

LESSON 4

SOCIAL IMPACT ASSESSMENT & CSR AUDIT

INTRODUCTION

- **Impact**, as defined by the **United Nations**, refers to **changes in people's lives**.
- These changes may occur in:
 - ✓ **Knowledge**
 - ✓ **Skills**
 - ✓ **Behavior**
 - ✓ **Health and education conditions** in a community
- The changes can be:
 - ✓ **Positive or negative**
 - ✓ **Small or large in magnitude**
 - ✓ **Short-term or long-term**
 - ✓ **Identifiable or non-identifiable**
- The nature of impact may be:
 - ✓ **Economic**
 - ✓ **Socio-cultural**
 - ✓ **Institutional**
 - ✓ **Environmental**
 - ✓ **Or any other type**

Illustrative list of possible impacts:

Social/Cultural	Economic	Public Infrastructure and services
• Break-up of community cohesion • Disintegration of social support systems • Disruption of women's economic activities • Loss of time-honoured sacred places of worship • Loss of archeological sites and other cultural property	• Loss of agricultural lands, tress, wells • Loss of dwellings and other farm buildings • Loss of access to common property resources • Loss of shops, commercial buildings • Loss of businesses/jobs • Overall reduction in income due to above losses	• Government office buildings • School buildings • Hospitals • Roads • Street lighting

Social Impact Assessment

- **Definition by IISD:**

Social Impact Assessment (SIA) is a process involving **research, planning, and management** of social changes—whether **positive or negative, intended or unintended**—resulting from **policies, plans, developments, or projects**.

- **Meaning of Social Impact:**

It refers to the **net effect** of a proposed project on **stakeholders**.

- **Scope of Impact:**

This may include effects on:

- ✓ the **community as a whole,**
- ✓ **individuals,**
- ✓ **single families or groups of families,**
- ✓ or even **entire organisations or industries.**

- **Purpose of Social Impact Assessment:**

It helps in understanding the **overall impact on people's lives**, which in turn assists CSR project initiators in **better planning and execution** of their projects.

Examples of Social Impact includes:

- **People's way of life** – that is, how they live, work, play and interact with one another on a day-to-day basis.
- **Their culture** – that is, their shared beliefs, customs, values and language or dialect.
- **Their community** – its cohesion, stability, character, services and facilities.
- **Their political systems** – the extent to which people are able to participate in decisions that affect their lives, the level of democratization that is taking place, and the resources provided for this purpose.
- **Their health and well-being** – health is a state of complete physical, mental, social and spiritual well-being and not merely the absence of disease or infirmity.

From above listed examples it is quite clear that social impact assessment should not only assess the impact of projects on lives of people but also should carve out the impact on natural resources, environmental impact and interactions between such environmental factors.

For Example: if the planned project impacts the availability of water and land for local food production it also leads to social impacts, such as increases in food prices, the need to travel longer distances to buy and/or grow food.

What is the objective of providing impact assessment of CSR activities?

The purpose of impact assessment is to **assess the social impact of a particular CSR project**. The intent is to encourage companies to take considered decisions **BEFORE** deploying CSR amounts and assess the impact of their CSR spending. This not only serves as feedback for companies to plan and allocate resources better but **SHALL** also deepen the impact of CSR.

Whether companies are required to undertake impact assessment for FY 2020-21?

The provisions for impact assessment have come into effect from 22nd January, 2021. Accordingly, the **company is required to undertake impact assessment of the CSR projects completed on or AFTER January 22, 2021**. However, as a good practice the Board **MAY** undertake impact assessment of completed projects of previous financial years.

Who can conduct impact assessment?

Rule 8(3) of the Companies (CSR Policy) Rules, 2014 requires that the impact assessment be conducted by an independent agency. The Board has the prerogative to decide on the eligibility criteria for selection of the independent agency for impact assessment.

Whether impact assessment reports of all the CSR projects **SHALL** be annexed to the annual report on CSR?

Rule 8(3)(b) of the Companies (CSR Policy) Rules, 2014 provides that impact assessment reports **SHALL** be placed **BEFORE** the Board and **SHALL** be annexed to the report on CSR. It is clarified that web-link to access the complete impact assessment reports and providing executive summary of the impact assessment reports in the annual report on CSR, **SHALL** be considered as sufficient compliance of the said rule.

SOCIAL IMPACT ASSESSMENT AND INDIAN LEGISLATIVE FRAMEWORK:

As per the Companies (Amendment) Act, 2020 and Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021 Companies (CSR Policy) Amendment Rules, 2021:

- a. Every company having **average CSR obligation** of **INR 10 CR.** or more in the **3 IMMEDIATELY PRECEDING FINANCIAL YEARS**, **SHALL** undertake impact assessment of their CSR projects **having outlays of INR 1 CR or more**, through an independent agency.
- b. **ATLEAST 1 year SHALL be passed away of completion** of such CSR project while undertaking the impact study.
- c. The impact assessment reports **SHALL be placed BEFORE the Board and SHALL be annexed to the annual report on CSR.**

The rules as amended are applicable with effect from 22/1/2022.

IMPORTANCE OF SOCIAL IMPACT ASSESSMENT

To drive answerability:

Getting funds from donors is a task in itself, and when an organisation manages to do so, donors usually make it mandatory to report how the funds are being used and what progress has been made in the project where such funds are spent. In such cases, the organisation may have set targets like how many people will benefit within a set time. It then becomes essential to monitor the project regularly to collect and report such data effectively.

To secure future funding:

The social results created by the organisation will influence whether it gets more or continued support, as funders look for actual proof of the project's impact on its target group. Continuous evaluation and tracking help show what has already been achieved and what can be achieved further as the project continues in future phases of its execution.

To check the project's progress against the planned:

Losing track of the original goals of a project is easy in today's changing environment. Regular checks—monthly, quarterly, half-yearly, or annually—help avoid this by keeping the team focused on what was decided during the planning stage. The social impact review also checks if timeframes and budgets are being followed as planned.

To learn from experience:

Proper project review helps identify what worked well and what didn't. This helps improve upcoming projects or future funding requests. Social impact tools allow the organisation to gather information that shows both success and failure, and helps build good data systems to support smarter decisions later.

