Is Corporate Social Responsibility audit mandatory in India?
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Corporate social responsibility (CSR) refers to the idea that businesses must voluntarily work towards improving society and for the betterment of the environment. Companies should incorporate social and other beneficial considerations into their daily operations for the benefit of their stakeholders and society at large. CSR applies to all Indian and foreign companies, and their subsidiaries. CSR has a positive impact on society as well as on the economic well-being of companies. CSR positively impacts a company's reputation by drawing attention to its initiatives for a better world and raising its likelihood of winning over customers.

By fostering a solid social connection with customers, CSR raises the value of the company's brand. This article discusses the details of corporate social responsibility audits in India.

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What is CSR?

Corporate Social Responsibility or CSR refers to a company's ongoing commitment to include social and environmental considerations in all aspects of its operations. Global environmental changes are forcing businesses

worldwide to consider factors other than financial performance and to incorporate social and environmental considerations into their strategic planning. Before the Companies Act of 2013, CSR in India was primarily associated with philanthropy. And in keeping with the Indian tradition, it was held that every firm has a moral obligation to actively participate in meeting social commitments, subject to the company's financial stability. Mahatma Gandhi first proposed the idea of trusteeship as a means of promoting socio-economic development in the early 1990s. Family values, traditions, culture, and religion all had an impact on CSR in India.

The Act includes Section 135 - a clause on corporate social responsibility duties for firms listed in India and has made significant reforms that have an impact on company formation, management, and governance. The clause addresses the crucial requirements for the execution, fund allocation, and reporting necessary for a project's effective implementation. Under the 2013 Companies Act, India became the first nation to enact legislation requiring companies to engage in CSR activities and report CSR initiatives.

What is CSR audit?

According to the Companies (Company Social Responsibilities Policy) Rules 2014, monitoring CSR activities and reporting on them are required. Additionally, it is the obligation of the Company (through the CSR Committee) to oversee the use of company money in accordance with its CSR Policy. There is no requirement to acquire a report of the contribution made when the company complies with its CSR requirements by only making a contribution that is specifically permitted by Schedule VII of the Act.

To have effective CSR compliance with the monitoring and reporting requirements of the CSR Policy Rules, however, the Company's CSR Committee should obtain a report of the utilisation of funds from that third party's auditors when the CSR obligation is carried out through a third party.

Social Audit in the Context of CSR

Social audit is now a vital part of assessing democratic governance in the welfare state and a tool for putting anti-corruption plans into action. It is also one of the techniques to comprehend the scope and calibre of public assets, such as services, decisions, and policies. It will help businesses comprehend the existing impact and restrictions on the anticipated impact. Additionally, it will include multiple stakeholders' perspectives on CSR initiatives and contributions to the CSR policy. Internally, it promotes more accountability and data verifiability.

Additionally, it assists in giving the CSR Sub-Committee, senior management, and input for CSR policy regular project updates. Using excerpts from the Social Audit report to update internal communication channels is a great idea. It's time to include CSR project proposals that have provisions for ongoing tracking, monitoring, and reporting for successful social development programmes.

Discuss Companies (Accounts) Amendment Rules, 2022 in relation to CSR

Form CSR-2 was introduced by the MCA by inserting sub-rule (1B) in rule 12 of the Companies (Accounts) Rules, 2014, in a notification dated February 11, 2022. Form CSR-2 must be submitted on or before March 31, 2022, for the preceding fiscal year (FY) (2020–21), following the submission of form AOC-4. Each company that is subject to section 135(1) and mandated to engage in CSR activities under company law must now file Form CSR-2, per MCA. A corporate social responsibility committee of the board must comprise of three or more

directors, with at least one of those directors having to be an independent director, in accordance with section 135 of the Companies Act of 2013, which applies to all companies with a net worth exceeding Rs. 500 crores, revenue exceeding Rs. 1000 crores, or net profit exceeding Rs. 5 crores during any financial year.

Difference between Social Audit and Financial Audit

A financial audit is an independent review and assessment of an organization's financial statements to ensure that they fairly and accurately reflect the transactions they purport to represent. Employees of the organisation may conduct the audit internally or outside. Whereas an organization's social and ethical performance can be evaluated through social audits in order to measure, comprehend, report, and eventually improve it. A social audit aids in bridging the efficiency and effectiveness gaps as well as those between goals and realities.

Conclusion

Corporate Social Responsibility in India is entering a new phase where companies cannot escape from giving a fair share back to the society. Businesses incorporate social and environmental considerations into their daily operations and interactions with stakeholders. CSR refers to a company's efforts to balance its commitments to economic, environmental, and social goals while also meeting stakeholder and shareholder expectations. A well-executed CSR concept can provide several competitive advantages, including improved access to capital and markets, increased sales and profits, operational cost savings, improved productivity and quality, an efficient human resource base, improved brand image and reputation, increased customer loyalty, etc. CSR in India plays a vital role for businesses that want to thrive in the economy.

FAQs

Is CSR spending mandatory in India?

Section 135 of the Companies Act of 2013 includes provisions for Corporate Social Responsibility in India. As a result, India's CSR regulations must be followed by all companies covered by Section 135 of the Income Tax Act.

What are the 4 types of CSR?

Environmental responsibility, ethical responsibility, philanthropic responsibility, and economic responsibility are the four basic categories of CSR.

Is Corporate Social Responsibility important?

CSR is important for a company's reputation, appeal to clients, staff, and investors, as well as for retaining top personnel and achieving total commercial success.