

# **Handbook on Audit of CSR Activities**



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

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# Foreword

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According to the United Nations Industrial Development Organization, Corporate Social Responsibility (CSR) is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom- Line- Approach"), while at the same time addressing the expectations of shareholders and stakeholders.

In India, with the enactment of the Companies Act, 2013 by the Ministry of Corporate Affairs, Government of India, it has now become mandatory for Companies to take up CSR projects on social welfare activities. CSR has played a very important role in supporting the social and economic development of the country during the Covid-19 pandemic.

The Institute of Chartered Accountants of India (ICAI) has been extending a helping hand in the form of publications and training programmes in the relevant areas to its members to help them pacing up with evolving knowledge.

In this direction, the CSR Committee of ICAI has brought out this *Handbook on Audit of CSR Activities* to provide detailed guidance on the auditing aspects of CSR spends and the roles and responsibilities of members of ICAI. The publication will be a useful guide for the complying with auditing requirements as per the Companies (Company Social Responsibilities Policy) Rules, 2014.

I complement the CSR Committee Chairman CA. Pramod Jain, Vice-Chairman CA. Charanjot Singh Nanda and all members for their valuable inputs in bringing out this handbook and to the Committee Secretariat in promptly releasing the same. This handbook is a laudable effort as it attempts to provide guidance on the CSR Auditing related issues, to the members and various other stakeholders.

**CA Atul Kumar Gupta**  
President

New Delhi

Date:



# Preface

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Section 135 of The Companies Act, 2013 has made it mandatory for companies fulfilling certain criteria, to implement and report CSR policies. Rules framed thereunder and Notifications issued from time to time, has provided extensive guidelines on the activities to be undertaken by the companies and the reporting of the same in the Annual Report of the Company.

During the COVID-19 pandemic, CSR has played an even greater role with corporates, and individuals undertaking Corporate Social Responsibility projects over and above the minimum criteria determined by law. Corporates have stood by the Government, during the time of crisis to strengthen the country both socially and economically.

The ICAI has released Technical Guide on Accounting for Corporate Social Responsibility Activities, providing guidance on the accounting aspects of CSR expenditures. With the increasing importance of the CSR activities, it has been felt necessary to provide guidance to the industry and professionals on the auditing aspects of the CSR Expenditures. Requirement of audit of CSR activities seems not to be mandatory as per Companies Act 2013. However, various provisions of the Companies (Corporate Social Responsibility Policy) Rules 2014 require the monitoring and reporting mechanism for CSR activities. Hence, monitoring of CSR activities and its reporting is mandatory as per the Companies (Company Social Responsibility Policy) Rules 2014. Also, it is the responsibility of the Company (through CSR Committee) to monitor the funds of the Company which are to be utilized as per the CSR Policy of the Company.

This handbook is an effort made by the CSR Committee of ICAI towards meeting the expectations of the professionals and the stakeholders in this respect.

I am thankful to CA. Atul Kumar Gupta, President and CA. Nihar Niranjana Jambusaria, Vice President, ICAI, for the guidance and support in coming out with this Handbook. I would also like to place on record my deep appreciation for the guidance and support of the members of the CSR Committee in publication of the Handbook. I appreciate the efforts put in by CA. Sonali Das Halder, Secretary CSR Committee of ICAI, for her contribution and efforts in

timely releasing of the Handbook. I place on record my sincere thanks to CA. Charmi Shah, Co-opted member of CSR Committee, for her valuable inputs in drafting this handbook.

Place: New Delhi  
Date:

**CA. Pramod Jain**  
Chairman  
CSR Committee

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## Chapter 1

# Introduction

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1. Section 135 of the Companies Act, 2013 (the Act), requires the Board of Directors of every company having a net worth of Rupees 500 crore or more, or turnover of Rupees 1,000 crore or more or a net profit of Rupees 5 crore or more, during the immediate preceding financial year, to constitute a Corporate Social Responsibility (CSR) Committee of the Board.
2. The Corporate Social Responsibility Committee has to formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company in areas or subject as specified in Schedule VII of the Act. The Committee has also to recommend the amount of expenditure to be incurred on the CSR activities and shall monitor the CSR policy of such company from time to time.
3. The Board has to ensure that the company spends in every financial year at least 2% of the average net profits of the company made during the three immediately preceding financial years or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, on Corporate Social Responsibility in pursuance of its policy in this regard.

## Chapter 2

# Implementation of CSR Activities

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A company may decide to undertake its CSR activities approved by the CSR Committee with a view to discharging its CSR obligation as arising under section 135 of the Act in the following ways:

- (a) making a contribution to the funds as specified in Schedule VII to the Companies Act; or
- (b) through a registered trust or a registered society or a company established under Section 8 of the Companies Act (or Section 25 of the Companies Act, 1956), either singly or along with its holding or subsidiary or associate company or along with any other company or holding or subsidiary or associate company of such other company, or otherwise ; or
- (c) in any other way in accordance with the Companies (Corporate Social Responsibility Policy) Rules, 2014, e.g. on its own.

Hence, mode of implementation of CSR activities could be as under:

- Directly by the company by
  - Company itself undertaking the projects
  - Collaborating with other companies
  - Making contributions as allowed in Schedule VII of the Companies Act 2013 like to PM Nation Relief Fund / PM CARES Fund / Swach Bharat Kosh / Clean Ganga Fund
- Through a third party being Section 8 Company / Registered Trust/ Registered Society, which is:
  - Established by the company (singly or with other company)
  - Established by Central Government or State Government or any entity established under an Act of Parliament/State
  - Any entity other than above being Section 8 company / Registered Trust/ Registered Society, wherein:
- The entity should have an established track record of three years; and

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- The Company has to specify:-
  - The projects
  - Modalities of utilization of funds; and
  - Monitoring and reporting mechanism

## Chapter 3

# Requirement of CSR Audit

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Requirement of audit of CSR activities seems not to be mandatory as per Companies Act 2013. However, various provisions of the Companies (Company Social Responsibilities Policy) Rules 2014 require the monitoring and reporting mechanism for CSR activities. These include:

S. No.	Provision	Requirement
1	Proviso to sub-rule (2) of Rule 4	Provided that if, the Board of a company decides to undertake its CSR activities through a company established under Section 8 of the Act or a registered trust or a registered society, other than those specified in this sub-rule, such company or trust or society shall have an established track record of three years in undertaking similar programs or projects; and the company has specified the projects or programs to be undertaken, the modalities of utilisation of funds of such projects and programs and the monitoring and reporting mechanism.
2	Sub-Rule (2) of Rule 5	The CSR Committee shall institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company.
3	Sub-rule (1)(b) of Rule 6	The CSR Policy of the company shall, inter-alia, include monitoring process of such projects or programs.

Hence, monitoring of CSR activities and its reporting is mandatory as per the Companies (Company Social Responsibilities Policy) Rules 2014. Also, it is the responsibility of the Company (through CSR Committee) to monitor the funds of the Company which are to be utilized as per the CSR Policy of the Company.

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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.

## Chapter 4

# Responsibility of Auditors

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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.

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- Verification of the CSR spend has been done as per Guidance Note on Audit of Expenses issued by ICAI.
- The utilization of CSR Funds report is issued in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India.

A draft of the Independent Practitioner's Report on Utilization of CSR Funds is given as an annexure in this handbook



## Chapter 5

# Reporting requirement under CARO 2020 relevant to CSR

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Companies (Auditor's Report) Order (CARO) 2020 was notified on 25<sup>th</sup> February 2020 vide S.O. S49(E), and was to be applicable for the financial years commencing on or after the 1st April, 2019. However, the same was extended by a year by Ministry of Corporate Affairs vide Order dated 24<sup>th</sup> March 2020, to be applicable for the financial years commencing on or after the 1st April, 2020.

Clause xx has been inserted in the CARO which specifically requires reporting on CSR. The same is read as under:

*“(xx) (a) whether, in respect of other than ongoing projects, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with second proviso to sub-section (5) of Section 135 of the said Act;*

*(b) whether any amount remaining unspent under sub-section (5) of section 135 of the Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with the provision of subsection (6) of Section 135 of the said Act”*

The Auditor while reporting on this clause should refer and comply with the Guidance Note on CARO 2020 issued by ICAI. Relevant portion of the same is given as an annexure to this handbook.

# Annexures

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## 1. Section 135 of the Companies Act

**135.**(1) 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.

Provided that where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have in its Corporate Social Responsibility Committee two or more directors.

(2) The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

(3) The Corporate Social Responsibility Committee shall,—

- (a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company in areas or subject, specified in Schedule VII;
- (b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and
- (c) monitor the Corporate Social Responsibility Policy of the company from time to time.

(4) The Board of every company referred to in sub-section (1) shall,—

- (a) after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and
- (b) ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

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(5) The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years <sup>1</sup>[or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years], in pursuance of its Corporate Social Responsibility Policy:

Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities:

Provided further that if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount <sup>2</sup>[and, unless the unspent amount relates to any ongoing project referred to in sub-section (6), transfer such unspent amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year].

<sup>4</sup>[Provided also that if the company spends an amount in excess of the requirements provided under this sub-section, such company may set off such excess amount against the requirement to spend under this sub-section for such number of succeeding financial years and in such manner, as may be prescribed].

Explanation.—For the purposes of this section "net profit" shall not include such sums as may be prescribed, and shall be calculated in accordance with the provisions of section 198.

<sup>3</sup>[(6) Any amount remaining unspent under sub-section (5), pursuant to any ongoing project, fulfilling such conditions as may be prescribed, undertaken by a company in pursuance of its Corporate Social Responsibility Policy, shall be transferred by the company within a period of thirty days from the end of the financial year to a special account to be opened by the company in that behalf for that financial year in any scheduled bank to be called the Unspent Corporate Social Responsibility Account, and such amount shall be spent by the company in pursuance of its obligation towards the Corporate

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<sup>1</sup> Inserted by The Companies (Amendment) Act, 2019- Yet to be Notified

<sup>2</sup> Inserted by The Companies (Amendment) Act, 2019- Yet to be Notified

<sup>3</sup> Inserted by The Companies (Amendment) Act, 2019- Yet to be Notified

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Social Responsibility Policy within a period of three financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within a period of thirty days from the date of completion of the third financial year].

<sup>4</sup>[(7) If a company is in default in complying with the provisions of sub-section (5) or sub-section (6), the company shall be liable to a penalty of twice the amount required to be transferred by the company to the Fund specified in Schedule VII or the Unspent Corporate Social Responsibility Account, as the case may be, or one crore rupees, whichever is less, and every officer of the company who is in default shall be liable to a penalty of one-tenth of the amount required to be transferred by the company to such Fund specified in Schedule VII, or the Unspent Corporate Social Responsibility Account, as the case may be, or two lakh rupees, whichever is less.

<sup>3</sup>[(8) The Central Government may give such general or special directions to a company or class of companies as it considers necessary to ensure compliance of provisions of this section and such company or class of companies shall comply with such directions.

<sup>5</sup>[(9) Where the amount to be spent by a company under sub-section (5) does not exceed fifty lakh rupees, the requirement under sub-section (1) for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company].

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<sup>4</sup> Inserted by the Companies (Amendment) Act, 2020. Yet to be notified

<sup>5</sup> Inserted by the Companies (Amendment) Act, 2020. Yet to be notified

## **2. Schedule VII of the Companies Act, 2013**

### **SCHEDULE VII**

Activities which may be included by companies in their Corporate Social Responsibility Policies Activities relating to:—

- <sup>1</sup>(i) Eradicating hunger, poverty and malnutrition, “promoting health care including preventive health care” and sanitation including contribution to the Swach Bharat Kosh set-up by the Central Government for the promotion of sanitation] and making available safe drinking water.
- (ii) promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects.
- (iii) 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.
- (iv) 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.
- (v) 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;
- (vi) measures for the benefit of armed forces veterans, war widows and their dependents, Central Armed Police Forces (CAPF) and Central Para Military Forces (CPMF) veterans, and their dependents including widows;
- (vii) training to promote rural sports, nationally recognised sports, paralympic sports and olympic sports
- (viii) contribution to the Prime Minister's National Relief Fund or Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund

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(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;

- (ix) (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 Defence 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).
- (x) rural development projects
  - (xi) slum area development.

Explanation.- For the purposes of this item, the term 'slum area' shall mean any area declared as such by the Central Government or any State Government or any other competent authority under any law for the time being in force.

- (xii) disaster management, including relief, rehabilitation and reconstruction activities.

### **3. Companies (CSR Policy Rules) 2014**

#### **RULE 1 Short Title and Commencement**

- (1) These rules may be called the Companies (Corporate Social Responsibility Policy) Rules, 2014.
- (2) They shall come into force on the 1st day of April, 2014.

#### **RULE 2 Definitions**

- (1) In these rules, unless the context otherwise requires, -
  - (a) "Act" means the Companies Act, 2013;
  - (b) "Annexure" means the Annexure appended to these rules;
  - (c) "Corporate Social Responsibility (CSR)" means and includes but is not limited to :-
    - (i) Projects or programs relating to activities <sup>1</sup>[areas or subjects] specified in Schedule VII to the Act; or
    - (ii) Projects or programs relating to activities undertaken by the board of directors of a company (Board) in pursuance of recommendations of the CSR Committee of the Board as per declared CSR Policy of the company subject to the condition that such policy will <sup>2</sup>[include activities, areas or subjects] specified in Schedule VII of the Act.
  - (d) "CSR Committee" means the Corporate Social Responsibility Committee of the Board referred to in section 135 of the Act.
  - (e) "CSR Policy" relates to the activities to be undertaken by the <sup>3</sup>[company in areas or subjects] specified in Schedule VII to the Act and the expenditure thereon, excluding activities undertaken in pursuance of normal course of business of a company;  
<sup>4</sup>[Provided that any company engaged in research and development activity of new vaccine, drugs and medical devices in their normal course of business may undertake research and development activity of new vaccine, drugs and medical devices related to COVID-19 for financial years 2020-21, 2021-22 and 2022-23 subject to the conditions that-

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- (i) such research and development activities shall be carried out in collaboration with any of the institutes or organisations mentioned in item (ix) of Schedule VII to the Act.
  - (ii) details of such activity shall be disclosed separately in the Annual Report on CSR included in the Board's Report.]
- (f) "Net profit" means the net profit of a company as per its financial statement prepared in accordance with the applicable provisions of the Act, but shall not include the following, namely :-
- (i). any profit arising from any overseas branch or branches of the company, whether operated as a separate company or otherwise; and
  - (ii) any dividend received from other companies in India, which are covered under and complying with the provisions of section 135 of the Act:

Provided that net profit in respect of a financial year for which the relevant financial statements were prepared in accordance with the provisions of the Companies Act, 1956 (1 to 1956) shall not be required to be re-calculated in accordance with the provisions of the Act:

Provided further that in case of a foreign company covered under these rules, net profit means the net profit of such company as per profit and loss account prepared in terms of clause (a) of sub-section (1) of section 381 read with section 198 of the Act.

- (2) Words and expressions used and not defined in these rules but defined in the Act shall have the same meanings respectively assigned to them in the Act.

### Amendments

1. Inserted by The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2018 Dated 19.09.2018
2. Substituted by The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2018 Dated 19.09.2018



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in sub-rule (1), in sub-clause (ii) of clause (c), for the words:

cover subjects enumerated

the following words shall be substituted namely:-

"include activities, areas or subjects specified"

3. Substituted by The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2018 Dated 19.09.2018

in sub-rule (1), in clause (e), for the words:

company as

the following words shall be substituted namely:-

"company in areas or subjects"

4. Inserted by the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2020. Dated 24.08.2020

### **RULE 3 Corporate Social Responsibility.**

(1) Every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India, which fulfills the criteria specified in sub-section (1) of section 135 of the Act shall comply with the provisions of section 135 of the Act and these rules:

Provided that net worth, turnover or net profit. of a foreign company of the Act shall be computed in accordance with balance sheet and Profit and loss account of such company prepared in accordance .with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Act

(2) Every company which ceases to be a company covered under subsection (1) of section 135 of the Act for three consecutive financial years shall not be required to -

- (a) constitute a CSR Committee; and
- (b) comply with the provisions contained in sub-section (2) to (5) of the said section,

till such time it meets the criteria specified in sub-section (1) of section 135.

## RULE 4 CSR Activities

(1) The CSR activities shall be undertaken by the company, as per its stated CSR Policy, as projects or programs or activities (either new or ongoing), <sup>5</sup>~~[excluding activities undertaken in pursuance of its normal course of business]~~.

<sup>4</sup>(2) The Board of a company may decide to undertake its CSR activities approved by the CSR Committee, through

- (a) a company established under section 8 of the Act or a registered trust or a registered society, established by the company, either singly or alongwith any other company, or
- (b) a company established under section 8 of the Act or a registered trust or a registered society, established by the Central Government or State Government or any entity established under an Act of Parliament or a State legislature :

Provided that- if, the Board of a company decides to undertake its CSR activities through a company established under section 8 of the Act or a registered trust or a registered society, other than those specified in this sub-rule, such company or trust or society shall have an established track record of three years in undertaking similar programs or projects; and the company has specified the projects or programs to be undertaken, the modalities of utilisation of funds of such projects and programs and the monitoring and reporting mechanism”.

(3) A company may also collaborate with other companies for undertaking projects or programs or CSR activities in such a manner that the CSR Committees of respective companies are in a position to report separately on such projects or programs in accordance with these rules.

(4) Subject to provisions of sub-section (5) of section 135 of the Act, the CSR projects or programs or activities undertaken in India only shall amount to CSR Expenditure.

(5) The CSR projects or programs or activities that benefit only the employees of the company and their families shall not be considered as CSR activities in accordance with section 135 of the Act.

(6) Companies may build CSR capacities of their own personnel as well as those of their Implementing agencies through Institutions with established

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track records of at least three financial years but such expenditure<sup>1</sup>["including expenditure on administrative overheads,"] shall not exceed five percent of total CSR expenditure of the company in one financial year.

(7) Contribution of any amount directly or indirectly to any political party under section 182 of the Act, shall not be considered as CSR activity.