To motivate staff and volunteers:

Giving staff and volunteers real proof of their contribution makes them feel proud. Showing the social and environmental outcomes also pushes them to stay involved and continue working with the organisation. It helps them stay connected to the broader mission and ongoing journey of positive change.

For different stakeholders, the importance of impact would mean different:

Corporate	• Social License to operate • Brand Building • Attracting goods human resource • Compliances to regulations
Government	• Compliment the outcomes of development sector specific schemes • Providing better quality of life to citizen at last mile • Improvement in different indicators (SDGs, Niti Ayog ranking, etc.
Community	• Sense of pride • A vision for life • Higher resilience

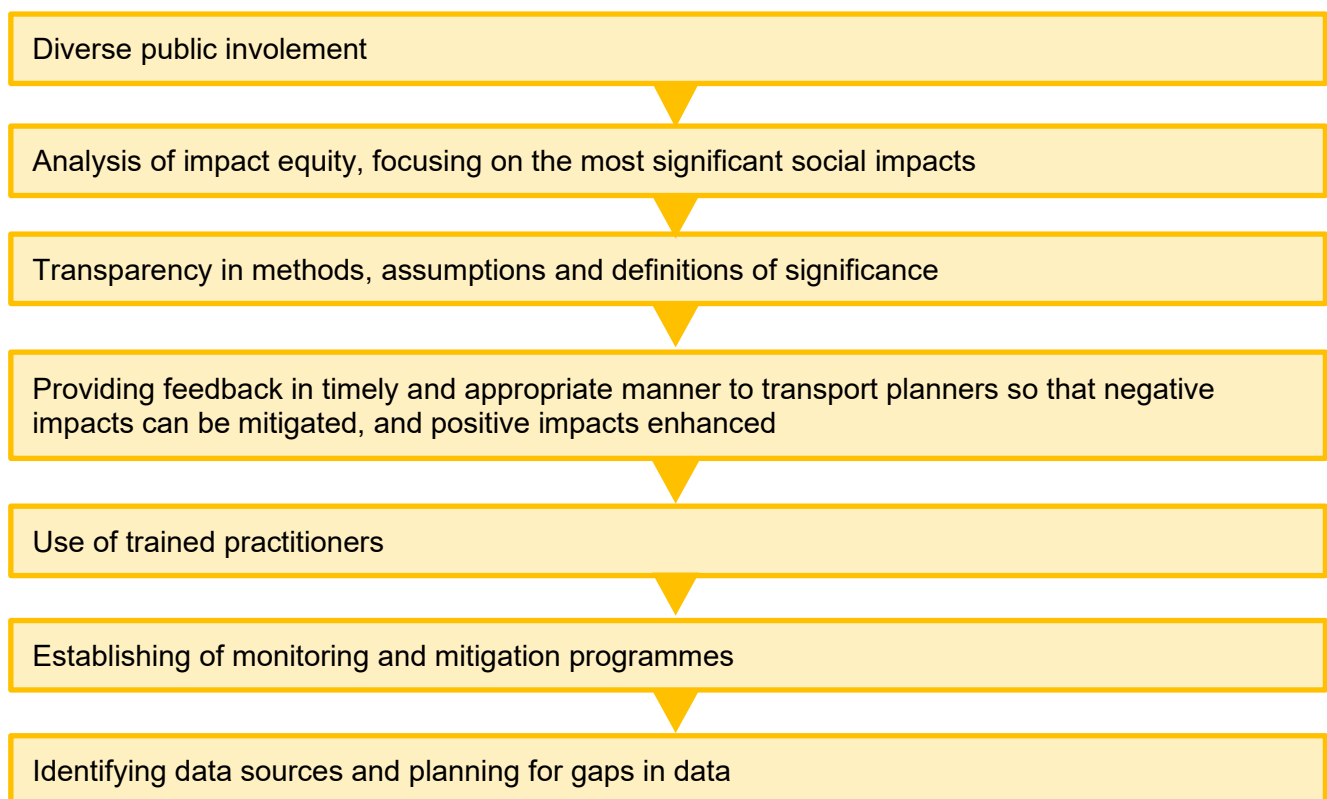
Process of Social Impact Assessment

- **Collaboration is essential** in Social Impact Assessment (SIA), requiring the involvement of community members, stakeholders, and experts.
- **SIA is a structured process** to identify, analyze, assess, manage, and monitor the social impacts of a project—both positive and negative, direct and indirect, short-term and long-term.
- **Social impacts** include effects on people and communities throughout all phases of a project.
- **Key focus areas** of SIA include:
 - ✓ Community and stakeholder engagement
 - ✓ Workforce management
 - ✓ Housing and accommodation
 - ✓ Local business and industry involvement
 - ✓ Health and community well-being
- **SIA provides a framework** for integrating social considerations into project design and execution by:
 - ✓ Prioritizing and analyzing social information
 - ✓ Ensuring stakeholder participation
- **Purpose of SIA** is to ensure development interventions are socially informed and inclusive of stakeholder perspectives.

- **SIA is iterative and cyclical**, guiding both impact identification and policy decision-making.
- **The process begins with a project description**, detailing:
 - ✓ Project nature, scale, phasing, funding, profitability, job creation, and site layout
- **Followed by scoping**, which defines relevant social issues and sets spatial/contextual boundaries.
- **Final stages include:**
 - ✓ Establishing baseline socio-economic data
 - ✓ Evaluating cumulative social impacts
 - ✓ Formulating alternatives
 - ✓ Developing mitigation plans and action steps

Principles of Social Impact Assessment

The principles for social impact assessment were first developed by the Inter-organizational Committee on Principles and Guidelines for Social Impact Assessment (IOCPGSIA 1994). Basically, these principles are as follows:



1) Involve the Diverse Public:

First, it is necessary to identify all groups and individuals who may be affected and involve them in every step of the Social Impact Assessment (SIA). This includes reaching out to those often left out due to culture, language, or financial reasons, such as lower castes, tribal groups, minorities, and the poor. The process must be two-way, with open communication between the agency and affected people. This way, everyone understands what the project is and how it might help or harm them.

