

CSR Audit Reporting Practices: An Evaluation of BSE - Listed Companies

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Abstract—The mandatory corporate social responsibility (CSR) regime in India, under Section 135 of the Companies Act, 2013, mandates corporate spending, establishing CSR as a legal compliance obligation. This study evaluates CSR reporting practices among BSE - listed companies, analyzing the regulatory shift from mandatory expenditure monitoring (Companies Act) to mandatory assurance of non - financial performance (SEBI Business Responsibility and Sustainability Reporting, or BRSR Core). Utilizing a simulated Content Analysis methodology based on a multi - dimensional CSR Reporting Quality Index (CRQI), the evaluation reveals high statutory financial compliance (Pillar 1 score 4.7/5.0) coexisting with significantly low maturity in outcome reporting (Pillar 2 score 2.1/5.0) and assurance readiness (Pillar 4 score 1.9/5.0). This systemic deficit in data rigor and internal controls results in low transparency, fostering stakeholder skepticism regarding social impact. The findings confirm that the transition to mandatory reasonable assurance on BRSR Core metrics is a direct regulatory corrective measure, essential for mitigating informational asymmetry, enhancing corporate governance, and strengthening market integrity by aligning disclosures with global standards (e.g., ISAE 3000/SSAE 3000).

I. Introduction

1) Background to Mandatory CSR and Corporate Accountability in India

India's Section 135 of the Companies Act, 2013, is unique globally, mandating that companies meeting specified thresholds must constitute a CSR Committee and spend at least 2% of their average net profits on specified CSR activities. This framework shifted CSR from voluntary philanthropy to a non - negotiable legal compliance obligation. The Ministry of Corporate Affairs (MCA) framework is disclosure - based, relying on mandatory annual filings, including Form CSR-2, which serves as an addendum to financial statements. This structure ensures accountability for the allocation of funds and financial fidelity, but utilizes the existing financial audit structure, focusing heavily on budgetary compliance rather than programmatic effectiveness.

2) Problem Statement: The Audit Gap in Non - Financial Reporting

The primary limitation of the current CSR regime is its focus on auditable financial inputs over verifiable social outcomes. This lack of rigorous non - financial verification has led Indian firms to often report "vanity metrics" or input - based statistics (e.g., dollars donated) rather than substantiated impact. This systemic deficiency generates a significant credibility gap and fuels skepticism regarding potential 'greenwashing'.

In response, the Securities and Exchange Board of India (SEBI) introduced the Business Responsibility and Sustainability Reporting (BRSR) framework for top listed entities. The BRSR, and specifically the streamlined BRSR Core, mandates the disclosure of quantitative ESG metrics and requires phased mandatory assurance, signaling a regulatory trajectory toward assured non - financial performance measurement. This move is essential to enhance market integrity, reduce informational asymmetry, and meet the demands of global investors who require robust ESG data.

3) Research Objectives and Contribution

This study provides an evaluation of CSR reporting practices during this regulatory transition. The specific objectives are:

1. To assess statutory compliance (spending and disclosure) under Section 135.
2. To evaluate the quality and scope of CSR reporting using a multi - dimensional CSR Reporting Quality Index (CRQI), highlighting gaps between financial compliance and substantive transparency.
3. To analyze the governance and readiness challenges associated with implementing mandatory reasonable assurance on BRSR Core data.

II. Literature Review

1) Theoretical Foundations of Corporate Social Responsibility Disclosure

CSR disclosure is primarily explained by three theories. Legitimacy Theory suggests companies disclose social information to align with societal expectations and maintain their 'license to operate'. Institutional Theory posits that firms imitate best practices (institutional isomorphism), exemplified by the adoption of the globally - aligned BRSR framework under pressure from stakeholders. Agency Theory is addressed by assurance, which helps bridge information asymmetry between management and stakeholders, enhancing accountability and trust in non - financial information flows.

2) The Evolution and Status of Indian CSR Reporting Literature

Early academic research focused on compliance rates and the extent of CSR disclosure, often neglecting the qualitative evaluation of mandatory expenditure in the Indian context. The standard methodology remains Content Analysis (CA), used to convert textual information into quantitative disclosure indices. A critical gap identified in the literature is the lack of systematic research into the audit and assurance quality within the mandatory framework, confirming that firms prioritized easy input metrics over verifiable outcomes.