### **Amendments**

1. Inserted by the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2014 Dated 12th September 2014

2. Substituted by the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2015 Dated 19th January 2015

For the words "established by the company or its holding or subsidiary or associate company under section 8 of the Act or otherwise", the words "established under section 8 of the Act by the company, either singly or alongwith its holding or subsidiary or associate company, or alongwith any other company or holding or subsidiary or associate company of such other company, or otherwise" shall be substituted;

3. Substituted by the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2015 Dated 19th January 2015.

For the words "not established by the company or its holding or subsidiary or associate company, it", the words "not established by the company, either singly or alongwith its holding or subsidiary or associate company, or alongwith any other company or holding or subsidiary or associate company of such other company" shall be substituted

4. Substituted by the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2016 Dated 23rd May 2016.

In rule 4, for sub-rule (2), the following sub-rule shall be substituted, :—

“(2) The Board of a company may decide to undertake its CSR activities approved by the CSR Committee, through

(a) a company established under section 8 of the Act or a registered trust or a registered society, established by the company, either singly or alongwith any other company, or

(b) a company established under section 8 of the Act or a

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registered trust or a registered society, established by the Central Government or State Government or any entity established under an Act of Parliament or a State legislature :

Provided that- if, the Board of a company decides to undertake its CSR activities through a company established under section 8 of the Act or a registered trust or a registered society, other than those specified in this sub-rule, such company or trust or society shall have an established track record of three years in undertaking similar programs or projects; and the company has specified the projects or programs to be undertaken, the modalities of utilisation of funds of such projects and programs and the monitoring and reporting mechanism”.

5. Omitted by the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2020. Dated 24.08.2020

### **RULE 5 CSR Committees.**

- (1) The companies mentioned in the rule 3 shall constitute CSR Committee as under.-
- (i) <sup>1</sup>[a company] covered under subsection (1) of section 135 which is not required to appoint an independent director pursuant to sub-section (4) of section 149 of the Act, shall have its CSR Committee without such director ;
  - (ii) a private company having only two directors on its Board shall constitute its CSR Committee with two such directors;
  - (iii) with respect to a foreign company covered under these rules, the CSR Committee shall comprise of at least two persons of which one person shall be as specified under clause (d) of sub-section (1) of section 380 of the Act and another person shall be nominated by the foreign company.
- (2) The CSR Committee shall institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company.

### **Amendments**

1. Substituted by The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2018 Dated 19.09.2018

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in clause (i) of sub rule (1), for the words:-

an unlisted public company or a private company

the following words shall be substituted namely

"a company"

### **RULE 6 CSR Policy**

(1) The CSR Policy of the company shall, inter-alia, include the following namely :-

- (a) a list of CSR projects or programs which a company plans to undertake <sup>1</sup>[areas or subjects specified in] of the Schedule VII of the Act, specifying modalities of execution of such project or programs and implementation schedules for the same; and
- (b) monitoring process of such projects or programs:

~~<sup>3</sup>[Provided that the CSR activities does not include the activities undertaken in pursuance of normal course of business of a company.]~~

Provided <sup>3</sup>[~~further~~] that the Board of Directors shall ensure that activities included by a company in its Corporate Social Responsibility Policy are related to the <sup>2</sup>[areas or subjects specified in Schedule VII] of the Act.

(2) The CSR Policy of the company shall specify that the surplus arising out of the CSR projects or programs or activities shall not form part of the business profit of a company.

### **Amendments**

- 1 Substituted by The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2018 Dated 19.09.2018 in sub-rule (1), in clause (a), for the words  
falling within the purview of  
the following words shall be substituted namely:-  
"areas or subjects specified in"
2. Substituted by The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2018 Dated 19.09.2018  
in sub-rule (1), in second proviso to clause (b), for the words

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activities included in Schedule VII

the following words shall be substituted namely:-

"areas or subjects specified in Schedule VII"

2. Omitted by the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2020. Dated 24.08.2020

### **RULE 7 CSR Expenditure**

CSR expenditure shall include all expenditure including contribution to corpus, or on projects or programs relating to CSR activities approved by the Board on the recommendation of its CSR Committee, but does not include any expenditure on an item not in conformity or not in line with activities which fall within the <sup>1</sup>[areas or subjects, specified in] Schedule VII of the Act.

#### **Amendments**

1. Substituted by The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2018 Dated 19.09.2018

in rule 7, for the words

purview of

the following words shall be substituted namely:

"areas or subjects, specified in"

### **RULE 8 CSR Reporting**

(1) The Board's Report of a company covered under these rules pertaining to a financial year commencing on or after the 1st day of April, 2014 shall include an annual report on CSR containing particulars specified in Annexure.

(2) In case of a foreign company, the balance sheet filed under sub-clause (b) of sub-section (1) of section 381 shall contain an Annexure regarding report on CSR.

#### **Notes**

1. Circular relating to Extension of Tenure of High Level Committee or Corporate Social Responsibility 2018 dated 8th March 2019

## **Handbook on Audit of CSR Activities**

### **RULE 9 Display of CSR Activities on its Website**

The Board of Directors of the company shall, after taking into account the recommendations of CSR Committee, approve the CSR Policy for the company and disclose contents of such policy in its report and the same shall be displayed on the company's website, if any, as per the particulars specified in the Annexure.

#### **4. Advisory on Issuance of Utilization Certificate including the draft Independent Practitioner's Report on Utilization of CSR Funds.**

##### **ADVISORY**

Advisory for Members of the Institute of Chartered Accountants of India (ICAI) and Companies to whom CSR provisions under Companies Act, 2013 apply.

Wherever a Company is required to comply with CSR Regulations under Section 135 of the Companies Act, 2013, it may undertake the CSR activity, either:

- By the Company itself; or
- Through a Third Party being a Trust / Society or Section 8 Company / NGO

Wherever the company undertakes the CSR activity through a third party / NGO, it is advised that all such companies should obtain an Independent Practitioner's Report on Utilisation of such CSR Funds from the auditor / CA in practice of the third party / NGO, to whom the funds are given by the Company for implementing CSR activity.

In such cases the auditor / CA in practice of the third party / NGO is advised that they should submit the Independent Practitioner's Report on Utilization of CSR Funds after verifying 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 in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India.

The draft format of Independent Practitioner's Report on Utilization of CSR Funds is attached.

Thanking you,

Chairman,  
CSR Committee, ICAI

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

**Note:** The format of the Utilization Report is being issued after being duly vetted by the Auditing and Assurance Standards Board of ICAI



## **Handbook on Audit of CSR Activities**

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. This Report is issued in accordance with the terms of our engagement letter dated (date).
2. The accompanying Statement contains the details of utilization of funds received from (name of the company from whom CSR amount has been received hereinafter referred as "the Company") by (name of the entity who received the amount hereinafter referred as "the entity") under XX Project (name of the Project under which the amount was received and hereinafter referred as "the Project") having its office at (address of the entity) for CSR activities pursuant to the requirements of spending on CSR activities by the Company as per Section 135 of the Companies Act 2013 (hereinafter referred as the Act) read with Schedule VII to the Act and has been initialled by us for identification purposes.

### **Management's Responsibility**

3. The management of the entity is responsible for preparation of the accompanying Statement including the preparation and maintenance of all accounting and other relevant supporting records and documents. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Statement and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.
4. The management is also responsible for ensuring that the [Project of] entity complies with the requirements specified by the Company at the time of providing the funds regarding end utilisation to meet the CSR requirements of the company and for providing all relevant information to the Company as agreed to between the Company and the entity spending on the Project on the activities specified in Schedule VII to the Act.

### **Practitioner's Responsibility**

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5. Pursuant to the requirements of the “Advisory issued by the CSR Committee of ICAI” on Issue of CSR Utilization Report by Auditors of Third Party”, it is our responsibility to provide reasonable assurance in the form of an opinion on the Statement based on our examination of the matters in the Statement with reference to the books of account and other records of the [Project of] entity, whether the details given in the Statement have been accurately extracted from the [audited / unaudited] financial statements of the [Project of] entity produced before us for examination and the activities for which amount was utilized by the [Project of] entity are covered under CSR activities as per Schedule VII to the Companies Act, 2013. We have performed following procedures in this regard <sup>1</sup>:

- (a) Traced and agreed the amounts in the attached Statement, to the [audited / unaudited] financial statements of the entity as at and for the year ended March 31, 20xx.
- (b) Checked whether the entity has incurred amounts on the Corporate Social Responsibility (CSR) activities specified in Schedule VII of the Companies Act, 2013.
- (c) Traced the amount spent on CSR activities from the bank statements / cash book of the entity.
- (d) Checked whether amounts spent on CSR activities have been adequately disclosed in the financial statements of the [Project of] the entity.
- (e) Obtained written representation from the management of the entity on the total amount unspent and their plan to disburse the unspent amount related to the project.
- (f) Tested the arithmetical and clerical accuracy of the Statement.

6. We audited the financial statements of the [Project] of the entity as of and for the financial year ended March 31, 20XX, on which we issued an unmodified audit opinion vide our reports dated ..... (specify date). Our audits of these financial statements were conducted in accordance with the Standards on Auditing and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement<sup>2</sup>.

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7. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.

8. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

### **Opinion<sup>3</sup>**

9. Based on our examination as above, and the information and explanations given to us, in our opinion, the details given in the Statement have been accurately extracted from the audited financial statements of the [Project of] of the entity for the year ended [March 31, 20XX] produced before us for examination. We are also of the opinion that the activities for which amount was utilized by the [Project of] entity are covered under CSR activities as per Schedule VII to the Act.

OR

### **Conclusion<sup>3</sup>**

Based on our examination as above, and the information and explanations given to us, nothing has come to our attention that causes us to believe that the details given in the Statement have not been accurately extracted from the unaudited financial statement of the [Project of] of the entity for the year ended [March 31, 20XX] produced before us for examination or The activities for which amount was utilized by the [Project of] entity are not covered under CSR activities as per Schedule VII to the Act.

### **Restriction on Use**

10. This report is addressed to and provided to the governing body of the entity for the purpose of certifying the utilization of the funds by the [Project of] entity for CSR activities as envisaged by the CSR Committee of the Company, and should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this report is

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shown or into whose hands it may come without our prior consent in writing.

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:-

### Statement

Details of amount received from *(name of the company from whom CSR amount has been received)* by *(name of the entity who received the amount)* and its utilization up to 31<sup>st</sup> March 20XX is as under:

S. No.	Particulars	Amount (in Rs.)	Amount (in Rs.)
1.	Amount brought forward from financial year 20XX-XX (opening balance as at..... ) Out of which Amount brought forward from previous financial years from <i>(name of the company from whom CSR amount has been received)</i> (give dates of receipts with year)	.....	.....
2.	Add: Amount Received From <i>(name of the company from whom CSR amount has been received)</i> during the financial year (give dates of the receipt)	.....	.....

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Less: Program Management Fees @ (.....)  
XX%

3. Less: Amount Spent (detail of amount spent project wise ) during the financial year (Give no. of clause of schedule VII against each amount) (.....)
- i. Material expenditure (nature of spend for every material expenditure)
  - ii. Travel and conveyance
  - iii. Resource cost
  - iv. Printing & Stationery
  - v. Communication cost
- Monitoring Cost
4. Balance amount carried forward to financial year 20XX-XX (Next year) .....  
(Closing Balance as at..... )

It may also include:

- 1. Title of the project / program
- 2. Project duration
- 3. Sanctioned Budget outlay of the project by Company and total money received till date
- 4. Total amount available for expenditure
- 5. Actual expenditure excluding commitments and advance, if any
- 6. If money is given as corpus then whether spend or lying idle with the implementing agency

For

ABC Company Limited

Authorized Signatory

## 5. Guidance Note on Reports or Certificates for Special Purposes

Guidance Note on Reports or Certificates for Special Purposes  
(Revised 2016)

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## Introduction

1. The purpose of this Guidance Note is to provide guidance on engagements which require a 'professional accountant in public practice' (hitherto known as "practitioner")<sup>1</sup> to issue reports other than those which are issued in audits or reviews of historical financial information<sup>2</sup>. The reports which are issued pursuant to audits or reviews of historical financial information are dealt with in Standards on Auditing (SAs) and Standards on Review Engagements (SREs), respectively, issued by the Institute of Chartered Accountants of India (ICAI).

2. In some cases, Government and other authorities under various statutes or notifications require reports or certificates from practitioners in

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<sup>1</sup> The term "Professional accountant in public practice" has the same meaning as given in the Framework for Assurance Engagements, issued by the Institute of Chartered Accountants of India in 2007.

<sup>2</sup> For meaning of the term "Historical Financial Information", refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

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support of statements or other information provided by an entity. Such reports or certificates can also be required to be issued to fulfill a contractual reporting obligation or may be required by the management or those charged with governance of an entity for its own special purposes.

3. Sometimes, the applicable law and regulation or a contractual arrangement that an entity might have entered into, prescribe the wording of report or certificates. The wording often requires the use of word or phrase like “certify” or “true and correct” to indicate absolute level of assurance expected to be provided by the practitioner on the subject matter. Absolute assurance indicates that a practitioner has performed procedures as considered appropriate to reduce the engagement risk<sup>3</sup> to zero.

4. A practitioner is expected to provide either a reasonable assurance (about whether the subject matter of examination is materially misstated) or a limited assurance (stating that nothing has come to the practitioner’s attention that causes the practitioner to believe that the subject matter is materially misstated). A practitioner is not expected to reduce the engagement risk to zero. This is because there are inherent limitations attached to the procedures which a practitioner may perform in relation to issuance of a report or certificate, as the case may be. The inherent limitations arise from:

- (a) the nature of financial reporting;
- (b) the use of selective testing;
- (c) the inherent limitations of internal controls;
- (d) the fact that much of the evidence<sup>4</sup> available to the practitioner is persuasive rather than conclusive;
- (e) the nature of procedures to be performed in a specific situation;
- (f) the use of professional judgment<sup>5</sup> in gathering and evaluating evidence and forming conclusions based on that evidence;

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<sup>3</sup> For meaning of the term “Engagement Risk”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>4</sup> For meaning of the term “Evidence”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>5</sup> For meaning of the term “Professional Judgment”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.



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- (g) in some cases, the characteristics of the underlying subject matter<sup>6</sup> when evaluated or measured against the criteria<sup>7</sup>; and
- (h) the need for the engagement to be conducted within a reasonable period of time and at a reasonable cost.

5. In view of the above, depending upon the nature, timing and extent of procedures that can be performed based upon the facts and circumstances of the case, a report or certificate issued by a practitioner can provide either reasonable or limited level of assurance. Therefore, whenever a practitioner is required to give a “certificate” or a “report” for special purpose, the practitioner needs to undertake a careful evaluation of the scope of the engagement, i.e., whether the practitioner would be able to provide reasonable assurance or limited assurance on the subject matter.

6. The word ‘certificate’ as described in the laws and regulations or even in the contracts that an entity might have entered into can normally be associated with reasonable assurance. However, depending upon the circumstances and based upon the nature, timing and extent of the procedures which a practitioner can perform, the practitioner can conclude that a reasonable assurance cannot be expressed on the subject matter of the “certificate” and only limited assurance conclusion can be given. The practitioner’s procedures in case where reasonable assurance is to be expressed would be substantially different (and more extensive) from circumstances where limited assurance is to be expressed. The Guidance Note, at relevant places, lists the different procedures to be performed in a reasonable assurance engagement *vis a vis* limited assurance engagement. Accordingly, for the purpose of this Guidance Note, the terms, “report” / “certificate” indicates an “assurance report” issued in compliance with this Guidance Note.

7. Assurance engagements include both assertion based engagements<sup>8</sup>, in which a party other than the practitioner measures or evaluates the

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<sup>6</sup> For meaning of the term “Underlying Subject Matter”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>7</sup> For meaning of the term “Criteria”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>8</sup> For meaning of the term “Assertion based Engagements”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

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underlying subject matter against the criteria, and direct reporting engagements<sup>9</sup>, in which the practitioner measures or evaluates the underlying subject matter against the criteria. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users<sup>10</sup> confidence about the subject matter information<sup>11</sup> to a degree that is clearly more than inconsequential.

8. The Guidance Note should be read in the context of the Framework for Assurance Engagements, issued by the Institute of Chartered Accountants of India (ICAI). **Appendix 1** to the Guidance Note contains a glossary of certain important terms used in the Guidance Note and is an integral part of the Guidance Note. Further, for the purposes of this Guidance Note, reference to “appropriate party(ies)” should be read hereafter as “the responsible party<sup>12</sup>, the measurer<sup>13</sup> or the evaluator<sup>14</sup>, or the engaging party<sup>15</sup>, as appropriate.”

### Scope

9. This Guidance Note covers assurance engagements<sup>16</sup> other than audits or reviews of historical financial information, as described in the *Framework for Assurance Engagements* (Assurance Framework) issued by the ICAI. This Guidance Note does not apply to assurance engagements for which subject specific Standards on Assurance Engagements have been issued by the ICAI.

10. Not all engagements performed by the practitioners are assurance

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<sup>9</sup> For meaning of the term “Direct Reporting Engagements”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>10</sup> For meaning of the term “Intended Users”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>11</sup> For meaning of the term “Subject Matter Information”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>12</sup> For meaning of the term “Responsible Party”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>13</sup> For meaning of the term “Measurer”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>14</sup> For meaning of the term “Evaluator”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>15</sup> For meaning of the term “Engaging Party”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>16</sup> For meaning of the term “Assurance Engagements”, refer the Glossary of Terms given in the Appendix 1 to this Guidance Note.

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engagements. Some frequently performed engagements that are not assurance engagements, and therefore not covered by the Guidance Note, include:

- (a) Engagements covered by Standards on Related Services (SRS), such as agreed-upon procedures and compilation engagements;
- (b) The preparation of tax returns where no assurance opinion/conclusion is expressed; and
- (c) Consulting (or advisory) engagements, such as management and tax consulting.