2) Analyze Impact Equity:

Different groups are affected differently by projects, so it's important to study the effects on each group rather than just looking at overall results. Identifying all potentially affected groups is key to fairness. Projects like dams always have winners and losers. SIA must show who gains and who suffers, ensuring that no group—based on race, caste, gender, job, or age—has to suffer the most harm.

3) Focus the Assessment:

Social Impact Assessments often have limited time and money. So, focus should be on the most important social impacts, especially those raised by local people. Less powerful groups often don't take part early in project planning, but their concerns must still be addressed. SIA experts also play a key role, as they know how to prioritize and can spot impacts that locals might not mention.

Besides individual impacts, it's also essential to assess damage to community assets. This should include (a) shared resources, (b) public buildings, (c) cultural sites, and (d) infrastructure.

4) Identify Methods and Assumptions and Define Significance:

The SIA should use clear and easy-to-understand methods and assumptions that others can follow and repeat. These methods and assumptions must be shared openly with the public. A summary should clearly explain what methods were used, what assumptions were made, and how the importance of impacts was judged. This helps both decision-makers and affected people evaluate the study.

5) Provide Feedback on Social Impacts to Project Planners:

Findings from the SIA should be used to improve the project by reducing negative effects and boosting positive ones. During the project planning, all concerned people must be allowed to give feedback on the draft design before it is finalized. Their views can help make the project fairer and more effective.

6) Use SIA Practitioners:

Only trained social scientists using proper social research methods can provide the most accurate results. A skilled SIA expert knows what information is important and has the background to recognize impacts seen in similar cases. They can spot all possible effects and choose the right ways to measure them. Having a social scientist on the team reduces the risk of missing major social effects.

It is very important that this expert be independent and not part of the body funding the SIA

study.

7) Establish Monitoring and Mitigation Programmes:

Tracking key social impact factors and setting up ways to reduce negative impacts is a vital part of the SIA. This should be done together by both the project team and the people affected. An SIA doesn't just predict what might happen—it also suggests ways to reduce harm. Solutions can include cancelling the project, changing the plan to limit harm, or compensating for impacts that cannot be avoided.

8) Identify Data Sources:

SIAs usually use three kinds of information: (a) Published studies, (b) Government and official reports, and (c) Direct data from the local area. All three are useful, but not all projects need them equally. Some SIAs may rely more on firsthand data from the area than on published sources.

Useful references include past social science books and journals on similar projects. The best official data comes from the census, government statistics, land records, and planning reports. Firsthand data like surveys, interviews, and field visits can help confirm or explain other data. Locals often have deep knowledge of their area and its social conditions.

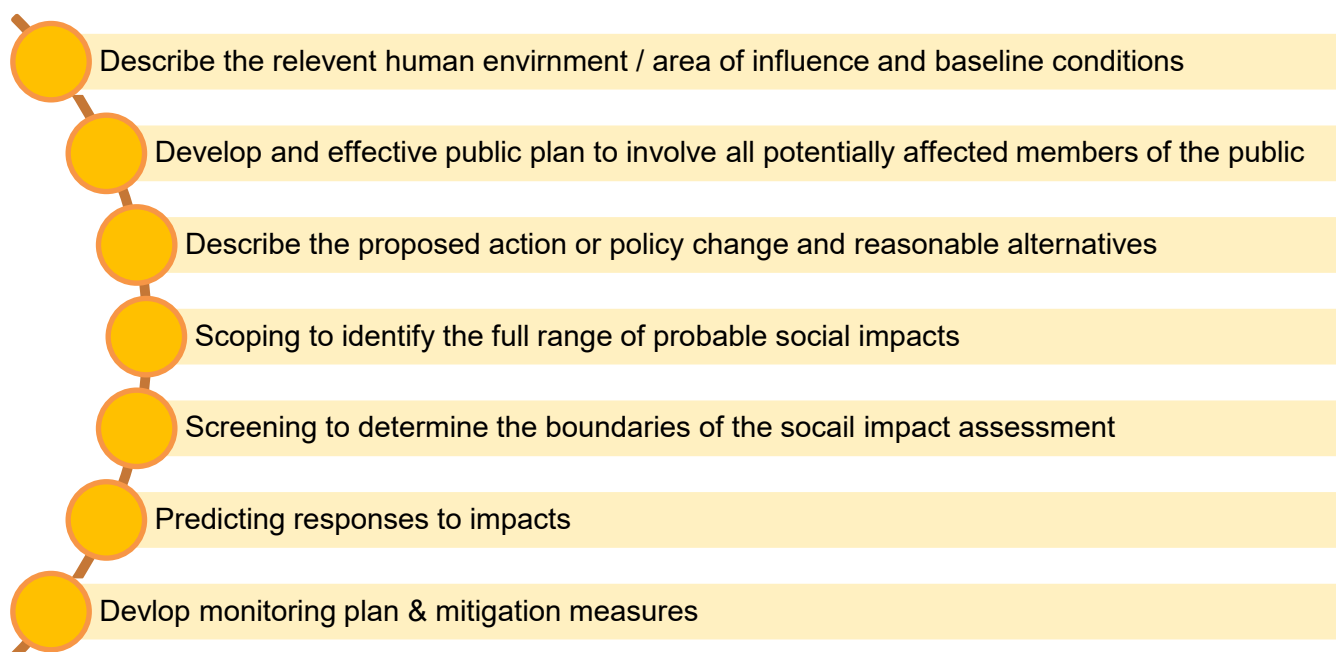
9) Plan for Gaps in Data:

Sometimes, key data needed for the SIA is missing or not available. When this happens, the report must clearly say that certain parts of the assessment were done without full information, and also explain why the data couldn't be collected. This helps others understand the limits of the analysis.

