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## **STRENGTHENING LEGAL ENFORCEMENT AND TRANSPARENCY IN CSR COMPLIANCE**

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### **ABSTRACT:**

Corporate Social Responsibility (CSR) reflects the shift of corporations from profit-driven entities to socially accountable institutions. In India, it became mandatory under Section 135 of the Companies Act, 2013, requiring eligible companies to allocate at least two per cent of their average net profits to social welfare activities, thereby integrating CSR into corporate governance. However, its implementation faces challenges such as underutilisation of funds, delays, and inadequate or misleading disclosures, which reduce CSR to mere procedural compliance. These issues arise from weak monitoring, lack of transparency, limited independent verification, and insufficient enforcement. This study examines the CSR framework through doctrinal analysis of statutory provisions, CSR Rules, regulatory guidelines, and relevant literature, along with recent amendments on disclosure, unspent funds, and board responsibilities. It argues that while the framework is progressive, its effectiveness depends on stronger enforcement, improved transparency, and robust corporate governance. The study concludes that legal mechanisms must ensure not only compliance but also measurable and sustainable social impact to strengthen corporate accountability and public trust. It further highlights the need for digital monitoring systems and real-time reporting mechanisms to enhance oversight. Strengthening stakeholder participation and independent audits can also improve the credibility and effectiveness of CSR initiatives.

### **KEYWORDS:**

CSR; Companies Act, 2013; Section 135; Corporate Governance; Transparency; Accountability; Compliance; Digital Monitoring.

## **CHAPTER 1: INTRODUCTION OF CORPORATE SOCIAL RESPONSIBILITY**

Corporate Social Responsibility (CSR) means that businesses should behave in ways that benefit people, the environment, and society. In the past, companies focused solely on making profits for their shareholders. Now, they recognise their role in a larger social and economic context, so CSR needs to be included in their business plans. The World Business Council for Sustainable Development states that CSR is a commitment to support economic growth while also enhancing the lives of workers and communities. This highlights the connection between business success and social progress. In India, CSR shifted from a voluntary action by business owners to a legal requirement under Section 135 of the Companies Act, 2013. Companies that earn above a certain threshold must allocate at least 2% of their average net profits from the last three years to designated CSR activities. Schedule VII of the Companies Act lists these activities, which include protecting the environment, education, combating poverty, and providing healthcare. Consequently, CSR has become a vital aspect of sustainable development, enhancing the reputation of businesses and their relationships with stakeholders.

### **1.1 Evolution of CSR in India**

The evolution of CSR in India can be classified into stages depending on the developments in society, the economy, and regulations. At first, in the early industrial days, CSR in India was pioneered by prominent business leaders who undertook charitable activities because they felt it was the right thing to do. In the post-independence period, businesses were encouraged to contribute to the development of the country through voluntary efforts in CSR. In the 1990s, economic liberalisation resulted in the development of strategies in CSR that met international sustainability criteria. It also led to the introduction of voluntary guidelines by the Indian government.

The Companies Act of 2013 was a historic event because it included CSR as a requirement in India, making it the first country in the world to do so. Companies that go beyond certain financial parameters need to form a CSR Committee to formulate policies and ensure that the projects are implemented. This will ensure that CSR becomes a vital part of their overall strategy. This has ensured that businesses are more involved in social development activities. It has also ensured that they spend a lot of money on welfare activities, ensuring that their social objectives are in sync with their operational strategies.

## 1.2 Objectives of Mandatory CSR

One of the primary objectives of CSR is to ensure that corporate growth does not harm the environment or society. Companies are expected to adopt environmentally sustainable practices and contribute to long-term ecological balance. *The United Nations Development Programme*<sup>1</sup> emphasises sustainability as a key objective of responsible business practices.

CSR aims to improve the living standards of communities by supporting initiatives in education, healthcare, poverty alleviation, and rural development. According to the *Ministry of Corporate Affairs*<sup>2</sup>, CSR activities must align with Schedule VII, which includes various social development areas. *M/s Temenos India Pvt Ltd (ROC Chennai, 2023)*<sup>3</sup> The company transferred unspent CSR funds to a project at Anna University instead of a fund specified in Schedule VII (like the PM CARES Fund). Is a contribution to a public university's industrial collaboration centre considered a valid transfer of "unspent CSR funds"? The Registrar of Companies (ROC) ruled the transfer was invalid as it did not strictly follow the Ministry of Corporate Affairs (MCA) guidelines. The company eventually had to pay the amount again into the PM CARES Fund. It emphasizes that procedural compliance is strict; even well-intentioned social spending can lead to penalties if the specific fund is not listed in Schedule VII of the Act. CSR promotes ethical behaviour in business operations by encouraging companies to act responsibly, transparently, and in the best interests of stakeholders. *The Organisation for Economic Co-operation and Development* highlights ethical governance as a fundamental principle of corporate responsibility.