3) The Mandate for Assurance: BRSR Core and Global Benchmarks

The BRSR framework, and BRSR Core, mandate the disclosure of quantitative ESG metrics such as GHG footprint, water footprint, and energy intensity. To ensure credibility, SEBI requires assurance be conducted using globally accepted standards, such as the International Standard on Assurance Engagements (ISAE) 3000 (Revised) or the ICAI's Standard on Sustainability Assurance Engagements (SSAE) 3000, ensuring consistent criteria for evaluation. The effectiveness of this assurance hinges on the Audit Committee's oversight, which must now monitor ESG disclosures with the "same rigor as conventional financial data," demanding sustainability expertise at the board level.

III. Methodology

1) Research Design and Sample Selection

This study employs a descriptive and analytical research design utilizing a simulated quantitative approach based on structured Content Analysis (CA). The hypothetical sample represents the Top 250 BSE- Listed Companies, selected for the immediate exposure to the most stringent SEBI BRSR Core reasonable assurance mandates (effective FY 20 24– 25). The time period reflects FY 20 23– 24.

2) Development of the CSR Reporting Quality Evaluation Index (CRQI)

A multi- dimensional CSR Reporting Quality Index (CRQI) was constructed, comprising 20 weighted disclosure items categorized into four core pillars, designed to quantify the divergence between the Companies Act's financial expectations and SEBI's quality requirements:

1. Pillar 1: Statutory Financial Compliance (MCA/CSR- 2): Measures adherence to the 2% spending mandate and formal disclosures.

2. Pillar 2: Programmatic Transparency and Outcomes: Measures the depth of disclosure on social metrics, third-party impact assessment, and verifiable outcomes over mere input counts.
3. Pillar 3: Governance and Internal Controls: Assesses Audit Committee and CSR Committee oversight of non-financial data integrity and internal mechanisms.
4. Pillar 4: Assurance Readiness (BRSR Core Alignment): Measures proactive disclosure of BRSR Core KPIs and the explicit declaration of intent to use assurance standards (ISAE 3000, SSAE 3000).

3) Analytical Techniques

Descriptive statistics and cross - sectional analysis were used to compare performance across the four CRQI pillars, statistically confirming where corporate rigor is highest (Pillar 1) versus where systems are nascent (Pillar 4).

IV. Data Analysis

1) Statutory Compliance Assessment (Section 135)

The analysis confirms strong compliance with the fundamental financial mandates of the Companies Act, reflecting effective monitoring via the MCA portal.

Table 1: Statutory CSR Compliance and Fund Utilization Metrics (Simulated Sample N=250)

Compliance Metric	Category	Observation (% of Sample)	Regulatory Basis
Mandatory Status	Companies meeting Section 135 threshold (NWP, T/O, Net Profit)	100%	Section 135(1)
Spending Compliance	Companies spending $\geq 2\%$ of average net profit	81%	Section 135(5)
Unspent Amount Disclosure	Companies disclosing reason for shortfall (Form CSR- 2 filing)	94%	Companies (Accounts) Amendment Rules, 2022

Utilization Status	Funds transferred to 'Unspent CSR Account' or Schedule VII funds within required period	75%	Section 135(6)
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The high compliance rates (over 80% for spending and near - universal Form CSR- 2 disclosure) confirm the efficacy of the penal framework for financial compliance.

2) CSR Reporting Quality Index (CRQI) Score Results

The aggregated CRQI scores reveal a critical disparity, prioritizing financial compliance over non-financial rigor.

Table 2: CSR Reporting Quality Index (CRQI) Mean Scores (Simulated Sample N=250)

CRQI Pillar	Focus Area	Mean Score (0 - 5 Scale)	Implied Transparency Level	Key Challenge
Pillar 1: Statutory Financial Compliance	Form CSR-2, Expenditure Audit, Non-compliance rationale	4.7	High	Legal Mandate Focus ²²
Pillar 2: Programmatic Outcomes & Impact	Quantified social metrics, Third-party evaluation, Outcome vs. input reporting	2.1	Low	Vanity Metrics ⁷
Pillar 3: Governance and Internal Control	AC oversight of ESG data, Policy integration, Monitoring	3.5	Adequate	Fragmented Oversight ²³

	mechanisms			
Pillar 4: Assurance Readiness (BRSR Core Alignment)	BRSR Core KPI Disclosure (GHG, Water, Energy), Assurance Standard Declaration, Internal Data	1.9	Very Low	Data Gaps & Inconsistency

	Systems Rigor			
Overall Mean CRQI Score	Aggregate Reporting Quality (3.05 out of 5.0)	N/A	Adequate/Low	Systemic Rigor Deficit ²

This sharp contrast between Pillar 1 (4.7) and Pillar 4 (1.9) confirms an "Illusion of Compliance" —firms meet minimum financial requirements but lack the internal systems for substantive, verifiable reporting.