Social Impact Assessment (SIA) Process:



Stages in Social Impact Assessment



- A **Social Impact Assessment (SIA)** must be conducted in the proposed affected areas.
- The assessment must consider impacts on **public and community properties, assets, and infrastructure**, specifically:
 - ✓ Roads and public transport
 - ✓ Drainage and sanitation
 - ✓ Drinking water sources and water for cattle
 - ✓ Community ponds, grazing land, and plantations
 - ✓ Public utilities (e.g., post offices, fair price shops, food godowns)
 - ✓ Electricity, healthcare, education/training facilities
 - ✓ Places of worship, traditional tribal land, burial/cremation grounds
- The SIA must detail:
 - ✓ All **necessary infrastructure and amenities** in the **resettlement area**
 - ✓ A **clear timeframe** for implementing the rehabilitation package
 - ✓ A proper **monitoring and grievance redressal mechanism**
- If both **Economic Impact Assessment (EIA)** and SIA are required:
 - ✓ The **public hearing for EIA** must also include **SIA-related issues**.

Approaches & Methods

- **Two-Fold Approach:**
Social Impact Assessment (SIA) is approached either as a research-based information-generating activity or as a planning tool that uses social norms to compare, rank, and trade off among environmental, economic, and social objectives.
- **Policy Analysis Comparison:**
SIA is similar to other policy analyses in identifying, predicting, and evaluating costs and benefits of proposed actions but differs from traditional cost-benefit or systems analysis methods.
- **Cause-Effect Emphasis:**
Cumulative SIA focuses on cause-effect relationships by identifying all activities impacting society, establishing linkages, predicting cumulative effects, and proposing mitigation to reduce harm and enhance benefits.
- **Data-Driven Process:**
SIA relies on reliable data collection to gauge public opinion, identify impact sources, and suggest mitigation, using tools like modeling, checklists, expert opinions, community consultations, and system/network analysis.
- **Community Consultation and Participation:**
Engaging the community—especially vulnerable groups—is central. Beyond consultation, direct involvement of locals in planning reduces uncertainty, increases legitimacy, and improves project design and implementation.

- **Role of Experts:**

Expert opinions guide technical and policy aspects, but their dominance is decreasing due to growing recognition of community participation. Earlier, SIA was more technocratic, relying heavily on quantitative data and expert-led processes.

Tools of Social Impact Assessment

To perform Social Impact Assessment, certain tools are required and the organisations to choose the appropriate tool for conducting Social Impact Assessment which derive the results as desired.

The **tool to be utilised for conducting Social Impact Assessment** should provide for

- **baseline information** about the social and economic conditions prevailing or existing in the project area;
- **information on potential impacts** of the project and the characteristic of the impacts, magnitude, distribution, and their duration upon the community and target stakeholders;
- **information on who will be the affected group**, positively or negatively;
- **information on perceptions of the affected people** about the project and its impact;
- **information on potential mitigation** measures to minimize the impact;
- **information on institutional capacity** to implement mitigation measures.

There are numerous tools and methodologies which **MAY** be used to harness citizen involvement and get the most from their input and feedback at all stages of the process.

While choosing the appropriate tool for conducting Social Impact Assessment consideration should be given to composition, timing, location and format of stakeholder and citizen meetings and how 'harder to reach' groups such as economically disadvantaged, ethnic minorities, women and vulnerable groups will be involved so that they can share their experiences and provide input in Social Impact Assessment process and desired outputs can be carved out and execution & implementation of proposed project.

Some **questions that should commonly be addressed in social impact assessment** include the following:

- Who are the **key stakeholders?** What do they already know about the proposed project, its impact and the measures being contemplated to mitigate its negative impact?
- What are **their interests?** Are the objectives of the project consistent with their needs, interests, and capacities?
- What is **the impact of the project** on various stakeholders, and particularly on women and vulnerable groups?
- What **social factors** affect the ability of stakeholders to participate or benefit from the operations proposed? (gender, caste, ethnicity, or income level)

- What **institutional arrangements** are needed for participation and project delivery?
- What are the **risks which might affect the success** of the project? (lack of commitment or capacity, resource crunch, incompatibility with existing conditions)
- How does the **project address needs** of different stakeholders?
- Do **any of these issues pose risks** to overall project success and sustainability?

Tools of Social Impact Assessment

- Expert Opinion
- Consultation/ Interviews
- Questionnaire
- Checklists
- Spatial Analytics
- Matrices
- Capacity Analysis
- Modeling

1. Expert Opinion:

This method helps in identifying and evaluating indirect, combined, and interactive effects. Panels of experts may be set up to share insights on various aspects of the project's impacts. These panels can include company employees, field specialists, members from the target community, and other stakeholders. Experts with past experience in similar surveys may also be involved.

A key benefit of using expert opinion is that it highlights essential impacts and contributes to better planning and implementation of the project. However, it may be hard to find the right experts, especially in remote locations. Some experts may also remain disconnected from the project, limiting the effectiveness of their input. Hence, this method may not always be the most suitable for impact assessment.

2. Consultation/Interviews:

This involves collecting information directly from stakeholders and the community through conversations. It may include using social media, multiple languages, and hosting events at accessible locations and convenient times to gather input that can guide the project's planning and implementation.

Some useful ways include:

- ✓ Holding meetings at convenient times like evenings or with facilities like babysitting for parents;
- ✓ Organising consultations in busy community spots using accessible venues;
- ✓ Making communication easy to understand by using simple, local language and avoiding jargon;

- ✓ Running social media campaigns to spread awareness and engage the public.

3. Questionnaires:

This tool uses structured questions to collect details from the community or target group about their lifestyle, problems, project expectations, and potential risks. It helps assess past, current, and future actions that may affect the project's outcome.

To be effective:

- Questions must be clear and simple;
- Answers should be brief and easy to interpret;
- It should cover the basic details of the target group;
- It should include both close-ended (fixed choices) and open-ended (free response) questions;
- Start with simple questions and progress to complex ones;
- Avoid unclear or confusing questions;
- Use both English and the local language for clarity and better responses.

The downside is that poor question design can lead to irrelevant data. Also, it can be time-consuming and may not get enough responses.

4. Checklists:

This tool ensures that all potential project impacts are considered by presenting the information in a table format.

It is a structured way to assess impacts, listing what should and shouldn't be done. For similar types of projects, standard checklists can also be used.