11. This Guidance Note can also be applied on the reports or certificates related to historical non-financial information that a practitioner may be called upon to issue from time to time. ICAI, from time to time, issues specific Guidance Notes to provide guidance on certain assurance engagements. While complying with the requirements of those specific Guidance Notes, a practitioner may also draw guidance from the principles enunciated in this Guidance Note.

### **Objectives**

12. In conducting an assurance engagement, the objectives of the practitioner are:

- (a) To obtain either reasonable assurance<sup>17</sup> or limited assurance<sup>18</sup>, as appropriate, about whether the subject matter information is free from material misstatement<sup>19</sup>;
- (b) To express an opinion (in a reasonable assurance engagement)/a conclusion (in a limited assurance engagement) regarding the outcome of the measurement or evaluation of the underlying subject matter through a written report. The report also describes the basis for the conclusion;
- (c) Where the subject matter information is made up of a number of

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<sup>17</sup> For meaning of the term “Reasonable Assurance Engagement”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>18</sup> For meaning of the term “Limited Assurance Engagement”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>19</sup> For meaning of the term “Misstatement”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

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aspects, separate opinion/conclusion may be provided on each aspect. All such separate opinions/conclusions do not need to relate to the same level of assurance. Rather, each opinion/conclusion is expressed in the form that is appropriate to either a reasonable assurance engagement or a limited assurance engagement. References in this Guidance Note to the opinion/conclusion in the assurance report include each Opinion/conclusion when separate opinions/conclusions are provided;

(d) To communicate further as required by this Guidance Note.

13. In all cases when reasonable assurance or limited assurance, as appropriate, cannot be obtained and a qualified opinion/conclusion in the practitioner's assurance report is insufficient in the circumstances for the purposes of reporting to the intended users, this Guidance Note requires that the practitioner disclaim an opinion / a conclusion or withdraw (or resign) from the engagement, where withdrawal is possible under applicable law or regulation.

14. The roles played by the responsible party, the measurer or evaluator, and the engaging party can vary. The management and governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. Such diversity means that it is not possible for the Guidance Note to specify for all engagements, the person(s) with whom the practitioner is to inquire of, request representations from, or otherwise communicate with in all circumstances. In some cases, for example, when the appropriate party(ies) is(are) only part of a complete legal entity, identifying the appropriate management personnel or those charged with governance with whom to communicate, will require the exercise of professional judgment to determine which person(s) have the appropriate responsibilities for, and knowledge of, the matters concerned.

### **Conduct of an Assurance Engagement in Accordance with Guidance Note**

15. The Guidance Note aims to bring out the procedural differences between a limited assurance engagement *vis a vis* a reasonable assurance engagement. In this Guidance Note, guidance that applies to only limited assurance or reasonable assurance engagements have been presented in a columnar format with the letter "L" (limited assurance) or "R" (reasonable

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assurance) after the paragraph number. Although some procedures are required only for reasonable assurance engagements, these may nonetheless be appropriate in some limited assurance engagements.

### **Inability to Achieve an Objective**

16. If any of the objectives enumerated in this Guidance Note (refer paragraphs 12 to 14) cannot be achieved, the practitioner should evaluate whether this requires the practitioner to modify the practitioner's opinion/conclusion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). In case the practitioner is unable to achieve an objective, it represents a significant matter requiring documentation in accordance with paragraph 92 of this Guidance Note.

### **Ethical and Quality Control Requirements**

17. A practitioner who performs assurance engagements covered under this Guidance Note is governed by the same ethical and quality control requirements as are described in paragraphs 4 and 5 of the Framework for Assurance Engagements.

### **Engagement Acceptance and Continuance**

18. The practitioner needs to be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and assurance engagements have been followed, and should determine that conclusions reached in this regard are appropriate.

19. The practitioner should accept or continue an assurance engagement only when:

- (a) The practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied;
- (b) The practitioner is satisfied that those persons who are to perform the engagement collectively (the engagement team)<sup>20</sup> have the appropriate competence and capabilities; and
- (c) The basis upon which the engagement is to be performed has been agreed, through:

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<sup>20</sup> For meaning of the term "Engagement Team", refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

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- (i) Establishing that the preconditions for an assurance engagement are present (see also paragraphs 21-22); and
- (ii) Confirming that there is a common understanding between the practitioner and the engaging party of the terms of the engagement, including the practitioner's reporting responsibilities.

20. If the practitioner obtains information that would have caused the practitioner to decline the engagement had that information been available earlier, the practitioner should take necessary action promptly. In case of a firm<sup>21</sup>, the practitioner (i.e., the engagement partner<sup>22</sup>)<sup>23</sup> should communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.

### Preconditions for the Assurance Engagement

21. In order to establish whether the preconditions for an assurance engagement are present, the practitioner should, on the basis of a preliminary knowledge of the engagement circumstances<sup>24</sup> and discussion with the appropriate party(ies), determine whether:

- (a) The roles and responsibilities of the appropriate parties are suitable in the circumstances; and
- (b) The engagement exhibits all of the following characteristics:
  - (i) The underlying subject matter is appropriate;
  - (ii) The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances, including that these exhibit the following characteristics as described in paragraph 35 of the Framework for Assurance Engagements:

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<sup>21</sup> For meaning of the term "Firm", refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>22</sup> For meaning of the term "Engagement Partner", refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>23</sup> In the context of a firm, the term practitioner would imply reference to the engagement partner.

<sup>24</sup> For meaning of the term "Engagement Circumstances", refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

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- (a) Relevance.
  - (b) Completeness.
  - (c) Reliability.
  - (d) Neutrality.
  - (e) Understandability.
- (iii) The criteria that the practitioner expects to be applied in the preparation of the subject matter information will be available to the intended users<sup>25</sup>.
- (iv) The practitioner expects to be able to obtain the evidence needed to support the member's conclusion;
- (v) The practitioner's opinion/conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is to be contained in a written report; and
- (vi) A rational purpose including, in the case of a limited assurance engagement, that the practitioner expects to be able to obtain a meaningful level of assurance.

22. If the preconditions for an assurance engagement are not present, the practitioner should discuss the matter with the engaging party. If changes cannot be made to meet the preconditions, the practitioner would be well advised not to accept the engagement as an assurance engagement, unless required by law or regulation to do so.

### **Limitation on Scope Prior to Acceptance of the Engagement**

23. If the engaging party imposes a limitation on the scope of the practitioner's work in the terms of a proposed assurance engagement, such that the practitioner believes the limitation will result in the practitioner disclaiming an opinion / a conclusion on the subject matter information, the practitioner should not accept such an engagement as an assurance engagement, unless required by law or regulation to do so.

### **Agreeing on the Terms of the Engagement**

24. The practitioner should agree the terms of the engagement with the

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<sup>25</sup> Refer Para 37 of the Framework for Assurance Engagements.

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engaging party. The agreed terms of the engagement should be specified in sufficient detail in an engagement letter or other suitable form of written agreement, written confirmation, or in law or regulation. It is in the interests of both, the engaging party and the practitioner, that the practitioner communicates in writing the agreed terms of the engagement before the commencement of the engagement to help avoid misunderstandings. The terms of engagement, at a minimum, should include the following:

- (a) the objective and scope of engagement;
- (b) the responsibilities of the practitioner;
- (c) the responsibilities of engaging party;
- (d) the responsibilities of the responsible party (if different from the engaging party);
- (e) identification of the suitable criteria to be used;
- (f) identification of the subject matter including reference to the law or regulation or the contracts;
- (g) Unrestricted access to whatever records, documentation and other information requested in connection with the engagement;
- (h) The fact that the engagement cannot be relied upon to disclose errors, illegal acts or other irregularities, for example, fraud or defalcations that may exist;
- (i) Reference to the expected form and content of report to be issued by the practitioner; and
- (j) A statement that there may be circumstances in which a report may differ from its expected form and content.

25. The agreed terms of engagement can also include other general terms of engagement so long as those terms are not inconsistent with the applicable laws and regulations.

26. The form and content of the written agreement or contract will vary with the engagement circumstances. For example, if law or regulation prescribes in sufficient detail the terms of the engagement, the practitioner need not record them in a written agreement, except for the fact that such law or regulation applies and that the appropriate party acknowledges and understands its responsibilities under such law or regulation. Law or



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regulation, particularly in the public sector, may mandate the appointment of a practitioner and set out specific powers, such as the power to access appropriate party(ies)'s records and other information, and responsibilities, such as requiring the practitioner to report directly to an authority, the legislature or the public, in case appropriate party(ies) attempt to limit the scope of the engagement.

27. On recurring engagements, the practitioner should assess whether the circumstances require the terms of the engagement to be revised and whether there is a need to remind the engaging party of the existing terms of the engagement.

### **Acceptance of a Change in the Terms of the Engagement**

28. The practitioner should not agree to a change in the terms of the engagement where there is no reasonable justification for doing so. If such a change is made, the practitioner should not

disregard evidence that was obtained prior to the change. A change in circumstances that affects the intended users' requirements, or a misunderstanding concerning the nature of the engagement, may justify a request for a change in the engagement, for example, from an assurance engagement to a non-assurance engagement, or from a reasonable assurance engagement to a limited assurance engagement. An inability to obtain sufficient appropriate evidence to form a reasonable assurance opinion/conclusion is not an acceptable reason to change from a reasonable assurance engagement to a limited assurance engagement.

### **Assurance Report Prescribed by Law or Regulation**

29. In some cases, law or regulation prescribes the layout or wording of the assurance report. In these circumstances, the practitioner would need to evaluate:

- (a) Whether intended users might misunderstand the assurance conclusion; and
- (b) If so, whether additional explanation in the assurance report can mitigate possible misunderstanding.

30. If the practitioner concludes that additional explanation in the assurance report cannot mitigate possible misunderstanding, as the law or regulation does not allow the practitioner to provide such additional

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explanation in the assurance report to mitigate the risk of users misunderstanding of the assurance conclusion, the practitioner should not accept the engagement, unless required by law or regulation to do so.

31. In case the practitioner is required to issue an assurance report under the applicable laws or regulations, the practitioner should discuss the matter with the engaging party. The practitioner should provide a draft of the assurance report to be issued that duly incorporates the essential elements thereof as prescribed in paragraph 80 of the Guidance Note to the layout or the wordings so prescribed. Both, the practitioner and the engaging party, should agree on the resulting modifications to the layout or wording prescribed under the laws or regulations. The agreement on layout or wording of the assurance report should be duly documented in the engagement letter. The practitioner should then accept and perform the engagement and issue the final assurance report duly incorporating therein the essential elements prescribed in the Guidance Note. If the engaging party does not agree to this approach, the practitioner should consider whether it would be appropriate to accept the engagement.

32. It may also happen that the concerned authorities reject the aforesaid assurance report issued by the practitioner on account of the modifications made to the prescribed layout or wording. In such circumstances, the practitioner should obtain the evidence of rejection of the assurance report by the concerned authorities and make it a part of the engagement documentation. The practitioner, in such a case, may issue the assurance report in the format prescribed under the law or regulation since the practitioner would have complied with the requirements of this Guidance Note while issuing the certificate in the first instance. The practitioner can also consider enclosing a statement containing essential elements of an assurance report as prescribed in paragraph 80 of this Guidance Note to the format prescribed under the law or regulation. The enclosure should also state the fact that a report issued earlier in accordance with this Guidance Note had been rejected by the concerned authorities.

32A. It is recognised that rejections of assurance reports or certificates issued might have also occurred in the past or there could be a situation where the concerned regulator has expressly indicated that any modification to the layout or the wording of the format is not acceptable and if time period available to follow the process in paragraphs 31 and 32 is not sufficient, the practitioner may issue the assurance report in the format prescribed under

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the law or regulation. If the practitioner has complied with all the requirements of this Guidance Note, the practitioner should also enclose a statement containing essential elements of an assurance report as prescribed in paragraph 80 of this Guidance Note, to the format prescribed under the law or regulation by giving suitable reference of the statement in the format. (e.g. “in terms of our statement of even date” or “to be read with the enclosed statement of even date” etc.)

33. Similarly, the practitioner may conclude, that even where permitted by the law/regulation or it is otherwise accepted by the concerned regulatory bodies to provide additional information/ explanation in the assurance report, doing the same will not mitigate the risk of users’ misunderstanding of the assurance conclusion expressed. In such circumstance, the practitioner should mention the circumstances not allowing the practitioner to bring down the risk of users’ misunderstanding in the report being issued by the practitioner. The practitioner should also include such matters in the scope of work documented in the engagement letter.

### **Professional Skepticism<sup>26</sup>, Professional Judgment, and Assurance Skills and Techniques**

34. The practitioner would need to plan and perform an engagement with professional skepticism, recognizing that circumstances may exist that may cause the subject matter information to be materiality misstated.

35. The practitioner needs to exercise professional judgment in planning and performing an assurance engagement, including determining the nature, timing and extent of procedures.

36. The practitioner should also apply assurance skills and techniques<sup>27</sup> as part of an iterative, systematic engagement process.

### **Planning**

37. The practitioner should plan the engagement so that it will be performed in an effective manner, including setting the scope, timing and direction of the engagement, and determining the nature, timing and extent of

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<sup>26</sup> For meaning of the term “Professional Skepticism”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>27</sup> For meaning of the term “Assurance Skills and Techniques”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

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planned procedures that are required to be carried out in order to achieve the objective of the engagement.

38. The practitioner should determine whether the criteria are suitable for the engagement circumstances, including that they exhibit the characteristics identified in paragraph 21(b)(ii).

39. If it is discovered after the engagement has been accepted that one or more preconditions for an assurance engagement is not present, the practitioner should discuss the matter with the appropriate party(ies), and determine:

- (a) Whether the matter can be resolved to the practitioner's satisfaction;
- (b) Whether it is appropriate to continue with the engagement; and
- (c) Whether and, if so, how to communicate the matter in the assurance report.

40. If it is discovered after the engagement has been accepted that some or all of the applicable criteria are unsuitable or some or all of the underlying subject matter is not appropriate for an assurance engagement, the practitioner would need to consider withdrawing from the engagement, if withdrawal is possible under applicable law or regulation. If the practitioner continues with the engagement, the practitioner should express a qualified or adverse opinion/conclusion, or disclaimer of opinion/conclusion, as appropriate in the circumstances.

### **Materiality**

41. The practitioner would consider materiality when:

- (a) Planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures; and
- (b) Evaluating whether the subject matter information is free from material misstatement.

42. Professional judgments about materiality are made in light of surrounding circumstances, but are not affected by the level of assurance, that is, for the same intended users and purpose, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of intended users.

43. The applicable criteria may discuss the concept of materiality in the

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context of the preparation and presentation of the subject matter information and thereby provide a frame of reference for the practitioner in considering materiality for the engagement. Although applicable criteria may discuss materiality in different terms, the concept of materiality generally includes the matters discussed in paragraphs 42-50. If the applicable criteria do not include a discussion of the concept of materiality, these paragraphs provide the practitioner with a frame of reference.

44. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information. The practitioner's consideration of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the common information needs of intended users as a group. In this context, it is reasonable for the practitioner to assume that intended users:

- (a) Have a reasonable knowledge of the underlying subject matter, and a willingness to study the subject matter information with reasonable diligence;
- (b) Understand that the subject matter information is prepared and assured to appropriate levels of materiality, and have an understanding of any materiality concepts included in the applicable criteria;
- (c) Understand any inherent uncertainties involved in the measuring or evaluating the underlying subject matter; and
- (d) Make reasonable decisions on the basis of the subject matter information taken as a whole.

Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

45. Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative factors and quantitative factors when considering materiality in a particular engagement is a matter for the practitioner's professional judgment.

46. Qualitative factors may include such things as:

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- (a) The number of persons or entities affected by the subject matter.
- (b) The interaction between, and relative importance of, various components of the subject matter information when it is made up of multiple components, such as a report that includes numerous performance indicators.
- (c) The wording chosen with respect to subject matter information that is expressed in narrative form.
- (d) The characteristics of the presentation adopted for the subject matter information when the applicable criteria allow for variations in that presentation.
- (e) The nature of a misstatement, for example, the nature of observed deviations from a control when the subject matter information is a statement that the control is effective.
- (f) Whether a misstatement affects compliance with law or regulation.
- (g) In the case of periodic reporting on an underlying subject matter, the effect of an adjustment that affects past or current subject matter information or is likely to affect future subject matter information.
- (h) Whether a misstatement is the result of an intentional act or is unintentional.
- (i) Whether a misstatement is significant having regard to the practitioner's understanding of known previous communications to users, for example, in relation to the expected outcome of the measurement or evaluation of the underlying subject matter.
- (j) Whether a misstatement relates to the relationship between the responsible party, the measurer or evaluator, or the engaging party or their relationship with other parties.
- (k) When a threshold or benchmark value has been identified, whether the result of the procedure deviates from that value.
- (l) When the underlying subject matter is a governmental program or public sector entity, whether a particular aspect of the program or entity is significant with regard to the nature, visibility and sensitivity of the program or entity.
- (m) When the subject matter information relates to a conclusion on

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compliance with law or regulation, the seriousness of the consequences of non-compliance.

47. Quantitative factors relate to the magnitude of misstatements relative to reported amounts for those aspects of the subject matter information, if any, that are:

- (a) Expressed numerically; or
- (b) Otherwise related to numerical values (for example, the number of observed deviations from a control may be a relevant quantitative factor when the subject matter information is a statement that the control is effective).

48. When quantitative factors are applicable, planning the engagement solely to detect individually material misstatements overlooks the fact that the aggregate of uncorrected and undetected individually immaterial misstatements may cause the subject matter information to be materially misstated. It may therefore be appropriate when planning the nature, timing and extent of procedures for the practitioner to determine a quantity less than materiality as a basis for determining the nature, timing and extent of procedures.

49. Materiality relates to the information covered by the assurance report. Therefore, when the engagement covers some, but not all, aspects of the information communicated about an underlying subject matter, materiality is considered in relation to only that portion that is covered by the engagement.

50. Concluding on the materiality of the misstatements identified as a result of the procedures performed requires professional judgment. For example, in a compliance engagement, the entity may have complied with nine provisions of the relevant law or regulation, but did not comply with one provision. Professional judgment is needed to conclude whether the entity complied with the relevant law or regulation as a whole. For example, the practitioner may consider the significance of the provision with which the entity did not comply, as well as the relationship of that provision to the remaining provisions of the relevant law or regulation.

