expenditure, per beneficiary cost, reasons for inability to spend 2% of profits.

Conducting CSR Audit

The CSR audit may be conducted internally by the company or engage external agencies having expertise in CSR projects. However, the companies publish periodical report on their social initiatives and through the Website. However, according to provisions of Companies Act, 2013, Companies are required to annex report on the corporate social responsibilities with the board report of the company.

Coverage of CSR Audit

The CSR audit cover the CSR activities relating to human rights, fundamental human rights, freedom of association and collective bargaining, non-discrimination, forced labour, child labour, health and safety, career development and training, environmental issues and issues relating to community development and social wellbeing. However, Schedule VII of the Companies Act, 2013 provides the list of activities which could be taken by the company as their CSR Activities. These activities cover the following:

1. 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.
2. Promoting education, including special education and employment enhancing vocation skills especially

among children, women, elderly and the differently abled and livelihood enhancement projects.

3. Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
4. 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.
5. 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.
6. Measures for the benefit of armed forces veterans, war widows and their dependents, Central Armed Police Forces (CAPF) and Central Paramilitary Forces (CPMF) veterans, and their dependents Including widows.
7. Training to promote rural sports, notionally recognised sports, paralympic sports and Olympic sports.
8. Contribution to the prime minister's national relief fund 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;
9. (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 Défense Research and Development Organisation (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).
10. Rural development projects.
11. Slum area development different. Explanation-For the purposes of this item, the term 'stum area' shall mean any area declared as such by the Central Government or any State Government or any other competent authority under only tow for the time being in force.
12. Disaster management, including relief, rehabilitation and reconstruction activities.

Illustrative Checklist for Corporate Social Responsibility provisions under the Companies 2013 Act, 2013

1. Check if the constitution of CSR Committee is applicable to company.
2. If yes, whether the company has constituted CSR committee of the board consisting of three or more directors, out of which at least one director is an independent director. In case where a company is not required to appoint an independent director under sub-section (4) of 149, it shall have in its CSR Committee two or more directors.
3. Whether the company has CSR policy approved by the CSR Committee.
4. Whether the CSR committee has recommended list of CSR projects or programme within the purview of schedule VII.
5. Whether the monitoring process of such projects or programme has been established by the company.
6. The composition of CSR committee is disclosed in the board's report.
7. Check whether the CSR activities were under taken as per CSR policy and projects, programs or activities excludes activities undertaken in pursuance of its normal course of business
8. Corporate social responsibility committee has recommended the amount of expenditure to be incurred on the activities referred in the Corporate Social Responsibility policy.
9. The company has instituted a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company.
10. The company has disclosed the contents of the policy in board's report and at its website, if any.
11. The board's report includes an annual report on CSR containing prescribed particulars.
12. In case the company does not spend the specified amount (i.e. at least two percent of the average net profits made during the three immediately preceding financial years), Board's report specifies the reason for not spending the amount.
13. Check if the net profits of the company are in accordance with the provisions section 198 of the Companies Act, 2013 or not.
14. In case the company has built CSR capacities of their own personnel, check whether the expenditure including expenditure on administrative overheads shall not exceed five percent of total CSR expenditure of the company in one financial year.
15. The company has complied with all other requirement of the CSR Rules.

As the CSR audit cover the various direction of the CSR policy of the company which include the planning, execution and the reviews of the CSR activities. This will help to get a clear picture of Corporate Social Responsibility practices adopted by the company. The CSR audit provide an understating of company is position in CSR and also provide an independent assurance on CSR commitment to stakeholders. The different measures of the CSR Audit include:

1. How the Company has identified the major socio-economic changes in the key communities caused by its presence/operations/ major expansion programs.

2. How the company has conducted social surveys before undertaking a particular CSR activity.
3. How the company has identified the possible impact of its CSR activities on the life style of communities.
4. How the company undertakes the Impact assessment of the CSR activities.

Summing-up

The Companies Act, 2013, which requires certain kinds of corporations to contribute a percentage of their revenues to CSR efforts, serves as the primary legal basis for CSR regulation in India. By passing the Act, the Indian government set a precedent that made it one of the first nations to formally enact CSR. Companies with a net worth of at least INR 500 crore, a turnover of at least INR 1000 crore, or a net profit of at least INR 5 crore during any financial year are required to spend at least 2% of their average net profit made during the three immediately preceding financial years on CSR activities under Section 135 of the Companies Act. Additionally, the Act requires that these businesses set up CSR committees to suggest and oversee CSR initiatives. The Companies Act 2013 Schedule VII lists the CSR-related activities a firm can carry out. They include a wide variety of social and environmental concerns, including, among others, ending hunger and poverty, advancing gender equality and education, assuring environmental sustainability, and rural development. Nevertheless, despite these rules, CSR in India is more than just following the law. The framework encourages businesses to include CSR in their corporate strategy and see it as a chance to generate value for all stakeholders by coordinating corporate goals with social demands.

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