However, the drawback is that some important effects may be missed. Additionally, it does not clearly show the cause-and-effect relationship of those impacts.

5. Spatial Analysis:

This tool uses Geographic Information Systems (GIS) and maps to locate areas where combined impacts from different actions might occur. It is useful for projects dealing with roads, water issues, farming, and sanitation.

Advantages include:

- ✓ GIS is user-friendly and adaptable;
- ✓ It can analyze multiple projects across timeframes;
- ✓ Provides clear visual representations.

Disadvantages are:

- ✓ It may be costly and take time;
- ✓ Impact measurement may not be precise;
- ✓ Updating maps and overlays could be challenging.

6. Matrices:

This is a more detailed and complex version of a checklist. It helps in numerically evaluating project

impacts and can include the combined effects of various actions on resources.

Benefits include:

- a. Clearly summarizes different impacts visually;
- b. Allows ranking or scoring impacts for evaluation.

However, it can be complicated and requires trained personnel, making it harder to use effectively for social impact assessment.

7. Capacity Analysis:

This tool is based on understanding the limits of the environment and comparing the project's demands with available natural resources. It assesses whether the environment can handle the proposed activity along with existing pressures.

Advantages:

- ✓ It accounts for the total build-up of impacts;
- ✓ Considers trends and changes in the environment.

The limitation is that data is often unavailable, making accurate analysis difficult. Also, it may not always be possible to define the exact limits for a specific resource, as each project requires different inputs.

8. Modelling:

This tool uses simulations to show cause-and-effect relationships under different environmental conditions.

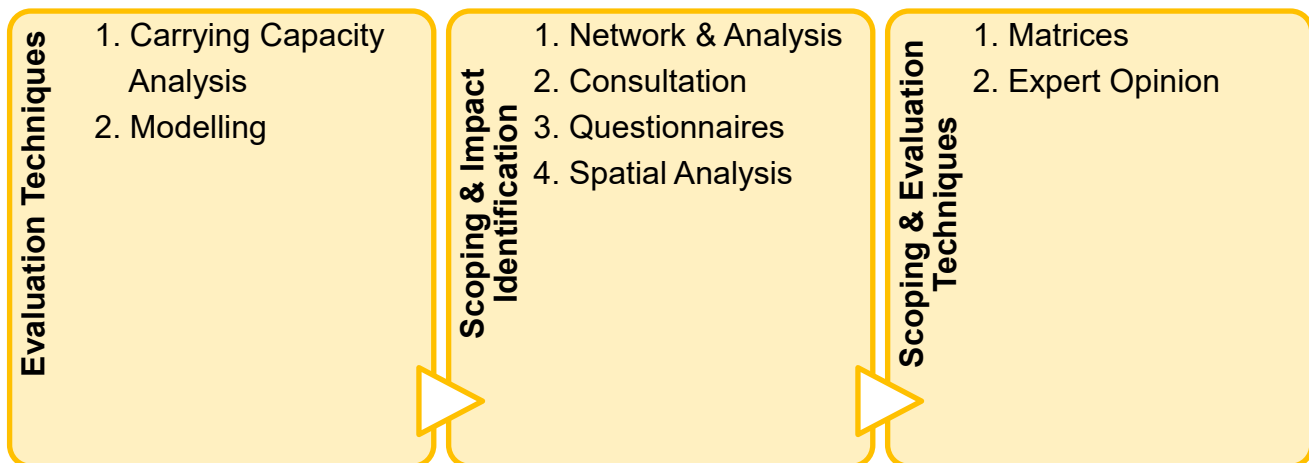
Main benefits are:

- a. It can measure combined impacts;
- b. Shows clear boundaries of area and time for analysis.

The limitations are that it often requires a large amount of time and resources. Also, it depends heavily on available baseline data to be accurate.

The choice of assessment tool depends on project phase, data type, time, resources, and overall suitability. Multiple factors influence how indirect and combined impacts are assessed, so the selected method must be both practical and project-appropriate.

Stages of Social Impact Assessment and Required Tools



The unpredictable nature of human behaviour and abstract nature of certain aspects of the social structure poses a great challenge to the development of social indicators thus necessitating the use of a mixed methods approach.

Some aspects of social changes can be modelled with confidence, providing the basis for long-term predictions while other aspects such as economic growth and inflation for example, are more difficult to predict, despite the application of powerful models and the existence of good historical data, still others such as political and cultural change, are not tractable to modelling at all.

CASE STUDY

- **Case Study Focus:** The Mackenzie Valley Environmental Impact Review Board used the Socio-Economic Impact Assessment (SIA) in 2005 as a post-project assessment tool, offering community insights to improve the assessment process.
- **Establishment:** The Review Board was formed under the Mackenzie Valley Resource Management Act, 1998 to manage environmental impact assessments in the region.
- **Purpose of the SIA:** To assess socioeconomic impacts of current and future projects, specifically focusing on the Mackenzie Gas Pipeline Project, for which the Canadian government had allocated \$500 million to mitigate community impacts.
- **Stakeholder Consultation:** Conducted 50+ meetings with around 550 participants across 13 communities, aiming to capture diverse perspectives on changes caused by new developments.
- **Diverse Stakeholder Involvement:** Included health professionals, social service agencies, economic officers, cultural institutes, local leaders, elders, and youth, ensuring a broad understanding of community concerns.
- **Key Assessment Areas:**
 - ✓ **Impact Concerns:** Focused on social impacts of past, present, and future projects.

- ✓ **Process Needs:** Examined how socioeconomic issues are integrated during and after the impact assessment process.

Format of Social Impact Assessment Report

Once a Social Impact Assessment has been completed, **a formal Report with a brief Executive Summary should be prepared** for submission to the authority which sponsored it.

The Social Impact Assessment report **should be divided into several distinct sections**, each section dealing with different aspects of the SIA process.