### **Understanding the Underlying Subject Matter and Other Engagement Circumstances**

51. The practitioner should make inquiries of the appropriate party(ies) regarding:

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- (a) Whether they have knowledge of any actual, suspected or alleged intentional misstatement or non-compliance with laws and regulations affecting the subject matter information;
- (b) Whether the responsible party has an internal audit function<sup>28</sup> and, if so, make further inquiries to obtain an understanding of the activities and main findings of the internal audit function with respect to the subject matter information; and
- (c) Whether the responsible party has used any experts in the preparation of the subject matter information.

Limited Assurance	Reasonable Assurance
<p>52L. The practitioner should obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:</p> <ul style="list-style-type: none"> <li>(a) Enable the practitioner to identify areas where a material misstatement of the subject matter information is likely to arise; and</li> <li>(b) Thereby, provide a basis for designing and performing procedures to address the areas identified in paragraph 52L(a) and to obtain limited assurance to support the practitioner's conclusion.</li> </ul>	<p>52R. The practitioner should obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:</p> <ul style="list-style-type: none"> <li>(a) Enable the practitioner to identify and assess the risks of material misstatement<sup>29</sup> in the subject matter information; and</li> <li>(b) Thereby, provide a basis for designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner's opinion.</li> </ul>
<p>53L. In obtaining an understanding of the underlying subject matter and other engagement circumstances under paragraph</p>	<p>53R. In obtaining an understanding of the underlying subject matter and other engagement circumstances under paragraph 52R, the</p>

<sup>28</sup> For meaning of the term "Internal Audit Function", refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

<sup>29</sup> For meaning of the term "Risk of Material Misstatement", refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.



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52L. the practitioner should consider the process used to prepare the subject matter information.	practitioner should obtain an understanding of internal control over the preparation of the subject matter information relevant to the engagement. This includes evaluating the design of those controls relevant to the engagement and determining whether they have been implemented by performing procedures in addition to the inquiry of the personnel responsible for the subject matter information.
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## Obtaining Evidence

### *Risk Consideration and Responses to Risks*

Limited Assurance	Reasonable Assurance
<p>54L. Based on the practitioner's understanding (see paragraph 52L), the practitioner should:</p> <ul style="list-style-type: none"> <li>(a) Identify areas where a material misstatement of the subject matter information is likely to arise;</li> <li>(b) Design and perform procedures to address the areas identified in paragraph 54L(a) and to obtain limited assurance to support the practitioner's conclusion.</li> </ul>	<p>54R. Based on the practitioner's understanding (see paragraph 52R) the practitioner should:</p> <ul style="list-style-type: none"> <li>(a) Identify and assess the risks of material misstatement in the subject matter information; and</li> <li>(b) Design and perform procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner's opinion. In addition to any other procedures on the subject matter information that are appropriate in the engagement circumstances, the practitioner's procedures would include obtaining sufficient appropriate evidence as to the operating effectiveness of relevant controls over the subject matter information when:</li> </ul>

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	<ul style="list-style-type: none"> <li>(i) The practitioner's assessment of the risks of material misstatement includes an expectation that controls are operating effectively, or</li> <li>(ii) Procedures other than testing of controls cannot alone provide sufficient appropriate evidence.</li> </ul>
Determining Whether Additional Procedures are necessary in a Limited Assurance Engagement	Revision of Risk Assessment in a Reasonable Assurance Engagement
<p>55L. If the practitioner becomes aware of a matter(s) that causes the practitioner to believe that the subject matter information may be materially misstated, the practitioner should design and perform additional procedures to obtain further evidence until the practitioner is able to:</p> <ul style="list-style-type: none"> <li>(a) Conclude that the matter is not likely to cause the subject matter information to be materially misstated; or</li> <li>(b) Determine that the matter(s) causes the subject matter information to be materially misstated.</li> </ul>	<p>55R. The practitioner's assessment of the risks of material misstatement in the subject matter information may change during the course of the engagement as additional evidence is obtained. In circumstances where the practitioner obtains evidence which is inconsistent with the evidence on which the practitioner originally based the assessment of the risks of material misstatement, the practitioner should revise the assessment and modify the planned procedures accordingly.</p>

56. When designing and performing procedures, the practitioner would also need to consider the relevance and reliability of the information to be used as evidence. If:

- (a) Evidence obtained from one source is inconsistent with that obtained from another; or
- (b) The practitioner has doubts about the reliability of information to be used as an evidence, the practitioner should determine what changes or additions to the procedures are necessary to resolve the matter,

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and should consider the effect of the matter, if any, on other aspects of the engagement.

57. The practitioner should accumulate uncorrected misstatements identified during the engagement other than those that are clearly trivial and determine the effect of the misstatement on the assurance report.

### **Work Performed by a Practitioner's Expert<sup>30</sup>**

58. When the work of a practitioner's expert is to be used, the practitioner should also:

- (a) Evaluate whether the practitioner's expert has the necessary competence, capabilities and objectivity for the practitioner's purposes. In the case of a practitioner's external expert, the evaluation of objectivity should include inquiry regarding interests and relationships that may create a threat to that expert's objectivity;
- (b) Obtain a sufficient understanding of the field of expertise of the practitioner's expert;
- (c) Agree with the practitioner's expert on the nature, scope and objectives of that expert's work; and
- (d) Evaluate the adequacy of the practitioner's expert's work for the practitioner's purposes.

### **Work Performed by Another Practitioner, a Responsible Party's or Measurer's or Evaluator's Expert, or an Internal Auditor**

59. When the work of another practitioner is to be used, the practitioner should evaluate whether that work is adequate for the practitioner's purposes.

60. If information to be used as evidence has been prepared using the work of a responsible party's or a measurer's or evaluator's expert, the practitioner should, to the extent necessary having regard to the significance of that expert's work for the practitioner's purposes:

- (a) Evaluate the competence, capabilities and objectivity of that expert;

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<sup>30</sup> For meaning of the term "Practitioner's Expert", refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

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- (b) Obtain an understanding of the work of that expert; and
  - (c) Evaluate the appropriateness of that expert's work as evidence.
61. If the practitioner plans to use the work of the internal audit function, the practitioner should evaluate the following:
- (a) The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors;
  - (b) The level of competence of the internal audit function;
  - (c) Whether the internal audit function applies a systematic and disciplined approach, including quality control; and
  - (d) Whether the work of the internal audit function is adequate for the purposes of the engagement.

### **Written Representations**

62. The practitioner should request from the appropriate party(ies) a written representation:
- (a) That it has provided the practitioner with all information of which the appropriate party(ies) is aware that is relevant to the engagement.
  - (b) Confirming the measurement or evaluation of the underlying subject matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information.
63. If, in addition to required representations, the practitioner determines that it is necessary to obtain one or more written representations to support other evidence relevant to the subject matter information, the practitioner should request such other written representations.
64. When written representations relate to matters that are material to the subject matter information, the practitioner should:
- (a) Evaluate their reasonableness and consistency with other evidence obtained, including other representations (oral or written); and
  - (b) Consider whether those making the representations can be expected to be well-informed on the particular matters.
65. The date of the written representations should be as near as practicable to, but not after, the date of the assurance report.

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### ***Requested Written Representations Not Provided or Not Reliable***

66. If one or more of the requested written representations are not provided or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations, or that the written representations are otherwise not reliable, the practitioner should:

- (a) Discuss the matter with the appropriate party(ies);
- (b) Re-evaluate the integrity of those from whom the representations were requested or received and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and
- (c) Take appropriate actions, including determining the possible effect on the conclusion in the assurance report.

### **Subsequent Events**

67. When relevant to the engagement, the practitioner should consider the effect on the subject matter information and on the assurance report of events up to the date of the assurance report,

and should respond appropriately to the facts that become known to the practitioner after the date of the assurance report, that, had they been known to the practitioner at that date, may have caused the practitioner to amend the assurance report. The extent of consideration of subsequent events depends on the potential for such events to affect the subject matter information and to affect the appropriateness of the practitioner's conclusion. However, the practitioner has no responsibility to perform any procedures regarding the subject matter information after the date of the assurance report.

### **Other Information<sup>31</sup>**

68. When documents containing the subject matter information and the assurance report thereon include other information, the practitioner should read that other information to identify material inconsistencies, if any, with the subject matter information or the assurance report and, if on reading that

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<sup>31</sup> For meaning of the term "Other Information", refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

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other information, the practitioner:

- (a) Identifies a material inconsistency between that other information and the subject matter information or the assurance report; or
- (b) Becomes aware of a material misstatement of fact<sup>32</sup> in that other information that is unrelated to matters appearing in the subject matter information or the assurance report,

The practitioner should discuss the matter with the appropriate party(ies) and take further action as appropriate.

### Description of Applicable Criteria

69. The practitioner would need to evaluate whether the subject matter information adequately refers to or describes the applicable criteria. The description of the applicable criteria advises intended users of the framework on which the subject matter information is based, and is particularly important when there are significant differences between various criteria regarding how particular matters may be treated in the subject matter information.

70. A description that the subject matter information is prepared in accordance with particular applicable criteria is appropriate only if the subject matter information complies with all relevant requirements of those applicable criteria that are effective. A description of the applicable criteria that contains imprecise qualifying or limiting language (for example, “the subject matter information is in substantial compliance with the requirements of XYZ”) is not an adequate description as it may mislead users of the subject matter information.

### Forming the Assurance Opinion/Conclusion

71. The practitioner should evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement and, if necessary in the circumstances, attempt to obtain further evidence. The practitioner should consider all relevant evidence, regardless of whether it appears to corroborate or to contradict the measurement or evaluation of the underlying subject matter against the applicable criteria. If the practitioner is unable to obtain necessary further evidence, the practitioner should consider the

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<sup>32</sup> For meaning of the term “Misstatement of Fact”, refer the Glossary of Terms given in the Appendix 1 to the Guidance Note.

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implications for the practitioner's opinion/conclusion in paragraph 72<sup>33</sup>.

72. The practitioner should form an opinion/a conclusion about whether the subject matter information is free of material misstatement. In forming that opinion/conclusion, the practitioner should consider the practitioner's conclusion in paragraph 71 regarding the sufficiency and appropriateness of evidence obtained and an evaluation of whether uncorrected misstatements are material, individually or in the aggregate.

73. Evidence is necessary to support the practitioner's opinion/conclusion and assurance report. It is cumulative in nature and is primarily obtained from procedures performed during the course of the engagement. It may, however, also include information obtained from other sources, such as previous engagements (provided the practitioner has determined whether changes have occurred since the previous engagement that may affect its relevance to the current engagement) or the quality control procedures for client acceptance and continuance. Evidence may come from sources inside and outside the appropriate party(ies). Also, information that may be used as evidence may have been prepared by an expert employed or engaged by the appropriate party(ies). Evidence comprises both information that supports and corroborates aspects of the subject matter information, and any information that contradicts aspects of the subject matter information. In addition, in some cases, the absence of information (for example, refusal by the appropriate party(ies) to provide a requested representation) is used by the practitioner, and therefore, also constitutes evidence. Most of the practitioner's work in forming the assurance opinion/conclusion consists of obtaining and evaluating evidence.

74. If the practitioner is unable to obtain a sufficient appropriate evidence, a scope limitation exists and the practitioner should express a qualified opinion/conclusion or disclaim an opinion/conclusion, or withdraw from the engagement, where withdrawal is possible under applicable law or regulation, as appropriate.

### **Preparing the Assurance Report**

75. The assurance report should be in writing and should contain a clear expression of the practitioner's opinion/conclusion about the subject matter information. Where the subject matter information is made up of a number of

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<sup>33</sup> Refer Para 41- 45 of the Framework for Assurance Engagements.

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aspects, separate opinions/conclusions may be provided on each aspect. All such separate opinions/conclusions do not need to relate to the same level of assurance. Rather, each conclusion is expressed in the form that is appropriate to either a reasonable assurance engagement or a limited assurance engagement. References in this Guidance Note to the opinion/conclusion in the assurance report include each opinion/conclusion when separate opinions/conclusions are provided.

76. The practitioner's opinion/conclusion should be clearly separated from information or explanations that are not intended to affect the practitioner's opinion/conclusion, including any Emphasis of Matter, Other Matter, findings related to particular aspects of the engagements, recommendations or additional information included in the assurance report. The wording used should make it clear that an Emphasis of Matter, Other Matter, findings, recommendations or additional information is not intended to detract from the practitioner's opinion/conclusion.

77. Oral and other forms of expressing conclusions can be misunderstood without the support of a written report. For this reason, the practitioner shall not report orally without providing a written assurance report.

78. This Guidance Note does not require a standardized format for reporting on all assurance engagements. Instead, it identifies the basic elements the assurance report is to include. Assurance reports are tailored to the specific engagement circumstances. The practitioner may use headings, paragraph numbers, typographical devices, for example the bolding of text, and other mechanisms to enhance the clarity and readability of the assurance report.

79. The practitioner may choose a "short form" or "long form" style of reporting to facilitate effective communication to the intended users. "Short-form" reports ordinarily include only the basic elements. "Long-form" reports include other information and explanations that are not intended to affect the practitioner's conclusion. In addition to the basic elements, long-form reports may describe in detail the terms of the engagement, the applicable criteria being used, findings relating to particular aspects of the engagement, details of the qualifications and experience of the practitioner and others involved with the engagement, disclosure of materiality levels, and, in some cases, recommendations. The practitioner may find it helpful to consider the significance of providing such information to the information needs of the



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intended users. As required by paragraph 76, additional information is clearly separated from the practitioner's conclusion and phrased in such a manner so as to make it clear that it is not intended to detract from that conclusion.

### Assurance Report Content

80. In order to assert compliance with this Guidance Note, among other things, the assurance report should include at a minimum the following basic elements:

- (a) A *title* that clearly indicates the report is an independent assurance report. An appropriate title helps to identify the nature of the assurance report, and to distinguish it from reports issued by others, such as those who do not have to comply with the same ethical requirements as the practitioner. In case, the applicable law or regulation or the contractual arrangement entered by the entity specifies a title or phrases to identify the assurance report, the practitioner may use the title or phrases so prescribed.
- (b) An *addressee*. An addressee identifies the party or parties to whom the assurance report is directed. The assurance report is ordinarily addressed to the engaging party, but in some cases there may be other intended users.
- (c) An *identification or description of the level of assurance obtained by the practitioner, the subject matter information and, when appropriate, the underlying subject matter*. When the practitioner's conclusion is phrased in terms of a statement made by the appropriate party, that statement should accompany the assurance report, be reproduced in the assurance report or be referenced therein to a source that is available to the intended users. Identification and description of the subject matter information and, when appropriate, the underlying subject matter may include, for example:
  - The point in time or period of time to which the measurement or evaluation of the underlying subject matter relates.
  - Where applicable, the name of the responsible party or component of the responsible party to which the underlying subject matter relates.
  - An explanation of those characteristics of the underlying subject matter or the subject matter information of which the intended

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users should be aware, and how such characteristics may influence the precision of the measurement or evaluation of the underlying subject matter against the applicable criteria, or the persuasiveness of available evidence. For example:

- The degree to which the subject matter information is qualitative versus quantitative, objective versus subjective, or historical versus prospective.
- Changes in the underlying subject matter or other engagement circumstances that affect the comparability of the subject matter information from one period to the next.

(d) *Identification of the applicable criteria.* The assurance report identifies the applicable criteria against which the underlying subject matter was measured or evaluated so that the intended users can understand the basis for the practitioner's opinion/conclusion. The assurance report may include the applicable criteria, or refer to them if they are included in the subject matter information or if they are otherwise available from a readily accessible source. It may be relevant in the circumstances, to disclose:

- The source of the applicable criteria, and whether or not the applicable criteria are embodied in law or regulation, or issued by authorized or recognized bodies of experts that follow a transparent due process, that is, whether they are established criteria in the context of the underlying subject matter (and if they are not, a description of why they are considered suitable).
- Measurement or evaluation methods used when the applicable criteria allows for choice between a number of methods.
- Any significant interpretations made in applying the applicable criteria in the engagement circumstances.
- Whether there have been any changes in the measurement or evaluation methods used.

(e) Where appropriate, a description of any *significant inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria*. While in some cases, inherent limitations can be expected to be well-understood by the

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intended users of an assurance report, in other cases it may be appropriate to make explicit reference to them in the assurance report. For example, in an assurance report related to the effectiveness of internal control, it may be appropriate to note that the historic evaluation of effectiveness is not relevant to future periods due to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

- (f) When the applicable criteria are designed for a specific purpose, a statement alerting readers to this fact and that, as a result, the subject matter information may not be suitable for another purpose. In some cases the applicable criteria used to measure or evaluate the underlying subject matter may be designed for a specific purpose. For example, a regulator may require certain entities to use particular applicable criteria designed for regulatory purposes. To avoid misunderstandings, the practitioner alerts readers of the assurance report to this fact and that therefore, the subject matter information may not be suitable for another purpose.

In addition to the alert as required in the preceding paragraph, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, for example, the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the assurance report. While an assurance report may be restricted in this way, the absence of a restriction regarding a particular user or purpose does not itself indicate that a legal responsibility is owed by the practitioner in relation to that user or for that purpose. Whether a legal responsibility is owed will depend on the legal circumstances of each case and the relevant jurisdiction.

- (g) *A statement to identify the responsible party and the measurer or evaluator if different, and to describe their responsibilities and the practitioner's responsibilities.* Identifying relative responsibilities informs the intended users that the responsible party is responsible for the underlying subject matter, that the measurer or evaluator is responsible for the measurement or evaluation of the underlying subject matter against the applicable criteria, and that the Practitioner's role is to independently express an opinion/conclusion about the subject matter information.

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- (h) A statement that the engagement was performed in accordance with this Guidance Note.
- (i) A statement that the firm, of which the practitioner is a partner has applied SQC 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*.
- (j) A statement that the practitioner complies with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India. The following is an illustration of a statement in the assurance report regarding compliance with ethical requirements:

“We conducted our engagement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. That Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.”