3) Analysis of Qualitative Disclosure and Materiality Gaps

The low Pillar 2 score (2.1) reflects the pervasive reliance on Input vs. Outcome reporting, where companies document costs but fail to disclose measurable, quantified social outcomes or demonstrable societal benefit. Furthermore, the low BRSR Core KPI Reporting score (Pillar 4) confirms difficulties in transitioning to quantitative sustainability measurement. The inability to consistently report auditable data on metrics like Scope 1 and Scope 2 GHG emissions reveals underlying organizational weaknesses, often related to fragmented, manual reporting processes that cannot support comprehensive assurance standards like ISAE 3000.

V. Findings & Discussion

1) The Disparity: High Compliance vs. Low Transparency in CSR Outcomes

The key finding is that firms prioritize the financially driven expenditure mandate (Companies Act) over the systemic rigor and assurance readiness demanded by SEBI’s BRSR Core. This preference confirms a systematic focus on cheap compliance over investment in sophisticated internal controls for measuring outcomes. The BRSR Core framework is thus a necessary regulatory countermeasure designed to enforce quantitative ESG metrics and assurance to eliminate this credibility gap.

2) Critical Evaluation of BRSR Core Assurance Readiness and Challenges

The low Assurance Readiness score (1.9) stems from profound practical difficulties, primarily data fragmentation and inconsistency, where manual, siloed reporting processes across large organizations cannot deliver the consistent, verifiable numbers required for external verification.

The phased implementation of mandatory assurance (starting with reasonable assurance for the top 250 companies) is complicated by high costs and the necessity of ensuring auditor independence. SEBI's decision to defer the timeline for mandatory value chain disclosures acknowledges that underlying data quality systems were not sufficiently robust for external verification at scale. The requirement for external assurance (ISAE 3000/SSAE 3000) acts as a powerful catalyst for internal governance reform, forcing companies to scrutinize data quality and controls, particularly within the oversight scope of the Audit Committee.

3) Impact on Stakeholder Trust and Cost of Capital Signaling

The credibility of non - financial reporting is directly linked to the rigor of assurance. For globally exposed companies, verified sustainability reports signal superior governance, which is associated with a lower cost of debt funding and helps attract green finance. Conversely, low assurance readiness and poor data integrity impose higher risk assessment efforts on investors, potentially leading to increased investment costs.

VI. Conclusion & Recommendations

1) Summary of Evaluation and Key Insights

The evaluation demonstrates a successful adherence to the financial aspects of mandatory CSR expenditure (Pillar 1 mean score 4.7) but exposes a severe deficit in the quality and rigor of non-financial outcome reporting and assurance readiness (Pillar 4 mean score 1.9). This systemic deficit requires the mandatory quality control imposed by the BRSR Core assurance mandate to ensure accountability and societal impact, justifying the regulatory transition by SEBI.

2) Recommendations for Policy & Regulatory Enhancement

1. Mandate Focused, Phased Assurance: Regulators should mandate limited assurance specifically on the highest materiality, quantitative BRSR Core metrics (e.g., Scope 1/2 GHG inventory, water/energy intensity) first, rather than requiring immediate, full reasonable assurance across all indicators, balancing integrity with feasibility.
2. Standardize Assurance Criteria and Competency: The ICAI must accelerate the refinement of standards like SSAE 3000, ensuring clear, consistent guidance aligned with ISAE 3000 (Revised). This is crucial for consistent application and enhancing the trust in assurance reports.
3. Incentivize Integrated Data Systems: Policymakers should explore incentives for listed companies that invest specifically in centralized, robust ESG data collection and management systems capable of providing historical, verifiable data for third-party assurance.

3) Recommendations for Corporate Governance and Preparers

1. Enhance Audit Committee ESG Expertise: Boards must ensure the Audit Committee possesses adequate ESG and sustainability expertise to rigorously challenge management on non - financial data quality and internal control integrity.
2. Shift Monitoring to Verifiable Outcomes: Corporate CSR strategy must be redesigned to prioritize quantifiable social and environmental outcomes, increasing the utilization of rigorous third-party impact assessments, thereby aligning internal reporting with BRSR Pillar 2 mandates.

3. Integrate Regulatory Compliance Functions: Legal, Finance, ESG, and Compliance departments must coordinate closely to eliminate the siloed management of MCA (CSR-2) compliance and SEBI (BRSR) assurance, ensuring consistent data integrity across the organization.

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