Below are **some contents to be incorporated in Social Impact Assessment Report:**

1. **Introduction:** This section includes the purpose of the report. It describes its scope and how it is organized (provide brief outline of the contents of the report).
2. **Description of the Project:** Provide in this section brief details of the project, the objectives of the project, need for the project, the project location, the proposed schedule for implementation. Furnish a drawing showing the project layout, and its location.
3. **Methods in Identifying Project Impacts:** Describe the methods used in conducting the assessment, both quantitative and qualitative.
4. **Anticipated Project Impacts:** Describe project impacts on different groups, both positive and negative, as identified by the SIA.
5. **Affected Population:** This section contains details about the total affected population, such as male and female ratio, age profile, marital status, occupational structure, etc.
6. **Affected Vulnerable Groups:** Provide details regarding all vulnerable affected households, including scheduled castes/scheduled tribes/other backward classes, Women-headed households, squatters and encroachers, disabled and those unable to work, elderly and children without support, and the very poor.
7. **Inventory of Losses to Households:** This section contains full information on losses to both assets immovable as well immovable. These include land, houses, other structures, income and livelihood, and social networks.
8. **Losses to the Community:** Provide a complete list of community property affected by the project. This will include all public buildings, common property resource (such as pastures and rivers), cultural property (includes archaeological sites), and infrastructure (roads, bridges, and canals).
9. **Public Consultation and Disclosure:** This section will describe the process followed to involve the affected people and other stakeholders. It summarizes their comments and describes how these were addressed. Describe activities undertaken to share information.
10. **Findings and Recommendations:** This section will provide an overall assessment of impacts and make recommendations for further action based on the impact assessment, including abandonment of the project if in relation to the benefits the impacts are too severe to manage.

11. **Mitigation Plan:** If the recommendation is to mitigate the project impacts, provide details of an action plan for mitigation, including relocation and income and livelihood restoration plans.

Content and Format: Social Impact Assessment

Outline of a Social Impact Assessment Report Executive Summary

Introduction

Description of the Project

Methods in Identifying Project Impacts

1. Land acquisition survey
2. Census
3. Socioeconomic survey and studies
4. Consultation with project area people Anticipated Project Impacts
 - a. Positive Impacts
 - b. Adverse Impacts Affected Population Affected Vulnerable Groups
 - Scheduled castes/scheduled tribes/other backward classes
 - Women-headed households
 - Squatters and encroachers
 - Disabled and those unable to work
 - Elderly and children without support
 - The very poor

Inventory of Losses to Households

- Land
- Houses
- Other structures
- Income and livelihood
- Social networks Losses to the Community
- Public buildings
- Common property resource
- Cultural property
- Infrastructure

Public Consultation and Disclosure Findings and Recommendations Mitigation Plan

- Relocation
- Income and livelihood restoration

Whether reporting of CSR is mandatory in Board's Report? What are the disclosure requirements on the website of the company?

Yes, as per rule 8(1) of the Companies (CSR Policy) Rules, 2014, the Board's Report pertaining to any financial year, for a CSR-eligible company, **SHALL** include an annual report on CSR containing particulars specified in Annexure I or Annexure II of the said rules, as applicable.

As per rule 9, the Board of Directors of the company **SHALL mandatorily disclose the following on their website**, if any, for public access:

- (i) Composition of the CSR Committee;
- (ii) CSR Policy; and
- (iii) Projects approved by the Board.

Whether all three types of entities – a company established under section 8 of the Act, or a registered public trust, or a registered society, are required to have income-tax registration u/s 12A as well as 80G of the Income Tax Act, 1961?

Yes, as per rule 4(1) all three types of entities – a company established under section 8 of the Act, or a registered public trust, or a registered society are required to have income-tax registration u/s 12A as well as 80G of the Income Tax Act, 1961 to act as implementing agency, **EXCEPT** for any entities established by Central or State Government.

CSR Audit

A corporate social audit is important because it can increase a company's responsibilities to the community. This assessment holds businesses accountable and ensures they only engage in practices that benefit stakeholders who aren't necessarily shareholders, like employees, customers and business partners.

A corporate social audit examines the following elements of a company:

a. Transparency with financial and accounting practices:

A corporate social audit helps evaluate how open a company is with its financial and accounting activities. It checks whether employees report data truthfully and if the company complies with state and national tax laws. It also verifies whether the company regularly discloses its financial status to the public through financial statements or reports.

b. Transparency with product defects or other issues:

A corporate social audit examines whether a company is honest about problems with its products or services. For instance, suppose a company sold a laundry detergent that had harmful phosphates by mistake. If the company recalled the product, apologized publicly, and compensated customers, the audit MAY still consider the company transparent.

c. Fair hiring practices and employee treatment:

A corporate social audit checks if a company follows fair hiring methods. This means not rejecting candidates due to their race, religion, gender, sexuality, or any such factor. It also includes offering support for candidates with disabilities and ensuring they are given an equal chance to apply for and receive open roles in the company.

d. Participation in charitable giving:

A corporate social audit looks at how actively a company gives to charity. It MAY consider what share of the company's earnings go toward meaningful causes. It MAY also review if the company supports employees in volunteering efforts, such as providing a paid day off to work at a food bank or other charitable organization.

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 contributing that is specifically permitted by Schedule VII of the Act.

Wherever, the Company is complying with its CSR obligations by merely making contribution (donation) which is specifically allowed as per Schedule VII of the Act, there would not be any requirement of obtaining any report of such contribution made.

However, where the **CSR obligation is done through a third party as per sub-rule (2) of Rule 4 of the CSR Policy Rules, report of utilization of funds should be obtained from that third party's auditors** by the Company's CSR Committee to have an effective CSR compliance of the monitoring and reporting requirements of the CSR Policy Rules.

Responsibility of Auditors

Wherever a Company undertakes CSR activity itself, the auditor of the company should ensure that:

- The activity/ project undertaken is within the purview of Schedule VII of the Act.
- If mere contribution/donation is given, then the same is specifically allowed as per Schedule VII of the Act.
- Separate disclosure of expenditure on CSR activities is made as per Schedule III of the Act.
- The expenditure on the project is incurred as per Companies (CSR Policy) Rules 2014.
- The company has complied with applicable Accounting Standards in accounting, recognition and disclosure related to CSR spend.
- He has complied with relevant Standards on Auditing for audit of CSR spend including:
 - ✓ SA 250 - Consideration of Laws and Regulations in an Audit of Financial Statements.