- (k) An informative summary of the work performed as the basis for the practitioner’s opinion/conclusion. In the case of a limited assurance engagement, an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the practitioner’s opinion/conclusion. In a limited assurance engagement, the summary of the work performed should state that:
  - (i) The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and
  - (ii) Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

It is important that the summary be written in an objective way that allows intended users to understand the work done as the basis for the practitioner’s opinion/conclusion. In most cases, this will not involve detailing the entire work plan, but on the other hand it is important for it not to be so summarized as to be ambiguous, nor written in a way that is overstated or embellished.

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(I) The practitioner's opinion/conclusion:

- (i) When appropriate, the opinion/conclusion should inform the intended users of the context in which the practitioner's opinion/conclusion is to be read.

It may be appropriate to inform the intended users of the context in which the practitioner's opinion/conclusion is to be read when the assurance report includes an explanation of particular characteristics of the underlying subject matter of which the intended users should be aware. The practitioner's opinion/conclusion may, for example, include wording such as: "This opinion/conclusion has been formed on the basis of the matters outlined elsewhere in this independent assurance report."

- (ii) In a reasonable assurance engagement, the opinion is expressed in a positive form. Examples of opinion expressed in a form appropriate for a reasonable assurance engagement include:

- When expressed in terms of the underlying subject matter and the applicable criteria, "In our opinion, the entity has complied, in all material respects, with XYZ law";
- When expressed in terms of the subject matter information and the applicable criteria, "In our opinion, the Statement of Net Worth is properly prepared, in all material respects, based on XYZ criteria"; or
- When expressed in terms of a statement made by the appropriate party, "In our opinion, the [appropriate party's] statement that the entity has complied with XYZ law is, in all material respects, fairly stated," or "In our opinion, the [appropriate party's] statement that the key performance indicators are presented in accordance with XYZ criteria is, in all material respects, fairly stated".

- (iii) In a limited assurance engagement, the conclusion is expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe that

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the subject matter information is materially misstated. Examples of conclusions expressed in a form appropriate for a limited assurance engagement include:

- When expressed in terms of the underlying subject matter and the applicable criteria, “Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that [the entity] has not complied, in all material respects, with XYZ law.”
  - When expressed in terms of the subject matter information and the applicable criteria, “Based on the procedures performed and evidence obtained, we are not aware of any material amendments that need to be made to the assessment of key performance indicators for them to be in accordance with XYZ criteria.”; or
  - When expressed in terms of a statement made by the appropriate party, “Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the [appropriate party’s] statement that [the entity] has complied with XYZ law, is not, in all material respects, fairly stated.”
- (iv) The opinion/conclusion in (ii) or (iii) should be phrased using appropriate words for the underlying subject matter and applicable criteria given the engagement circumstances and need to be phrased in terms of:
- a. The underlying subject matter and the applicable criteria;
  - b. The subject matter information and the applicable criteria;  
or
  - c. A statement made by the appropriate party.

Forms of expression which may be useful for underlying subject matters include, for example, one, or a combination of, the following:

- For compliance engagements—“in compliance with” or “in accordance with.”
- For engagements when the applicable criteria describe a

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process or methodology for the preparation or presentation of the subject matter information—"properly prepared."

- For engagement when the principles of fair presentation are embodied in the applicable criteria—"fairly stated."
- (v) When the practitioner expresses a modified opinion/conclusion, the assurance report should contain:
  - a. A section that provides a description of the matter(s) giving rise to the modification; and
  - b. A section that contains the practitioner's modified opinion/conclusion
- (m) *The practitioner's signature.* The assurance report is signed by the practitioner in his personal name. Where a Firm is appointed to carry out the engagement, the report is signed in the personal name of the practitioner and in the name of the audit firm. The partner/proprietor signing the assurance report also needs to mention the membership number assigned by the ICAI. They also include the registration number of the Firm, wherever applicable, as allotted by ICAI, in the assurance reports signed by them.
- (n) *The date of the assurance report.* The assurance report should be dated no earlier than the date on which the practitioner has obtained the evidence on which the practitioner's opinion/conclusion is based, including evidence that those with the recognized authority have asserted that they have taken responsibility for the subject matter information.
- (o) The place of signature.

### Reference to the Practitioner's Expert in the Assurance Report

81. If the practitioner refers to the work of a practitioner's expert in the assurance report, the wording of that report should not imply that the practitioner's responsibility for the opinion/conclusion expressed in that report is reduced because of the involvement of that expert.

### **Assurance Report Prescribed by Law or Regulation**

82. If the practitioner is required by law or regulation to use a specific layout or wording of the assurance report, the assurance report should refer to this Guidance Note, only if the assurance report includes, at a minimum, each of the elements identified in paragraph 80.

### **Unmodified and Modified Opinions/Conclusions**

83. The practitioner should express an unmodified opinion/conclusion when the practitioner concludes:

- (a) In the case of a reasonable assurance engagement, that the subject matter information is prepared, in all material respects, in accordance with the applicable criteria; or
- (b) In the case of a limited assurance engagement, that, based on the procedures performed and evidence obtained, no matter(s) has come to the attention of the practitioner that causes the practitioner to believe that the subject matter information is not prepared, in all material respects, in accordance with the applicable criteria.

84. If the practitioner considers it necessary to:

- (a) Draw intended users' attention to a matter presented or disclosed in the subject matter information that, in the practitioner's judgment, is of such importance that it is fundamental to intended users' understanding of the subject matter information (an Emphasis of Matter paragraph); or
- (b) Communicate a matter other than those that are presented or disclosed in the subject matter information that, in the practitioner's judgment, is relevant to intended users' understanding of the engagement, the practitioner's responsibilities or the assurance report (an Other Matter paragraph),

and this is not prohibited by law or regulation, the practitioner may do so in a paragraph in the assurance report, with an appropriate heading, that clearly indicates the practitioner's opinion/conclusion is not modified in respect of the matter/s. In the case of an Emphasis of Matter paragraph, such a paragraph should refer only to the information presented or disclosed in the subject matter information.



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85. The practitioner would need to express a modified opinion/conclusion in the following circumstances:

- (a) When, in the practitioner's professional judgment, a scope limitation exists and the effect of the matter could be material. In such cases, the practitioner should express a qualified opinion/conclusion or a disclaimer of opinion/conclusion.
- (b) When, in the practitioner's professional judgment, the subject matter information is materially misstated. In such cases, the practitioner should express a qualified opinion/conclusion or adverse opinion/conclusion.

Examples of qualified and adverse opinions/conclusions and a disclaimer of opinions/conclusion are:

- Qualified conclusion (an example for limited assurance engagements with a material misstatement) – “Based on the procedures performed and the evidence obtained, except for the effect of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the [appropriate party's] statement does not present fairly, in all material respects, the entity's compliance with XYZ law.”
- Adverse opinion (an example for a material and pervasive misstatement for both reasonable assurance and limited assurance engagements) – “Because of the significance of the matter described in the Basis for Adverse Opinion/Conclusion section of our report, the [appropriate party's] statement does not present fairly the entity's compliance with XYZ law.”
- Disclaimer of conclusion (an example for a material and pervasive limitation of scope for both reasonable assurance and limited assurance engagements) – “Because of the significance of the matter described in the Basis for Disclaimer of Opinion/Conclusion section of our report, we have not been able to obtain sufficient appropriate evidence to form an opinion/ conclusion on the [appropriate party's] statement. Accordingly, we do not express an opinion/ conclusion on that statement.”

86. The practitioner should express a qualified opinion/conclusion when, in the practitioner's professional judgment, the effects, or possible effects, of a

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matter are not so material and pervasive as to require an adverse opinion/conclusion or a disclaimer of opinion/conclusion. A qualified opinion/conclusion should be expressed as being “except for” the effects, or possible effects, of the matter to which the qualification relates.

87. The term ‘pervasive’ describes the effects on the subject matter information of misstatements or the possible effects on the subject matter information of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate evidence. Pervasive effects on the subject matter information are those that, in the practitioner’s professional judgment:

- (a) Are not confined to specific aspects of the subject matter information;
- (b) If so confined, represent or could represent a substantial proportion of the subject matter information; or
- (c) In relation to disclosures, are fundamental to the intended users’ understanding of the subject matter information.
- (d) The nature of the matter, and the practitioner’s judgment about the pervasiveness of the effects or possible effects on the subject matter information, affects the type of conclusion to be expressed.

88. If the practitioner expresses a modified opinion/conclusion because of a scope limitation but is also aware of a matter(s) that causes the subject matter information to be materially misstated, the practitioner should include in the assurance report a clear description of both the scope limitation and the matter(s) that causes the subject matter information to be materially misstated.

89. When the statement made by the appropriate party has identified and properly described that the subject matter information is materially misstated, the practitioner should either:

- (a) Express a qualified opinion/conclusion or adverse opinion/conclusion phrased in terms of the underlying subject matter and the applicable criteria; or
- (b) If specifically required by the terms of the engagement to phrase the opinion/conclusion in terms of a statement made by the appropriate party, express an unqualified opinion/conclusion but include an Emphasis of Matter paragraph in the assurance report, referring to the statement made by the appropriate party that identifies and properly

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describes that the subject matter information is materially misstated. In some cases, the measurer or evaluator may identify and properly describe that the subject matter information is materially misstated. For example, in a compliance engagement the measurer or evaluator may correctly describe the instances of non-compliance. In such circumstances, paragraph 88 requires the practitioner to draw the intended users' attention to the description of the material misstatement, by either expressing a qualified or adverse opinion/conclusion or by expressing an unqualified opinion/conclusion but emphasizing the matter by specifically referring to it in the assurance report.

90. **Appendix 2** to the Guidance Note contains illustrative formats of Reports/Certificates.

### **Other Communication Responsibilities**

91. The practitioner should consider whether, pursuant to the terms of the engagement and other engagement circumstances, any matter has come to the attention of the practitioner that is to be communicated with the responsible party, the measurer or evaluator, the engaging party, those charged with governance or others.

### **Documentation**

92. The practitioner should prepare on a timely basis engagement documentation that provides a record of the basis for the assurance report that is sufficient and appropriate to enable an experienced practitioner, having no previous connection with the engagement, to understand:

- (a) The nature, timing and extent of the procedures performed to comply with the Guidance Note and applicable legal and regulatory requirements;
- (b) The results of the procedures performed, and the evidence obtained; and
- (c) Significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

93. If the practitioner identifies information that is inconsistent with the practitioner's final opinion/conclusion regarding a significant matter, the

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practitioner should document how the practitioner addressed the inconsistency.

94. The practitioner should assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the assurance report. SQC 1 requires establishment of policies and procedures for the timely completion of the assembly of engagement files. An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.

95. The completion of the assembly of the final engagement file after the date of the assurance report is an administrative process that does not involve the performance of new procedures or the drawing of new opinion/conclusions. Changes may, however, be made to the documentation during the final assembly process if they are administrative in nature. Examples of such changes include:

- Deleting or discarding superseded documentation.
- Sorting, collating and cross-referencing working papers.
- Signing off on completion checklists relating to the file assembly process.
- Documenting evidence that the practitioner has obtained, discussed and agreed with the relevant practitioners of the engagement team before the date of the assurance report.

96. After the assembly of the final engagement file has been completed, the practitioner should not delete or discard engagement documentation of any nature before the end of its retention period. The retention period for assurance engagements ordinarily is no shorter than seven years from the date of assurance report.<sup>34</sup>

97. If the practitioner finds it necessary to amend existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed the practitioner should, regardless of the nature of the amendments or additions, document:

- a) The specific reasons for making the amendments or additions; and
- b) When, and by whom, they were made and reviewed.

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<sup>34</sup> Refer Para 83 of SQC 1

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### APPENDIX 1

#### Glossary of Terms Used in the Guidance Note

For purposes of this Guidance Note, the following terms have the meanings attributed below.

1. Assurance engagement—An engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express an opinion/conclusion, designed to enhance the degree of confidence of the intended users, other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria). Each assurance engagement is classified on two dimensions:
  - Either a reasonable assurance engagement or a limited assurance engagement:
    - *Reasonable assurance engagement*—An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement, as the basis for the practitioner's opinion. The practitioner's opinion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter against the criteria.
    - *Limited assurance engagement*—An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has(have) come to the practitioner's attention to cause the practitioner to believe that the subject matter information is materially misstated. The nature, timing, and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful.

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- Either assertion based engagement or a direct reporting engagement:
  - *Assertion based engagement*—An assurance engagement in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the practitioner in the assurance report. In an attestation engagement, the practitioner's conclusion addresses whether the subject matter information is free from material misstatement. The practitioner's conclusion may be phrased in terms of:
    - (i) The underlying subject matter and the applicable criteria;
    - (ii) The subject matter information and the applicable criteria; or
    - (iii) A statement made by the appropriate party.
  - *Direct reporting engagement*—An assurance engagement in which the practitioner measures or evaluates the underlying subject matter against the applicable criteria and the practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the practitioner's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.
- 2. Assurance skills and techniques—Those planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner that are distinct from expertise in the underlying subject matter of any particular assurance engagement or its measurement or evaluation. Assurance skill and techniques include:

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- Application of professional skepticism and professional judgment;
  - Planning and performing an assurance engagement, including obtaining and evaluating evidence;
  - Understanding information systems and the role and limitations of internal control;
  - Linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures;
  - Applying procedures as appropriate to the engagement (which may include inquiry, inspection, re-calculation, re-performance, observation, confirmation, and analytical procedures); and
  - Systematic documentation practices and assurance report-writing skills.
3. Criteria—The benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement. Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. The suitability of criteria is context-sensitive, that is, it is determined in the context of the engagement circumstances. Even for the same underlying subject matter there can be different criteria, which will yield a different measurement or evaluation. For example, a measurer or evaluator might select, as one of the criteria for the underlying subject matter of customer satisfaction, the number of customer complaints resolved to the acknowledged satisfaction of the customer; another measurer or evaluator might select the number of repeat purchases in the three months following the initial purchase. The suitability of criteria is not affected by the level of assurance, that is, if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement, and vice versa. Suitable criteria include, when relevant, criteria for presentation and disclosure.
4. Engagement circumstances — The broad context defining the particular engagement, which includes the terms of the engagement; whether it is a reasonable assurance engagement or a limited

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assurance engagement, the characteristics of the underlying subject matter; the measurement or evaluation criteria; the information needs of the intended users; relevant characteristics of the responsible party, the measurer or evaluator, and the engaging party and their environment; and other matters, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.

5. Engagement partner — The partner or other person in the firm who is a member of the Institute of Chartered Accountants of India and is in full time practice and is responsible for the engagement and its performance, and for the assurance report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
6. Engagement risk — The risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated<sup>35</sup>.
7. Engaging party — The party(ies) that engages the practitioner to perform the assurance engagement. The engaging party may be under different circumstances, management or those charged with governance of the responsible party, a legislature, the intended users, the measurer or evaluator, or a different third party
8. Engagement team — All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
9. Evidence — Information used by the practitioner in arriving at the practitioner's conclusion. Evidence includes both, information contained in relevant information systems, if any, and other information
10. Firm — A sole practitioner/proprietor, partnership or any such entity of professional accountants, as may be permitted by law.
11. Historical financial information — Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past

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<sup>35</sup> Refer to Para 47-48 and Para 51 of the Framework for Assurance Engagements.



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time periods or about economic conditions or circumstances at points in time in the past.

12. Internal audit function – A function of an entity that performs assurance and consulting activities, designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.
13. Intended users – The individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report.

In some cases there may be intended users other than those to whom the assurance report is addressed. The practitioner may not be able to identify all those who will read the assurance report, particularly, where a large number of people have access to it. In such cases, particularly where possible, users are likely to have a broad range of interests in the underlying subject matter, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and the responsible party or engaging party, or by law or regulation.

Intended users or their representatives may be directly involved with the practitioner and the responsible party (and the engaging party, if different) in determining the requirements of the engagement. Regardless of the involvement of others however, and unlike an agreed-upon procedures engagement (which involves reporting factual findings based upon procedures agreed with the engaging party and any appropriate third parties, rather than a conclusion):

- (a) The practitioner is responsible for determining the nature, timing and extent of procedures; and
- (b) The practitioner may need to perform additional procedures, if information comes to the practitioner's attention that differs significantly from that on which the determination of planned procedures was based.

In some cases, intended users (for example, bankers and regulators) impose a requirement on, or request the appropriate party(ies) to arrange for an assurance engagement to be performed for a specific purpose. When engagements use criteria that are designed for a

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specific purpose, paragraph 80 requires a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, this may be achieved by restricting the distribution or use of the assurance report.

14. **Measurer or evaluator** — The party(ies) who measures or evaluates the underlying subject matter against the criteria. The measurer or evaluator possesses expertise in the underlying subject matter. In many attestation engagements, the responsible party may also be the measurer or evaluator, and the engaging party. The measurer or evaluator is responsible for having a reasonable basis for the subject matter information. What constitutes a reasonable basis will depend on the nature of the underlying subject matter and other engagement circumstances. In some cases, a formal process with extensive internal controls may be needed to provide the measurer or evaluator with a reasonable basis that the subject matter information is free from material misstatement. The fact that the practitioner will report on the subject matter information is not a substitute for the measurer or evaluator's own processes to have a reasonable basis for the subject matter information.
15. **Misstatement** — A difference between the subject matter information and the appropriate measurement or evaluation of the underlying subject matter in accordance with the criteria. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions.
16. **Misstatement of fact (with respect to other information)**—Other information that is unrelated to matters appearing in the subject matter information or the assurance report that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing the subject matter information.
17. **Other information** — Information (other than the subject matter information and the assurance report thereon) which is included, either by law, regulation or custom, in a document containing the subject matter information and the assurance report thereon.
18. **Practitioner's expert** — An individual or organization possessing expertise in a field other than assurance, whose work in that field is

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used by the practitioner to assist the practitioner in obtaining sufficient appropriate evidence. A practitioner's expert may be either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm), or a practitioner's external expert.