- ✓ SA 720 (Revised) - The Auditor's Responsibilities Relating to Other Information.

He has complied with the Guidance note on Audit of Expenses.

Wherever a Company undertakes CSR activity through a Third Party being eligible Section 8 Company / Registered Trust / Registered Society,

the company should obtain an Independent Practitioner's Report on Utilisation of such CSR Funds from the auditor / CA in practice of the third party,

to whom the funds are given by the Company for implementing CSR activity.

The auditor / CA in practice of the third party **BEFORE** issuing the Independent Practitioner's Report on Utilization of CSR Funds should ensure that:

The third party has spent the funds on CSR activities as per Section 135 of the Companies Act, 2013, read with Schedule VII to the Act and related regulations.

Draft format of Independent Practitioner's Report on Utilization of CSR Funds

To

The Governing Body of the Entity (Third Party) (Address of the Entity)

Independent Practitioner's Report on Utilization of Funds by (Name of the third party/ NGO) for purposes of discharging the Corporate Social Responsibility requirements of (Name of the Company)

1. Introduction

- Report issued as per engagement letter dated [date].
- Statement details utilization of CSR funds by the entity for a specific project under Section 135 and Schedule VII of Companies Act, 2013.

2. Management's Responsibility

- Responsible for preparing the Statement and maintaining supporting records.
- Must ensure proper internal controls, appropriate basis of preparation, and reasonable estimates.
- Accountable for complying with the Company's CSR fund utilization requirements and sharing all relevant information.

3. Practitioner's Responsibility

- To provide reasonable assurance based on examination of financial and other records.
- To verify accuracy and CSR relevance of the spending.

Procedures performed include:

- a) Matching figures in Statement with financial statements.
- b) Checking expenditure against CSR activities listed in Schedule VII.
- c) Verifying transactions from bank statements/cash book.
- d) Reviewing CSR disclosure in financial statements.
- e) Obtaining written confirmation on unspent amount and future plans.
- f) Verifying mathematical accuracy of the Statement.

4. Audit Background

- Financial statements for the year ending March 31, 20XX were audited with an unmodified opinion.
- Audit conducted per ICAI Standards on Auditing to ensure no material misstatements.

5. Opinion

- Statement is accurately extracted from audited financials.
- Utilized activities fall under permitted CSR activities as per Schedule VII.

6. Restriction on Use

- Report is strictly for the governing body to certify CSR fund utilization.
- Not to be used or relied upon by third parties without prior written consent.

For XYZ and Co. Chartered Accountants Firm's Registration Number Signature

(Name of the Member Signing the Assurance Report) (Designation)

Membership Number UDIN

Place of Signature:

Date:

CSR: Accounting and Taxation Aspects

CSR Applicability:

A company satisfying any of the following criteria during the **IMMEDIATELY PRECEDING FINANCIAL YEAR** is required to comply with CSR provisions specified under section 135(1) of the Companies Act, 2013 read with the Companies (CSR Policy) Rules, 2014 made thereunder:

- (i) **NET WORTH** of rupees **500 crore or more**, or
- (ii) **TURNOVER** of rupees **1000 crore or more**, or

(iii) **NET PROFIT** of rupees **5 crore or more**.

CSR Accounting Aspects

Definitions:

- a. **NET WORTH** – as per section 2(57) of Companies Act, 2013 “**NET WORTH**” means the **AGGREGATE VALUE** of the
- paid-up share capital and all reserves created out of the profits,
 - securities premium account and
 - debit or credit balance of profit and loss account,
- AFTER deducting** the
- aggregate value of the accumulated losses,
 - deferred expenditure and miscellaneous expenditure not written off,
- as per the audited balance sheet, but does not include reserves created out of
- revaluation of assets,
 - write-back of depreciation and amalgamation.
- b. **Financial Year** – as per section 2(41) of the Companies Act, 2013 “financial year”, in relation to any company or body corporate, means the period ending on the 31st day of March every year, and where it has been incorporated on or **AFTER** the 1st day of January of a year, the period ending on the 31st day of March of the following year, in respect whereof financial statement of the company or body corporate is made up.

How is average NET PROFIT calculated for the purpose of section 135 of the Act? Whether ‘profit BEFORE tax’ or ‘profit AFTER tax’ is used for such computation?

The average **NET PROFIT** for the purpose of determining the spending on CSR activities is to be computed in accordance with the provisions of section 198 of the Act and will also be exclusive of the items given under rule 2(1)(h) of the Companies (CSR Policy) Rules, 2014.

Section 198 of the Act specifies certain additions/ deletions (adjustments) to be made while calculating the **NET PROFIT** of a company (mainly it excludes capital payments/receipts, income tax, set-off of past losses).

Profit BEFORE Tax (PBT) is used for computation of NET PROFIT under section 135 of the Act.

The major issues involved in accounting for CSR are as follows:

- General Recognition & Measurement criteria of CSR
- Spend Treatment of Unspent CSR Amount
- Treatment of Excess CSR Spent

- Measurement of CSR spend made in kind
- Treatment of Surplus arising out of CSR Activities
- Presentation & Disclosure Requirements.

General Recognition & Measurement Criteria of CSR

Amount of spending (eliminated as already covered under chapter 1)

Mode of Spending

- List of programs and activities specified in Schedule VII of the Act, as amended
- Preference to the local area where it operates
- Programs and activities should be undertaken in India only
- Programs and activities should not be exclusively for employees & their families.

Medium of Spending (eliminated as already covered under chapter 1)

Any amount spent on CSR activities through option (b) or (c) is **recognised as expense in Statement of Profit & Loss immediately when they are incurred.**

When companies undertake CSR activities on their own [option (a) above], **it is need to be checked the nature of expenditure** i.e., whether the expenditure is of revenue nature or capital nature.

If **expenditure is of REVENUE NATURE** then it is charged to Statement of Profit & Loss.

On the other hand, **if expenditure is of CAPITAL NATURE** then verify whether the control of asset remains with the company or it has been transferred.

If **control of the asset has been transferred**, then charge expense to Statement of Profit & Loss.

However, if the **company retains the control of the asset**, examine whether any future economic benefits would accrue to the company.

Since, as per Rule 6 of the Companies (CSR) Rules, 2014 any **CSR Surplus cannot be included in business profits**, therefore, **amount needs to be taken to Statement of Profit & Loss in this case also.**

CSR Expenses are **measured at aggregate of amount actually spent/paid and amount for which contractual liability has been incurred** (benefits received but payment not made as on date).

Measurement of CSR spend made in kind

This includes activities such as free distribution of goods produced by the entity. These should be measured in accordance with the AS-2/ Ind AS 2 at cost or net realisable value, whichever is lower.

Treatment of Surplus arising out of CSR Activities

Any surplus arising out of CSR Projects **SHALL not form part of business profits** of a company. Also, the CSR Policy of the company **SHALL** state this. [Rule 6(2)].

Since, such surplus cannot form part of business profits, but it is an income of the company (not arising from transaction with owners) which has to be recognised in Statement of Profit & Loss.

So, corresponding to income a liability will also be recognised for CSR expense which will be expensed off in future period.

Presentation & Disclosure Requirements

As per General Instructions for Preparation of Financial Statements in accordance with Schedule III of the Companies Act 2013, **the amount of CSR expenditure should be disclosed by way of note to the Statement of Profit & Loss.**

For **better financial reporting practices create a separate line item for CSR Expenditure** in Statement of Profit & Loss.

A **company MAY be in losses but still qualify for CSR** spend due to **NET WORTH** or **TURNOVER** limit. **In such cases a disclosure would be made in Board's Report.**

Following disclosure are required in notes to account of CSR expenditure:

1. Gross Amount required to be spent.
2. Amount approved by the Board.
3. Amount spent during the year on Construction/ acquisition of asset Other purposes
4. Details of Related Party Transactions (Trust/ society/ section 8 company which is controlled by company for making CSR spend).

CSR: Taxation Aspects

CSR and Income Tax:

- Finance (No. 2) Act, 2014 has introduced Explanation 2 to Section 37(1) which states that for the purposes of section 37(1), expenditure incurred by companies on CSR as per Section 135 of the Companies Act **SHALL not be deemed to be expenditure incurred for the purposes of business or profession.**

The rationale for the same is given in the Memorandum to the Finance Bill as follows:

- 1) CSR expenditure is **application of income and hence not incurred wholly and exclusively for the purposes of business;**
 - 2) CSR provisions are **intended for corporates to share the burden of the Government in providing social service** and allowance of such expenditure would amount to subsidizing one-third of such expenditure by the Government.
- The Memorandum also clarifies that the CSR expenditure which falls under sections 30 to 36 would be allowed as deduction subject to fulfilment of conditions specified in those sections.
 - **CSR donations are eligible for deduction under Section 80G** of the Income-tax Act subject to specified exceptions - *Goldman Sachs Services Pvt. Ltd v. JCIT*

- **CSR Spenders can avail allowability of certain expenses** under Section 30 to Section 36 of the Income Tax Act, 1961:

Section 30	Deduction on repairs, municipal tax, and insurance for premises.
Section 31	This section provides deduction on repairs and insurance of plant, machinery, and furniture.
Section 32	Under this section, CSR spenders can get depreciation on tangible assets like building, machinery, plant, furniture and also on intangible assets like know- how, patents, trademarks, licenses.
Section 35	Under this section, deduction is given on expenditure for scientific research and knowledge extension in natural and applied sciences under agriculture, animal husbandry and fisheries. Payment to approved universities/research institutions or company also qualifies for deduction. In-house R & D too is eligible for deduction, under this section.
Section 35CCD	Deduction for skill development projects.
Section 36	Here, deduction is provided regarding insurance premium on stock, health of employees, loans or commission for employees, interest on borrowed capital, employer contribution to provident fund, gratuity and payment of security transaction tax.

What tax benefits can be availed under CSR?

No specific tax exemptions have been extended to CSR expenditure.

The Finance Act, 2014 also **clarifies that expenditure on CSR does not form part of business expenditure.**

CSR and GST:

- Section 16(1) of the CGST Act **provides that a registered person is eligible to avail the credit of goods or services supplied to it and used by it** in the course or furtherance of business.
- Further, according to Section 17(5) of the CGST Act, **input tax credit is not available in respect of supplies listed therein**, notwithstanding anything contained in Section 16(1) of the CGST Act.

Whether CSR expenditure of a company can be claimed as a business expenditure?

No, the amount spent by a company towards CSR cannot be claimed as business expenditure.

Explanation 2 to section 37(1) of the Income Tax Act, 1961 which was inserted through the Finance Act, 2014 provides that any expenditure incurred by an assessee on the

activities relating to CSR referred to in section 135 of the Companies Act, 2013 **SHALL not be deemed to be an expenditure incurred by the assessee** for the purposes of the business or profession.

CASE LAWS

1. Polycab Wires Case (GST AAR Kerala, 2019):

- ✓ Distributed electrical items (switches, fans, cables, etc.) to flood-affected people under CSR on a free basis.
- ✓ Held: **Input Tax Credit (ITC) not allowed** under **Section 17(5)(h)**, as goods were given away without consideration.

2. Essel Propack Case (CESTAT Mumbai, 2018):

- ✓ CSR was **not considered charity**, but essential for business operations (e.g., ensuring raw material supply).
- ✓ Held: CSR builds stakeholder confidence and is **integral to business sustainability**.
- ✓ Result: **Cenvat credit allowed**, treating CSR as an input service.

3. Northern Coalfields Ltd. Case (2019):

- ✓ Held: CSR under the Companies Act, 2013 is **more than a responsibility**; it is a **statutory obligation**.

4. Definition of 'Obligation' (State of West Bengal v. Iswar Damodar Jew):

- ✓ Obligation means a **legal duty**, not just a moral one, imposed by law or an external authority.

5. Conclusion:

- ✓ Based on the above interpretations and case laws, it is **possible to argue that ITC on CSR activities is allowable**, as such activities may not fall under the restrictions of **Section 17(5)** of the CGST Act.