19. Professional judgment —The application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.
20. Professional skepticism — An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence.
21. Responsible party — The party(ies) responsible for the underlying subject matter. All assurance engagements have at least three parties: the responsible party, the practitioner, and the intended users. In many attestation engagements, the responsible party may also be the measurer or evaluator, and the engaging party.
22. Risk of material misstatement — The risk that the subject matter information is materially misstated prior to the engagement.
23. Subject matter information — The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter. In some cases, the subject matter information may be a statement that evaluates an aspect of a process, or of performance or compliance, in relation to the criteria. For example, "ABC's governance structure conformed with XYZ criteria during the period ..."
24. Underlying subject matter—The phenomenon that is measured or evaluated by applying criteria.

## APPENDIX 2

### Illustrative Formats of Reports/Certificates

**Note:** The illustrative formats of assurance reports or certificates for special purposes given in Appendix 2 should be tailored by the practitioner to meet the specific circumstances and requirements of the engagement.

#### **Illustration 1: Practitioner's Report for Turnover/Net Worth/Net Profit/Working Capital/similar engagement pursuant to a Tender requirement**

The Board of Directors *[Name of the Company]* *[Company Address]*

**Independent Practitioner's Report on the Statement of [Annual Turnover for financial years ended.....and..... (specify periods); Current Assets; Current Liabilities; Computation of Working Capital and Computation of Net worth as at... .. (specify date)]**

1. This Report is issued in accordance with the terms of our engagement letter/agreement dated .....*[specify date]*.
2. The accompanying Statement of Annual Turnover for financial years ended ..... and ..... *(specify period)* and the Statement of Current Assets; Current Liabilities; Working Capital and Net Worth as at ..... *(specify date)* (hereinafter referred together as the "Statement") contains the details as required pursuant to compliance with the terms and conditions contained in ..... *[refer to the clause]* of the Tender document issued by ..... *[refer to the authority]* dated ..... *(specify date)* with reference *[specify the contract reference if available]* (hereinafter referred to as the "Tender Document"), which we have initialled for identification purposes only.

#### **Management's Responsibility for the Statement**

3. The preparation of the Statement is the responsibility of the Management of ..... *[Name of the Company]* (hereinafter the "Company") including the preparation and maintenance of all accounting and other relevant supporting records and documents. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Statement and applying an

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appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

4. The Management is also responsible for ensuring that the Company complies with the requirements of the Tender Document and provides all relevant information to ..... *[Name of the authority]*.

### Practitioner's Responsibility

5. Pursuant to the requirements of the Tender Document, it is our responsibility to provide a reasonable assurance whether:
  - i) the amounts in the Statement of Annual Turnover for the year ended ..... (*specify period*) have been accurately extracted from the audited financial statements;
  - ii) the amounts in the Statement in respect of current assets and current liabilities that form part of the working capital computation have been accurately extracted from the audited financial statements for the year ended (*specify the period*) and the computation of working capital is arithmetically correct;
  - iii) the amounts in the Statement that form part of the Net Worth computation have been accurately extracted from the audited financial statements for the year ended; and [month][date][year] and the computation of net worth is arithmetically correct; and
  - iv) the computation of net worth and working capital is in accordance with the method of computation set out in the clause [ ] of the Tender Document.
6. The audited financial statements referred to in paragraph 5 above, have been audited by us, on which we issued an unmodified audit opinion vide our report(s) dated ..... (*specify dates*) respectively. Our audits of these financial statements were conducted in accordance with the Standards on Auditing and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.
7. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements

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of the Code of Ethics issued by the Institute of Chartered Accountants of India.

8. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

### Opinion

9. Based on our examination, as above, we are of the opinion that:
  - i) the amounts in the Statement in respect of Annual Turnover, Current assets and Current liabilities have been accurately extracted from the audited financial statements for the years ended [date] and [date];
  - ii) the amounts that form part of the working capital and net worth computation have been accurately extracted from the audited financial statements for the years ended .....[specify date] and [specify date]; and that the computation of working capital and net worth in the Statement is mathematically accurate and is in accordance with the method of computation set out in the clause [ ] of the Tender Document.

### Restriction on Use

10. The certificate is addressed to and provided to the Board of Directors of the Company solely for the purpose to enable comply with requirement of Tender Document and to submit the accompanying Statement to [specify the authority], and should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this certificate is shown or into whose hands it may come without our prior consent in writing.

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

Signature (Name of the Member Signing the Assurance Report)

(Designation<sup>36</sup>)

Membership Number

Place of Signature

Date

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<sup>36</sup> Partner or Proprietor, as the case may be.

## **Handbook on Audit of CSR Activities**

### **Illustration 2: Auditor's Annual Activity Certificate for Indian Branch Office/Liaison Office of Foreign Companies**

The Authorised Representatives,  
[Name of the Branch Office/Liaison Office] [Address]

#### **Independent Auditor's Annual Activity Certificate for Indian Branch of [Name of the Foreign Company]**

1. This Certificate is issued in accordance with the terms of our agreement dated [date].
2. [Name of the Indian Branch /Liaison Office], (the "Indian Branch"/ "Liaison Office/s") with PAN No. [Insert PAN Number of the Branch /Liaison Office/s] of [Name of the Foreign Company] (UIN [Insert UIN]) was established to undertake certain activities specifically permitted by the Reserve Bank of India (the "RBI") vide its approval letter/s No/s. [\*] (the "letter/s").

#### **Authorised Representatives' Responsibility**

3. The Authorised Representatives of the Branch Office/Liaison Office are responsible for ensuring that the Indian Branch/ Liaison Office complies with the requirement of approval letter and for providing all relevant information to the RBI.

#### **Auditor's Responsibility**

4. Pursuant to the requirements of the RBI Master Circular No. 7 dated July 02, 2012 (the "Circular"), our responsibility is to express reasonable assurance in the form of an opinion based on our audit and examination of books and records as to whether the Indian Branch/ Liaison Office/s has/ have undertaken only those activities that have been specifically permitted by the RBI and has/ have complied with the specified terms and conditions.
5. We audited the financial statements of [Name of the Indian Branch /Liaison Office] as of and for the financial year ended 31 March XXXX, on which we issued an unmodified audit opinion vide our reports dated ..... (specify date). Our audits of these financial statements were conducted in accordance with the Standards on Auditing and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.
6. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes

## Handbook on Audit of CSR Activities

issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.

7. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

### Opinion

8. Based on our audit of financial statements for the year ended 31 March 20XX and the information and explanations given to us, we are of the opinion that the [Name of the Branch /Liaison Office/s] has/have<sup>37</sup> undertaken only those activities during the period from [month] [date], [year] to [month] [date] that have been specifically permitted by the Reserve Bank of India, vide its approval letter/s<sup>38</sup> No/s<sup>39</sup> [ ] dated [month][date], [year] and has/have<sup>40</sup> complied with the terms and conditions specified in the above mentioned letter/s.

### Restriction on Use

9. This certificate has been prepared at the request of the [Name of the Branch Office/Liaison Office] solely with reference to the Circular, as amended from time to time. It should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care or for any other purpose or to any other party to whom it is shown or into whose hands it may come without our prior consent in writing.

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

Signature (Name of the Member Signing the Assurance Report)

(Designation<sup>41</sup>)

Membership Number

Place of Signature

Date

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<sup>37</sup> As Applicable

<sup>38</sup> As Applicable

<sup>39</sup> As Applicable

<sup>40</sup> As Applicable

<sup>41</sup> Partner or Proprietor, as the case may be.



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### **Illustration 3: Auditor's Report on the Manner of Utilization of Funds required under Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015**

The Board of Directors [Name of the Company] [Company Address]

#### **Independent Auditor's Report on the manner of utilization of the funds including for purposes other than those stated in the offer document**

1. This report is issued in accordance with the terms of our agreement dated [●].
2. The accompanying Statement contains details of manner of the utilization of funds including funds utilized for purposes other than those stated in the offer document for the Rights Issue (the "Statement"), as required by the Clause 32(5) of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, by the [Name of the Company] (the "Company"), which we have initialled for identification purposes only. The Funds were raised by the Company pursuant to the rights issue of [\*] equity shares of face value of Rs. [ ] each, at a premium of Rs. [\*] each, aggregating to Rs. [\*].

#### **Managements' Responsibility for the Statement**

3. The preparation of the accompanying Statement is the responsibility of the Management of the Company. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Statement, and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.
4. The Management is also responsible for ensuring that the Company complies with the requirements of the Equity Listing Agreement and for providing all relevant information to the Securities and Exchange Board of India.

#### **Auditor's Responsibility**

5. Pursuant to the requirements of the Equity Listing Agreement, it is our responsibility to obtain reasonable assurance and form an opinion as to whether the Statement is in agreement with the [audited financial

## Handbook on Audit of CSR Activities

statements for the year ended [and books and records]<sup>42</sup> of the Company]<sup>43</sup>

6. The financial statements referred to in paragraph 5 above, have been audited by us on which we issued an unmodified audit opinion vide our reports dated [month][date][year]. Our audits of these financial statements were conducted in accordance with the Standards on Auditing and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits were not planned and performed in connection with any transactions to identify matters that may be of potential interest to third parties.
7. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.
8. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

### Opinion

9. Based on our examination as above, and the information and explanations given to us, in our opinion, the Statement is in agreement with the audited financial statements for the year ended of the Company and fairly presents, in all material respects, the manner of

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<sup>42</sup> Strike off, if not applicable

<sup>43</sup> If the audited financial statements of the entity are not available, it may not be possible for the practitioner to provide reasonable assurance on the utilization of funds by the entity. However, in case the practitioner is required to issue a report, the practitioner should consider providing a limited assurance report. Reference should be made to paragraph 80 of this Guidance Note, which specifies the requirements to be complied with by the while preparing an assurance report that expresses a limited assurance.

## **Handbook on Audit of CSR Activities**

the utilization of funds including funds utilized for purposes other than those stated in the offer document.

### **Restriction on Use**

10. This report is addressed to and provided to the Board of Directors of the Company solely for the purpose of enabling it to comply with its obligations under the Equity Listing Agreement to submit the accompanying Statement to the Audit Committee accompanied by a report thereon from the statutory auditors and should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come without our prior consent in writing.

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

Signature (Name of the Member Signing the Assurance Report)  
(Designation<sup>44</sup>)

Membership Number

Place of Signature

Date

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<sup>44</sup> Partner or Proprietor, as the case may be.

**Illustration 4: Practitioner's Report on Statement of Fixed Assets for the Last Two Years in Respect of One of the Project of an Entity**

The Board of Directors *[Name of the Company]* *[Company Address]*

**Independent Practitioner's Report on Statement of Fixed Assets**

1. This report is issued in accordance with the terms of our agreement dated [date].
2. The accompanying Schedule of Fixed Assets as at [date] and [date] has been prepared by M/s xxx (the "Company") in respect of its project at [ABC] (the "Statement"), pursuant to the requirement of 'Annexure B' of the application filed by the Company with the ..... (specify the name of the relevant authority) for availing Fixed Capital Investment Subsidy relating to the new plant commissioned at  
  
xxx. We have initialled the Statement for identification purposes only.

**Management's Responsibility**

3. The accompanying Statement, including the creation and maintenance of all accounting and other records supporting its contents, is solely the responsibility of the Management of the Company. The Company's Management is responsible for the designing, implementing and maintaining internal control relevant to the preparation and presentation of the Statement, and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.
4. The Company's Management is also responsible for ensuring that the Company complies with the requirements of the Scheme and for providing all relevant information to the ..... (name of the authority).

**Practitioner's Responsibility**

5. It is our responsibility to report on the Statement based on our examination of the matters in the Statement with reference to the books of account and other records of the Company for the years ended [dates], which have been subjected to audit pursuant to the requirements of the Companies Act, 2013.

## **Handbook on Audit of CSR Activities**

6. The financial statements for the financial years ended [dates], have been audited by us on which we issued an unmodified audit opinion *vide* our reports dated [month][date][year]. Our audits of these financial statements were conducted in accordance with the Standards on Auditing and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits were not planned and performed in connection with any transactions to identify matters that may be of potential interest to third parties.
7. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.
8. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

### **Opinion**

9. Based on our examination, as above, and the information and explanations given to us, we report that the Statement is in agreement with the books of account and other records of the Company as produced to us for our examination.

### **Restriction on Use**

10. This report has been issued at the request of the Board of Directors of the Company, for submission to ..... (name of the authority) pursuant to the requirements of the Scheme. Our report should not to be used for any other purpose or by any person other than the addressees of this report. Accordingly, we do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may

## **Handbook on Audit of CSR Activities**

come save where expressly agreed by our prior consent in writing.

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

Signature (Name of the Member Signing the Assurance Report)

(Designation<sup>45</sup>)

Membership Number

Place of Signature

Date

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<sup>45</sup> Partner or Proprietor, as the case may be.

## 6. Guidance Note on Audit of Expenses

### GUIDANCE NOTE ON AUDIT OF EXPENSES\*

Contents	Paragraph(s)
<b>Introduction .....</b>	<b>1-5</b>
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\* Published in November, 2001 issue of 'The Chartered Accountant'.

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Para 2.1 of the "Preface to the Statements on Standard Auditing Practices"<sup>1</sup> issued by the Institute of Chartered Accountants of India states that the "main function of the APC is to review the existing auditing practices in India and to develop Statements on Standard Auditing Practices (SAPs)"<sup>\*\*</sup> so that these may be issued by the Council of the Institute." Para 2.4 of the Preface states that the "APC will issue Guidance Notes on the issues arising from the SAPs wherever necessary."

The Auditing Practices Committee<sup>\*\*\*</sup> has also taken up the task of reviewing the Statements on auditing matters issued prior to the formation of the Committee. It is intended to issue, in due course of time, SAPs or Guidance Notes, as appropriate, on the matters covered by such Statements which would then stand withdrawn. Accordingly, with the issuance of this Guidance Note on Audit of Expenses, paragraphs 11.2-11.8 of Chapter 11 of the *Statement on Auditing Practices*, titled 'Profit and Loss Account', shall stand withdrawn. In due course of time, the entire *Statement on Auditing Practices* shall be withdrawn.<sup>2</sup>

The following is the text of the Guidance Note on "Audit of Expenses" issued by the Auditing Practices Committee of the Council of the Institute of Chartered Accountants of India. This Guidance Note should be read in conjunction with the Statements on Standard Auditing Practices issued by the Institute.

### Introduction

1. An expense is a cost relating to the operations of an accounting period or to the revenue earned during the period or the benefits of which do not extend beyond that period. The expression "cost" means the amount of expenditure incurred on or attributable to a specified article, product or activity.

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<sup>1</sup> The said Preface has been withdrawn pursuant to issuance of the Revised "Preface to Standards on Quality Control, Auditing, Review, Other Assurance and Related Service", by the Institute of Chartered Accountants of India. The Revised Preface is effective from April 1, 2008. The text of the revised Preface is reproduced in the Vol-I.A of this Handbook.

<sup>\*\*</sup> Now known as Engagement Standards.

<sup>\*\*\*</sup> Now known as Auditing and Assurance Standards Board.

<sup>2</sup> Since the Statement was withdrawn in March, 2005, the entire paragraph is redundant.



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2. Expenses are recognised by the following approaches:

(a) *Identification with revenue transactions*

Costs directly associated with the revenue recognised during the relevant period are considered as expenses and are charged to income for the period.

(b) *Identification with a period of time*

In many cases, although some costs may have connection with the revenue for the period, the relationship is so indirect that it is impracticable to attempt to establish it. However, there is a clear identification with a period of time.<sup>3</sup> Such costs are regarded as 'period costs' and are expensed in the relevant period, e.g, salaries, telephone, travelling, depreciation on office building, normal interest, etc. Similarly, the costs, the benefits of which, do not clearly extend beyond the accounting period are also charged as expenses.

3. The following features of expenses affect the nature, timing and extent of the related audit procedures:

- (a) In the case of most items of expenses, documentary evidence originating from third parties is available.
- (b) The nature and relative significance of various items of expenses usually differ from one enterprise to another, depending primarily on the nature of operations carried out by them. For example, in the case of most manufacturing enterprises, the principal items of expenses would include the cost of raw materials consumed, labour cost and other conversion costs. On the other hand, in the case of a trading enterprise, the principal items of expenses would generally be the cost of goods sold. In the case of an enterprise supplying, providing, maintaining and operating any services, the principal items of expense would include personnel and professional expenses, office maintenance, etc.

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<sup>3</sup> Reference may be made in this regard to the Guidance Note on Accrual Basis of Accounting.

## Handbook on Audit of CSR Activities

- (c) The amount of some expenses has a logical relationship with certain other financial statement items while the amount of some other expenses does not have such a relationship. For example, in an enterprise where the production process is standardised, the consumption of raw materials (and, therefore, the cost of raw materials consumed) has a logical relationship with the quantum of output. Similarly, the proportion of various constituents of cost of production is expected to remain more or less constant in the absence of known conditions to the contrary. Likewise, proportion of the amount of interest for a period to the amount of loans outstanding during the period is expected to vary within certain specific limits. On the other hand, the expenditure on research and development often has little relationship with other items in the financial statements.
  - (d) The amount of some items of expenses (e.g., gratuity, taxes, bonus, etc.) is significantly affected by applicable laws.
4. In an audit, the auditor employs appropriate procedures to obtain reasonable assurance about various assertions (see SA 500, *Audit Evidence*). In carrying out an audit of expenses, the auditor is particularly concerned with obtaining sufficient appropriate audit evidence to corroborate the management's assertions regarding the following:
- Occurrence      that recorded expenses arose from transactions or events which took place during the relevant period and pertain to the entity.
  - Completeness    that there are no unrecorded expenses.
  - Measurement    that expenses are recorded in the proper amounts and are allocated to the proper period.
  - Presentation and Disclosure    that expenses are disclosed, classified, and described in accordance with recognised accounting policies and practices and relevant statutory requirements, if any.
5. In view of the divergence in the nature of expenses incurred by different enterprises, it is not possible to describe the audit procedures applicable in carrying out an audit of expenses in all situations. This

## Handbook on Audit of CSR Activities

Guidance Note provides guidance on procedures to be employed in carrying out an audit of expenses which would be applicable in the case of most enterprises. It is recognised, however, that audit procedures different from or additional to those described in this Guidance Note may be necessary in a particular case, depending upon its specific facts and circumstances.

### Internal Control Evaluation

6. The auditor should study and evaluate the system of internal control relating to expenses, to determine the nature, timing and extent of his other audit procedures. He should particularly review the following aspects of internal control relating to expenses:<sup>4</sup>
  - (a) The systems and procedures relating to incurring of expenses including authorisation procedures.
  - (b) Accounting procedures relating to recognition of expenses.
  - (c) Existence of periodic reports on actual performance *vis a vis* budgets and internal management reports, if any.

### Verification

7. Verification of expenses may be carried out by employing the procedures, *viz.*, (a) examination of records; and (b) analytical procedures. The nature, timing and extent of substantive procedures to be performed is, however, a matter of professional judgment of the auditor which is based, *inter alia*, on the auditor's evaluation of the effectiveness of the related internal controls. The auditor should examine whether the basis of recognition of expenses by the entity is in accordance with the recognised accounting principles.
  - (a) *Examination of Records*
8. Examination of records and documents is one of the most important techniques of auditing. An auditor has to examine a large number of documents in the course of an audit since most transactions are

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<sup>4</sup> The extent of review of internal controls would depend upon the facts and circumstances of each case. Reference may be made in this regard to the "Internal Control Questionnaire", issued by the Institute of Chartered Accountants of India in 1976 which contains, *inter alia*, an illustrative list of internal controls in relation to petty cash, cash and bank payments, salaries and wages and purchases.

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supported only by documentary evidence. The accounting systems of business enterprises are so designed that documentary evidence is created in respect of each transaction. The auditor should carry out an examination of the relevant records to satisfy himself about the validity, accuracy and other assertions with regard to various expenses incurred by the entity. The extent of such examination would depend on the auditor's evaluation of the efficacy of internal controls.

### *(b) Analytical Procedures*

9. The auditor should conduct analytical procedures which involve analysis of significant ratios and trends, including the resulting investigation of fluctuations and relationships that are inconsistent with other relevant information or which deviate from predicted amounts.<sup>5</sup>
10. The following paragraphs describe the audit procedures applicable in respect of various items of expenses.

### **Goods and Raw Materials Consumed**

11. The auditor's examination of the cost of goods, stores and materials consumed during the year would involve, *inter alia*, examination of purchases of goods and materials made during the year as well as of purchase returns and of opening and closing inventories.

### **Purchases and Purchase Returns**

12. The auditor should examine whether the entity has instituted adequate cut-off procedures in relation to purchases and purchase returns. The objective of cut-off procedures is to ensure that the transactions pertaining to a period are recorded in that period and not in a preceding or subsequent period. The auditor should examine the efficacy of such procedures. The auditor can examine the selected receipt documents (such as goods received notes) pertaining to a few days immediately before the year-end and verify that the related purchase invoices have been recorded as purchases of the current year. The auditor should pay particular attention to the cut-off procedures relating to purchases, both indigenous and imported, to determine whether these procedures ensure recognition of purchases at the time the significant risks and rewards of ownership of the related goods pass on to the entity.

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<sup>5</sup> Refer to Standard on Auditing (SA) 520, "Analytical Procedures".

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13. The auditor should examine selected entries in the purchase journal with reference to the related purchase invoices, receipt records and other supporting documents such as the purchase orders. The auditor should also trace the selected entries to the suppliers' account.
14. While examining purchase invoices, the auditor should examine whether subsidies, rebates, duty drawbacks or other similar items have been properly accounted for. As per AS 2, costs of purchase consist of the purchase price including duties and taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks and other similar items are deducted in determining the costs of purchase.
15. The auditor should also examine selected receipt records with reference to related purchase invoices and the purchase journal.
16. The auditor should examine selected entries of purchase returns with reference to the goods returned notes, debit notes and entries in the suppliers' accounts. Similarly, the auditor should examine selected debit notes with reference to purchase returns, goods returned notes, and entries in the suppliers' accounts.
17. In case of transactions between related parties, the auditor should pay special attention to nature and description of such transactions.<sup>6</sup>
18. The auditor should obtain a representation from the management to the effect that the entity has complied with the legal and regulatory requirements, if any. When the auditor becomes aware of non-compliance, the auditor should obtain sufficient information to evaluate the possible effect in the financial statements. The auditor should also consider communication/reporting of non-compliance with the management including audit committee, users of financial statements and to regulatory authorities, as may be appropriate.<sup>7</sup>
19. In respect of imports, the auditor should carry out the following procedures in addition to the usual audit procedures applicable in respect of domestic purchases.

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<sup>6</sup> Refer to Accounting Standard (AS) 18, "Related Party Disclosures".

<sup>7</sup> Refer to Standard on Auditing (SA) 250, "Consideration of Laws and Regulations in an Audit of Financial Statements".

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- (a) Besides examining the usual documents relating to purchases, the auditor should also examine such documents as bill of lading, custom documents, etc., which are specific to import transactions.
  - (b) The auditor should pay special attention to the terms of import relating to the incidence of charges like insurance and freight, i.e., whether the imports are on C.I.F. basis, or F.O.B. basis, or some other basis.
  - (c) The auditor should examine that imports for which consideration is payable in a foreign currency are recorded at an appropriate amount in accordance with Accounting Standard (AS) 11, *Accounting for the Effects of Changes in Foreign Exchange Rates*.
20. In addition to the audit procedures discussed above, the following analytical procedures may often be helpful as a means of obtaining audit evidence regarding the various assertions relating to purchases.
- (a) Comparison, item-wise and location-wise, both quantity and value, of purchases for the current year/period with the corresponding figures for previous years/periods.
  - (b) Comparison of ratio of gross margin to sales for the current year/period with the corresponding figures for previous years/periods.
  - (c) Comparison of ratio of purchase returns to purchases for the current year/period with the corresponding figures for previous years/periods.
  - (d) Product-wise reconciliation of quantity sold during the year/period with opening stock, purchases/production and closing stock.

Apart from the above, the auditor may also work out quantitative ratios and reconciliations, e.g., he may relate the quantum of output to the quantum of input to judge its reasonableness. In case segment information is available, the above procedures may be carried out for each segment.

21. The auditor should also verify payments subsequent to the date of the

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balance sheet to identify any purchases which have not been recorded in the books of account.

### ***Wages and Salaries***

22. The auditor should examine the entries in the payroll/wage sheets with reference to relevant records, e.g., employee's records maintained by the personnel department showing details of pay such as basic pay, allowances, annual increments, leaves availed, etc. Special attention may also be paid by auditor in respect of new employees joining the entity during the year. Similarly, the payroll may also be examined with reference to the time records/attendance records and leave records maintained by the personnel department. The deductions made in respect of income-tax, provident fund, Employees' State Insurance (ESI), welfare schemes, health schemes, etc., may be examined with reference to the returns submitted to the authorities concerned and the receipts/acknowledgments issued by such authorities.
23. The auditor should examine whether any legal, regulatory or contractual requirements having a bearing on the rate or amount of wages and salaries have been complied with. Similar considerations would also apply to payments made to a contractor for hire of labour. Such requirements would include, *inter alia*, the provisions of the Minimum Wages Act, 1948, agreement with the employees, award of competent authority and judicial rulings.
24. In the case of senior management officials, the auditor should pay particular attention to determining whether the salaries payable are as per the terms of contract with the employees concerned. Special requirements of terms of contract such as granting stock options (as per schemes formulated by SEBI), availing leave encashment, total amount payable annually including ex-gratia, etc., should be specifically looked into.
25. In the case of casual labour, besides carrying out the other audit procedures, the auditor should specifically examine the sanction of the competent authority for employment of such labour and ascertain whether such employees are retained as per the time rate or piece-rate basis. In appropriate cases, the auditor may pay a surprise visit to the sites where the casual labour is employed to assess the correctness of the attendance records maintained in respect of such

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labour. In cases where complete outsourcing of labour has been given to an outside agency, the terms of agreement and compliance thereof would be examined.

26. The auditor should obtain a list of employees who have retired or otherwise left the services of the entity during the period under audit and examine that they have not been included in the payroll.
27. In addition to the audit procedures discussed above, the following analytical procedures may often be helpful as a means of obtaining audit evidence regarding the various assertions relating to wages and salaries:
  - (a) comparison of wage bill for the year/period with the wage bill of previous years/periods;
  - (b) comparison of the monthly wages and salaries of a month with other months during the year/period and with the corresponding month of the previous years/periods;
  - (c) comparison of the wage bill for each department/unit for the current year/period with the corresponding figures for previous years/periods;
  - (d) comparison of the ratios of wages and salaries to sales for the current year/period with the corresponding figures for the previous years/periods;
  - (e) comparison of the ratio of wages and salaries to cost of production for the current year/period with the corresponding figures for previous years/periods;
  - (f) comparison of the ratio of contribution towards provident fund to wages and salaries for the current year/period with the corresponding figures for previous years/periods;
  - (g) comparison of the ratio of contribution towards provident fund to wages and salaries for the current year/period with the rate(s) of contribution specified under the law governing provident fund;
  - (h) comparison of the ratio of contribution towards ESI to wages and salaries for the current year/period with the corresponding figure for previous years/periods;



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- (i) comparison of the ratio of contribution towards ESI to wages and salaries for the current year/period with the rate(s) of contribution specified under the law governing the ESI.

### ***Bonus***

- 28. In the case of provision for bonus, the auditor should examine whether the liability is provided for in accordance with the Payment of Bonus Act, 1965, and/or agreement with the employees or award of competent authority. Where the bonus actually paid is in excess of the amount required to be paid as per the provisions of the applicable law/agreement/award, the auditor should specifically examine the authority for the same (e.g., resolution of the board of directors in the case of a company).

### ***Retirement Benefits***

- 29. The auditor should examine whether the entity is liable to pay any retirement benefits to its employees such as provident fund, superannuation/pension, gratuity, etc., whether in pursuance of requirements of any law and/or in terms of agreement with the employees<sup>8</sup>. If so, the auditor should examine whether the amount payable has been computed in accordance with the relevant legal and/or contractual requirements. In respect of gratuity/pension, the auditor should specifically examine whether the provision for accruing gratuity/pension liability has been made by the entity. The auditor should examine the adequacy of provision with reference to the actuarial certificate obtained by the entity<sup>9</sup>. In case the entity has not obtained such an actuarial certificate, the auditor should examine that the method followed by it, say, group gratuity insurance scheme taken by the entity, for calculating the accrued liability for gratuity is rational.

### ***Other Conversion Costs***

- 30. The auditor should verify the other conversion costs (such as power and fuel, processing charges, etc.) with reference to the supporting documents and related agreements. In case the material is sent

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<sup>8</sup> Attention is invited in this regard to Accounting Standard (AS) 15, "Employees Benefits".

<sup>9</sup> Attention is also invited in this regard to Standard on Auditing (SA) 620, "Using the Work of an Auditor's Expert".

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outside to third parties for processing, necessary charges including existence of materials, wastage, etc., need to be ascertained and accounted for. In addition, the auditor may also compare the amount of expense on a particular item with the corresponding figure for previous years. Similarly, he may work out the ratios of different items of conversion costs to total cost of production for the current year and compare the same with the corresponding figures for previous years.

### ***Establishment and General Administrative Expenses***

31. The auditor should verify establishment expenses and general administrative expenses such as insurance, rent, rates, conveyance, travelling, telephone, entertainment, printing and stationery, general expenses, etc., with reference to the sanction of the competent authority, the supporting documents, related agreements and the rules and regulations followed by the entity. The auditor may also compare the amounts of these expenses with the corresponding figures for previous years. Similarly, he may work out the ratios of different items of expenses to sales for the current year and compare the same with the corresponding figures for previous years.

### ***Interest and Financial charges***

32. The auditor should verify the amount of interest expense for the year with reference to the terms and conditions of relevant agreements. The auditor may also work out the ratio of interest expense for the year to average interest-bearing loans and advances outstanding during the year and compare it with the corresponding figure for previous years and reconcile the same. The auditor should particularly examine that interest as well as other financing costs such as commitment fees on funds borrowed for a qualifying asset included in the gross book value of the asset to which they relate and have not been charged to the Profit and Loss Account of the period in which they are incurred<sup>10</sup>. If the entity has paid any penal interest, it should also be examined. Such interest should be disclosed as part of normal interest. The auditor should consider, having regard to the materiality, whether it requires separate disclosure.

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<sup>10</sup> Attention is invited in this regard to Accounting Standard (AS) 16, "Borrowing Costs".

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### ***Depreciation***

33. The auditor should check the calculation of depreciation. The total depreciation arrived at should be compared with that of previous years to identify reasons for variations. The auditor should particularly examine whether the depreciation charge having regard to rate of depreciation and method of depreciation followed consistently is adequate keeping in view the generally accepted bases of accounting for depreciation<sup>11</sup>. Alternatively, the auditor may consider qualifying his report. In case, assets have been revalued by entity during the year, the auditor should ensure that the depreciation has been computed properly.

### ***Research and Development Expenses***

34. The auditor should verify various items of expenses incurred on research and development with reference to supporting documents and related agreements. For example, the cost of materials consumed for research and development may be verified with reference to such documents as purchase invoices, goods received notes, records relating to issue of materials, etc. The auditor should particularly examine whether the accounting policy followed by the entity regarding treatment of research and development costs is in accordance with Accounting Standard (AS) 8, "Accounting for Research and Development".
35. The auditor should examine whether the deferral meets the appropriate legal requirements, if any. If an accounting policy for deferral of research and developments is adopted, it should be applied to all such projects which meet the criteria laid down for deferral under AS 8. The auditor should examine whether the criteria laid down in AS 8 which previously justified the deferral of certain research and development costs no longer apply, the unamortised balance has been charged as an expense of the year. Similarly, the auditor should examine that where the criteria for deferral continue to be met but the amount of unamortised balance of the deferred research and development costs and other relevant costs exceed the expected future revenues/benefits related thereto, such excess has been charged as an expense immediately.

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<sup>11</sup> Attention is also drawn to Accounting Standard (AS) 6, "Depreciation Accounting".

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### ***Repairs and Maintenance***

36. The auditor should scrutinise the repairs and maintenance account to ascertain that new fixed assets and substantial improvements to existing assets have not been included in repairs and maintenance. The auditor should exercise special care particularly in case large amounts charged to the Profit and Loss Account.

### ***Contingencies***

37. In respect of product warranties, service contracts, performance warranties, etc., the auditor should examine whether provisions have been made in accordance with Accounting Standard (AS) 4, "Contingencies and Events Occurring After the Balance Sheet Date". The auditor should also examine the reasonableness of the basis adopted for quantifying the provision with reference to the relevant agreements and the assessment based on his past experience.

### ***Taxes on Income***

38. The auditor should examine that tax expense or tax saving has been properly computed and disclosed in the financial statements<sup>12</sup>. The tax expense for the period which comprises current tax and deferred tax is to be included in the determination of net profit or loss for the period under audit. In case of companies attracting minimum alternate tax, it has to be ensured that proper provision has been considered in the accounts. The auditor should examine that the deferred taxes have been recognized for all timing differences subject to consideration of prudence in respect of deferred tax assets as set out in Accounting Standard (AS) 22, *Accounting for Taxes on Income*. If there is a material departure from the provisions of AS 22, the auditor should qualify his report.
39. In respect of assessments completed, revised or rectified during the year, the auditor should examine whether suitable adjustments have been made in respect of additional demands or refunds, as the case may be. The relevant orders received up to the time of audit should be considered and, on this basis, it should be examined whether adjustment is required in the financial statements.

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<sup>12</sup> Attention is drawn to Accounting Standard (AS) 22, "Accounting for Taxes on Income".

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40. If the entity disputes its liability in regard to demands raised, the auditor should examine whether there is a positive evidence or action on the part of the entity to show that it has not accepted the demand for payment of tax or duty, e.g., where it has gone into appeal under relevant provisions of the Income-tax Act, 1961. Where an application for rectification of mistake has been made by the entity, the amount should be regarded as disputed. Where the demand notice/intimation for the payment of tax is for a certain amount and the dispute relates to only a part and not the whole of the amount, only such amount should be treated as disputed. A disputed tax liability may require a provision or suitable disclosure (see Accounting Standard 4, *Contingencies and Events Occurring after the Balance Sheet Date*). In determining whether a provision is required, the auditor should, among other procedures, make appropriate inquiries of management, review minutes of the meetings of the board of directors and correspondence with the entity's lawyers, and obtain appropriate management representations.
41. The auditor should obtain from the management, a statement showing the status of pending tax matters. He should examine the statements to assess the adequacy of provisions made in respect of those matters in the context of their current status.

### **Special Considerations in the Case of a Company**

42. In the case of audit of a company, in addition to the procedures described above, the auditor should also carry out appropriate audit procedures in respect of matters which are specifically required to be examined under the provisions of the Companies Act, 1956. Some of the illustrative procedures specifically applicable in the case of audit of a company are described below. It may be clarified that the following is not an exhaustive list of additional procedures to be carried out in the case of audit of expenses in the case of a company.
  - (a) The auditor should examine whether the managerial remuneration paid or payable by the company is within the limits laid down under section 198 and Schedule XIII to the Companies Act, 1956. The auditor should also examine whether the remuneration paid or payable to the directors of the company, including any managing or whole-time director, has been

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determined by the Articles of Association of the company or by a resolution of the company passed in a general meeting. The auditor should also examine whether the remuneration of directors complies with the provisions of section 309 of the Companies Act, 1956. The auditor should further examine whether the computation of net profit for purposes of managerial remuneration is in accordance with sections 349 and 350 of the Companies Act, 1956.

- (b) The auditor should examine whether the contributions, if any, made by the company to charitable and other funds not directly relating to the business of the company or the welfare of its employees comply with the provisions of section 293 of the Companies Act, 1956. According to this section, the board of directors of a public company cannot, except with the consent of the company in general meeting, contribute to charitable and other funds not directly relating to the business of the company or the welfare of its employees, any amounts the aggregate of which will, in any financial year, exceed Rs.50,000 or 5 per cent of the average net profits of the company as determined in accordance with the provisions of section 349 and section 350 during the three financial years immediately preceding, whichever is greater. The auditor should examine whether the Memorandum of Association of the company empowers it to make contributions to charitable or other funds not directly relating to the business of the company or the welfare of its employees. If the objects clause in the Memorandum does not contain such authority, the company has no power to make such contributions.

The auditor should ask the management to prepare a schedule of contributions to various funds covered by section 293 made during the year, giving the names of the institutions to which contributions have been made, the amounts paid and the dates on which the contributions were approved by the board of directors. He should also ask the management to prepare a computation showing the limits of permissible contributions which can be made under this section.

- (c) The auditor should examine whether political contributions made

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by the company are within the limit prescribed in section 293A of the Companies Act, 1956.<sup>13</sup> where the limit laid down under section 293A is adhered to and the facts are properly disclosed, the auditor has no further duty. Where, however, the facts regarding such contributions are not properly disclosed, the auditor should qualify his report and state the facts therein. Where the auditor has genuine doubt regarding the applicability of the Section, he should ensure that the fact is properly disclosed in his audit report.

Where the auditor is satisfied that political contributions have been made in excess of the limit prescribed in section 293A, he should bring this to the attention of the shareholders by qualifying his audit report and making a mention of the excess amount involved, if ascertainable.

The auditor should obtain a certificate from company's board of directors to the effect that all amounts of contributions to political parties or for any political purpose to any person falling under the provisions of section 293A have been brought into the books of account of the company and that no amounts of such nature other than those so included in the books have been paid/given, directly or indirectly.

- (d) The auditor should examine whether the contribution, if any, to the National Defence Fund or any other fund approved by the Central Government for the purpose of national defence complies with the provisions of section 293B of the Companies Act, 1956. This section empowers the board of directors to make such contributions. It may be noted that unlike the contributions to charitable or other funds not directly relating to the business of the company or to the welfare of its employees, contributions to National Defence Fund (or other similar funds) can be made by a company even where the Memorandum of Association of the company does not specifically empower it in this regard. The auditor should examine whether the total amount or amounts contributed by the company to the National

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<sup>13</sup> Reference may be made in this regard to the Guidance Note on Section 293A of the Companies Act and the Auditor.

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Defence Fund (or other similar funds) during the year have been suitably disclosed in the profit and loss account.

- (e) In respect of payments to sole-selling agents, the auditor should examine whether the provisions of sections 294, 294A and 294AA have been complied with.
- (f) The auditor should examine whether the provisions of section 297 have been complied with in appropriate cases. He should also examine compliance with the terms and conditions, if any, stipulated by the Central Government in its approval under the proviso to sub-section (1) of section 297.
- (g) In case any partner or relative of a director of the company, any firm in which such director, or relative of such director, is a partner, any private company of which such director is a director or member, or any director, or manager of such a private company, holds any office or place of profit under the company or under any subsidiary of the company, the auditor should examine whether the provisions of section 314 have been complied with.
- (h) The auditor should examine whether any personal expenses have been charged to revenue account.
- (i) The auditor should examine whether the transaction of purchase of goods and materials and services, made in pursuance of contracts or arrangements entered in the register(s) maintained under section 301 of the Companies Act, 1956, as aggregating during the year to Rs. 50,000@ (Rupees Fifty Thousand) or more in respect of each party, have been made at prices which are reasonable having regard to prevailing market prices for such goods, materials and services or the prices at which transaction for similar goods or service have been made with other parties.
- (j) The auditor should examine whether any undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs

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@ This limit has been enhanced to Rs. five lacs by the Companies (Auditor's Report) Order, 2003. <sup>14</sup> Reference may be made in this regard to Statement on the Companies (Auditor's Report) Order, 2003 (Revised in 2005).



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duty and excise duty were outstanding as at the last day of financial year concerned, for a period of more than six months from the date they became payable have been reported under MAOCARO, 1988@@.

### **Examination of Presentation and Disclosure**

43. The auditor should satisfy himself that the expenses have been properly classified and disclosed in the financial statements. Where the relevant statute lays down any disclosure requirements in this behalf, the auditor should examine whether the same have been complied with.

### **Management Representation**

44. The auditor should consider obtaining a management representation on expenses charged to the statement of profit or loss when other sufficient appropriate audit evidence cannot reasonably be expected to exist.<sup>14</sup>

### **Documentation**

45. The auditor should maintain adequate working papers regarding audit of expenses.<sup>15</sup>

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@@ Replaced by the Companies (Auditor's Report) Order, 2003.

<sup>14</sup> Reference may be made in this regard to Standard on Auditing (SA) 580, "Written Representations".

<sup>15</sup> Reference may be made in this regard to Standard on Auditing (SA) 230, "Audit Documentation".

## **7. Relevant portion related to CSR being Clause xx in Guidance Note on CARO 2020 issued by ICAI.**

**83. Whether, in respect of other than ongoing projects, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act; [Paragraph 3(xx)(a)]**

### ***Relevant Provisions***

- (a) This clause requires the auditor to comment whether the company has transferred the unspent amount, in respect of “other than ongoing projects”, to a fund specified in Schedule VII to the Companies Act 2013 within a period of six months of the expiry of the financial year in compliance with the second proviso to sub-section (5) of section 135 of the said Act.
- (b) Section 135 of the Companies Act, 2013 requires, *inter alia*, as under
  - (i) 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.
  - (ii) The Corporate Social Responsibility Committee shall,
    - (a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company in areas or subject, specified in Schedule VII;
    - (b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and
    - (c) Monitor the Corporate Social Responsibility Policy of the company from time to time.
  - (iii) The Board of every company referred to in sub-section (1) of section 135 of the Act, shall ensure that the company spends, in

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every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

- (iv) Explanation to the sub-section (5) of Section 135, states that for the purposes of section 135 "net profit" shall not include such sums as may be prescribed, and shall be calculated in accordance with the provisions of Section 198 of the Act.
- (v) The second proviso to sub-section (5) of Section 135 requires that if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount and, unless the unspent amount relates to any ongoing project referred to in sub-section (6), transfer such unspent amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year.
- (c) Schedule VII to the Companies Act 2013 lists the activities which may be included by companies in their Corporate Social Responsibility Policies. Schedule VII also lists the funds to which company can contribute which shall be recognized as Corporate Social Responsibility spending.

### ***Audit Procedures and Reporting***

- (d) The auditor needs to evaluate the applicability of section 135 to the company.
- (e) The auditor needs to obtain:
  - (i) Board approval of Corporate Social Responsibility Policy as recommended by Corporate Social Responsibility Committee.
  - (ii) Agenda and minutes of meetings of Corporate Social Responsibility Committee.
  - (iii) The workings of the amount required to be spent under section 135 of the Act detailing the calculations of the average net profits as calculated in accordance with the provisions of section 198 of the Act and evaluate if the total amount required to be

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spent by the company has been appropriately determined at two percent of such average net profits.

- (f) The auditor is required to obtain confirmation from the management and review whether the Corporate Social Responsibility activities undertaken by the company are in accordance with the Schedule VII to the Act.
- (g) The auditor should obtain from the management, details of the amount spent, in respect of projects other than ongoing projects. In respect of amounts spent on ongoing projects, the auditor should perform the procedures given in clause 3(xx) (b).
- (h) If the Board of a company decides to undertake its Corporate Social Responsibility activities through a company established under section 8 of the Act or a registered trust or a registered society, other than those specified in sub-rule 2(b) of Rule 4 of the Companies (Corporate Social Responsibility Policy) Rules, 2014, the auditor shall verify whether conditions stipulated in the said rules are satisfied including the modalities of utilisation of funds of such projects and programs and the monitoring and reporting mechanism of the same.
- (i) In respect of the amounts spent on other than ongoing projects, the auditor should examine the supporting documents such as expenditure receipts, bank statements etc. to verify the quantum of such expenditure. The auditor should also verify if the amount spent is in accordance with the Corporate Social Responsibility Policy of the company and in accordance with the provisions of the Act and the rules made thereunder.
- (j) On the basis of verification of the amounts, the auditor should further verify that any unspent amount, in respect of other than ongoing projects, has been transferred to a Fund specified in Schedule VII to the Act within a period of six months of the expiry of the financial year. The auditor should obtain supporting documents such as receipts, payment challans, and bank statements to obtain evidence that the amounts have been appropriately transferred to a fund specified in Schedule VII to the Act.
- (k) The auditor shall check whether the company has recorded a provision as at the balance sheet date, to the extent considered necessary in accordance with the provisions of AS 29/ Ind AS 37, Provisions,

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Contingent Liabilities and Contingent Assets, in respect of the unspent amount.

- (l) In addition to the procedures given above, the auditor should also consider the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 while reporting on the unspent amounts under this clause.
- (m) The auditor may refer to the guidance given in the Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities issued by the Institute of Chartered Accountants of India until the amendments made under section 135 of the Companies Act, 2013 are notified.
- (n) The auditor may also consider obtaining a representation from the management regarding compliance of requirements of section 135.
- (o) In case the company has not transferred the unspent amount, in respect of other than ongoing projects, to a fund specified in Schedule VII to the Act within the time limits, the auditor should ascertain the following details as a part of his working papers for reporting under this clause:

Relevant Financial year*	Amount identified for spending on Corporate Social Responsibility activities "other than Ongoing Projects"	Un-spent amount of (b)	Amount Transferred to Fund specified in Schedule VII to the Act	Due date of transfer to the specified fund	Actual date of transfer to the specified fund	Number of days of delay if any
(a)	(b)	(c)	(d)	(e)	(f)	(g)

*(\*For Current year and for the previous year/(s) for which the amount remains unspent)*

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- (p) The auditor shall report Compliance with the clause as follows:

“In respect of other than ongoing projects, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act, 2013 within a period of six months of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act, except in respect of the following:

Financial year*	Amount unspent on CSR activities “other than On going Projects”	Amount Transferred to Fund specified in sch vii within 6 months from the end of the financial year.	Amount transferred after the due date (specify the date of deposit)
(a)	(b)	(c)	(d)

**(\*For Current year and for the previous year(s) for which the amount remains unspent)**

The auditor should also report under this clause the non-compliance, if any, in respect of earlier financial year(s), in the format given above.

- (q) In situations where the time period specified under the second proviso to sub-section (5) of section 135 has not yet elapsed at the time of the issue of the auditor’s report, the auditor should report under this clause on the basis of the information till the date of the auditor’s report. In such circumstances the auditor should appropriately bring out this fact while reporting under this clause and the auditor may make the following comment

“The company has not transferred the amount remaining unspent in respect of other than ongoing projects, to a Fund specified in Schedule VII to the Companies Act, 2013 till the date of our report. However, the time period for such transfer i.e. six months of the expiry of the financial year as permitted under the second proviso to sub-section (5) of section 135 of the Act, has not elapsed till the date of our report.

- (r) It may be noted that the amendments to section 135 of the Act through The Companies (Amendment) Act, 2019 are yet to be notified and until

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such time of notification of the effective date, the auditor may make the following comment under this clause:

“The amendments to section 135 of the Companies Act, 2013 by addition of the second proviso to sub-section (5), through the introduction of The Companies (Amendment) Act, 2019 is yet to be notified and as such provisions of this clause is not yet applicable to the Company.”

### **84. Whether any amount remaining unspent under section (5) of Section 135 of Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with provision of sub section (6) of section 135 of the said Act; [Paragraph3(xx)(b)]**

#### ***Relevant Provisions***

- (a) This clause requires the auditor to comment whether the company has transferred the unspent amount in respect of any “ongoing projects”, to a special account within a period of thirty days from the end of the financial year in compliance with the provision of sub-section (6) of section 135 of the Act.
- (b) For detailed discussion on section 135 of the Act, please refer guidance on clause 3(xx) (a) above.
- (c) Any amount remaining unspent under sub-section (5) of section 135, pursuant to any ongoing project, fulfilling such conditions as may be prescribed, undertaken by a company in pursuance of its Corporate Social Responsibility Policy, shall be transferred by the company within a period of thirty days from the end of the financial year to a special account to be opened by the company in that behalf for that financial year in any scheduled bank to be called the Unspent Corporate Social Responsibility Account, and such amount shall be spent by the company in pursuance of its obligation towards the Corporate Social Responsibility Policy within a period of three financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within a period of thirty days from the date of completion of the third financial year.

#### ***Audit Procedures and Reporting***

- (d) The auditor needs to evaluate the applicability of section 135 to the company.

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- (e) The auditor needs to obtain:
  - (i) Board approval of Corporate Social Responsibility Policy as recommended by Corporate Social Responsibility Committee.
  - (ii) Agenda and minutes of meetings of Corporate Social Responsibility Committee.
  - (iii) The workings of the amount required to be spent under section 135 of the Act detailing the calculations of the average net profit as calculated in accordance with the provisions of section 198 of the Act and evaluate if the total amount required to be spent by the company has been appropriately determined at two percent of such average net profits.
- (f) The auditor is required to obtain confirmation from the management and review whether the Corporate Social Responsibility activities undertaken by the company are in accordance with the Schedule VII to the Act.
- (g) The auditor shall verify the amount spent in respect of ongoing projects with the supporting documents such as expenditure receipts, bank statements etc.
- (h) In respect of unspent amount, the auditor shall verify the bank account to ensure whether it is earmarked for Corporate Social Responsibility activity, opened for that respective financial year only and called as Unspent Corporate Social Responsibility Account.
- (i) Though the auditor is not required to report under this clause, the auditor is required to verify that the amount transferred to such specified bank account has been utilized for the Corporate Social Responsibility activities as per Corporate Social Responsibility policy within three years from the date of such transfer, failing which the amount should be transferred to the fund as specified under Schedule VII to the Act.
- (j) The auditor shall check whether the company has recorded a provision as at the balance sheet date, to the extent considered necessary in accordance with the provisions of AS 29/ Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, in respect of the unspent amount on ongoing projects. The auditor should also evaluate if the company has considered disclosure of such unspent amounts as



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commitments in the contingent liabilities and commitments section of the financial statements in accordance with the requirements of Schedule III to the Act.

- (k) In addition to the procedures given above, the auditor should also consider the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 while reporting on the unspent amounts under this clause.
- (l) The auditor may refer to the guidance given in the Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities issued by the Institute of Chartered Accountants of India until the amendments made under section 135 of the Companies Act, 2013 are notified.
- (m) The auditor may also consider obtaining a representation from the management regarding compliance of requirements of section 135.
- (n) In case the company has not transferred the unspent amount, in respect of ongoing projects, to a special account as specified under section 135(6) of the Act within the time limits, the auditor should ascertain the following details as a part of his working papers for reporting under this clause:

Relevant Financial year*	Amount identified for spending on Corporate Social Responsibility activities for "Ongoing Projects"	Unspent amount of (b)	Amount Transferred to Special Account u/s 135(6)	Due date of transfer to the account	Actual date of transfer to the account	Number of days of delay
(a)	(b)	(c)	(d)	(e)	(f)	(g)

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***(\*For Current year and for the previous year(s) for which the amount remains unspent)***

- (o) The auditor shall report compliance with this clause as follows:

In respect of ongoing projects, the company has transferred unspent amount to a special account, within a period of thirty days from the end of the financial year in compliance with section 135(6) of the said Act, except in respect of the following

Financial year*	Amount unspent on Corporate Social Responsibility activities for "Ongoing Projects"	Amount Transferred to Special Account within 30 days from the end of the Financial Year	Amount Transferred after the due date (specify the date of transfer)
(a)	(b)	(c)	(d)

***(\*For Current year and for the previous year(s) for which the amount remains unspent)***

The auditor should also report under this clause the non-compliance, if any, in respect of earlier financial year(s), in the format given above.

- (p) In situations where the time period specified under the sub-section (6) of section 135 has not yet elapsed at the time of the issue of the auditor's report, the auditor should report under this clause on the basis of the information till the date of the auditor's report. In such circumstances the auditor should appropriately bring out this fact while reporting under this clause and the auditor may make the following comment:

"The company has not transferred the amount remaining unspent in respect of ongoing projects, to a Special Account till the date of our report. However, the time period for such transfer i.e. thirty days from the end of the financial year as permitted under the sub-section (6) of section 135 of the Act, has not elapsed till the date of our report."

- (q) It may be noted that the amendments to section 135 of the Act through the Companies (Amendment) Act, 2019 are yet to be notified and until

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such time of notification of the effective date, the auditor may make the following comment under this clause:

“The amendments to section 135 of the Act, by inclusion of sub-section (6), through the introduction of the Companies (Amendment) Act, 2019 is yet to be notified and as such provisions of this clause are not yet applicable to the company.”

## THE COMPANIES (AMENDMENT) ACT, 2020

### 27. In section 135 of the principal Act,—

- (a) in sub-section (5), after the second proviso, the following proviso shall be inserted, namely:—

"Provided also that if the company spends an amount in excess of the requirements provided under this sub-section, such company may set off such excess amount against the requirement to spend under this sub-section for such number of succeeding financial years and in such manner, as may be prescribed.";

- (b) for sub-section (7), the following sub-section shall be substituted, namely:—

"(7) If a company is in default in complying with the provisions of sub-section (5) or sub-section (6), the company shall be liable to a penalty of twice the amount required to be transferred by the company to the Fund specified in Schedule VII or the Unspent Corporate Social Responsibility Account, as the case may be, or one crore rupees, whichever is less, and every officer of the company who is in default shall be liable to a penalty of one-tenth of the amount required to be transferred by the company to such Fund specified in Schedule VII, or the Unspent Corporate Social Responsibility Account, as the case may be, or two lakh rupees, whichever is less.";

- (c) after sub-section (8), the following sub-section shall be inserted, namely:—

"(9) Where the amount to be spent by a company under sub-section (5) does not exceed fifty lakh rupees, the requirement under sub-section (1) for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company.".