## 1.3 The Need for Transparency & Accountability

Transparency and accountability are two very important aspects of the CSR structure. Section 134 of the Companies Act requires annual reports to include detailed information on CSR policies, spending, and activities. This helps ensure transparency, which is important so that funds for CSR are not misused. Judicial pronouncements have emphasised the need for compliance and transparency in the implementation of Corporate Social Responsibility (CSR) activities. In the case of *Ramalinga Choodambikai Mills Ltd. v. Assistant Commissioner of*

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<sup>1</sup> United Nations Development Programme, Corporate Social Responsibility as an Enabler of Green Growth and Climate Action (Feb. 12, 2016) <https://www.undp.org>

<sup>2</sup> Ministry of Corporate Affairs, Government of India, CSR Guidelines & General Circulars <https://www.oecd.org/>

<sup>3</sup> Registrar of Companies, Chennai, In re Temenos India Pvt. Ltd., Adjudication Order under § 454 read with 135 of the Companies Act, 2013 (2023)

*Income Tax*<sup>4</sup>, the Madras High Court emphasised how important it is for firms to maintain accurate records of spending on CSR activities. In a similar vein, the National Company Law Tribunal observed in *In Re: Harish Chandra Bajpai & Ors.* that firms seeking to avail of exemptions under the Companies Act need to form a CSR Committee. This again highlights the importance of compliance with CSR regulations. Companies can better align their strategies to meet the needs of society by becoming more accountable and transparent. This will help to build trust among stakeholders and increase the credibility of the company.

#### 1.4 LEGAL FRAMEWORK GOVERNING CSR

In the Section 135 of the Companies Act 2013, which serves as the foundation for India's CR legal framework, requires businesses that meet certain financial requirements to allocate at least 2% of their average net profits from the preceding three years to CR initiatives. A board committee, a developed policy, and an emphasis on Schedule VII activities are necessary. The 2013 Company Act is applicable to businesses with More than Rs. 500 crores in wealth or Revenue exceeding Rs. 1000 crore or A net profit of more than Rs. 5 crores. *Adani Power Rajasthan Ltd. v. ACIT (2024)*<sup>5</sup> The company incurred CSR expenses but did not meet the mandatory profit thresholds under Section 135 of the Companies Act, 2013. Can voluntary CSR spending (by a company not legally required to spend) be claimed as a business deduction under Section 37(1) of the Income Tax Act? The Gujarat High Court held that since the company was not legally obligated to spend under Section 135, the restriction in Explanation 2 to Section 37(1) (which bars deductions for mandatory CSR) did not apply. It clarified that voluntary social spending can be tax-deductible as a business expense, whereas mandatory 2% spending is treated as an "application of income" and is not deductible.

For newly incorporated companies with less than three years of operations, the average net profit of available years is considered<sup>6</sup>. For example, Company A was incorporated in FY 2018-19 and meets the eligibility criteria under Section 135(1) for FY 2020-21. Consequently, Company A's CSR spending obligation under Section 135(5) would amount to at least two percent of the average net profits generated during FY 2018-19 and FY 2019-20<sup>7</sup>. The average net profit for determining CSR expenditure is calculated as per the provisions of Section 198

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<sup>4</sup> Ramalinga Choodambikai Mills Ltd. v. Assistant Comm'r of Income Tax, (Madras High Court). 1995 28 ITR 952 (Mad)

<sup>5</sup> Adani Power Rajasthan Ltd. v. ACIT, (Gujarat High Court 2024). (2024) 461 ITR 210

<sup>6</sup> Companies Act, No. 18 of 2013, § 198 (India). <https://www.india-briefing.com>

<sup>7</sup> Companies (Corporate Social Responsibility Policy) Rules, 2014, r. 7(3) (India)

of the Companies Act, 2013, excluding the items specified under Rule 2(1)(h) of the Companies (CSR Policy) Rules, 2014. Section 198 outlines specific adjustments to be made when calculating a company's net profit, excluding elements such as capital payments or receipts, income tax, and the set-off of previous losses. Profit Before Tax (PBT) is used for the computation of net profit under section 135 of the Act.

Excess CSR spending can be set off against the mandated 2 percent CSR expenditure for up to the immediately succeeding three financial years, provided that the conditions outlined in Rule 7(3) of the Companies (CSR Policy) Rules, 2014 are met. However, it is important to note that excess amounts spent on CSR activities can only be carried forward from January 22, 2021, onwards. *M.K. Ranjitsinh & Others v. Union of India (Dec 2025)*<sup>8</sup> In this case the Environmentalists filed a petition to protect the critically endangered Great Indian Bustard (GIB) which was dying due to collisions with overhead power lines in Rajasthan and Gujarat. Whether corporations have a mandatory duty toward environmental protection under the CSR framework to balance biodiversity with renewable energy development. The Supreme Court ruled that CSR is not a voluntary charity but a constitutional obligation under Article 51A(g). It linked CSR with the Polluter Pays Principle, holding that companies threatening habitats must use CSR funds for species recovery. It expanded the definition of "community" in CSR to include the natural world, effectively merging Corporate Social Responsibility with corporate environmental responsibility.

## **CHAPTER 2: ISSUES AND CHALLENGES IN CSR IMPLEMENTATION**

Corporate Social Responsibility (CSR) is a crucial way for businesses to fulfil their environmental and social responsibilities in addition to their goal of maximising profits. Section 135 of the Companies Act, 2013, which requires some businesses to devote a minimal portion of their revenues to initiatives supporting social welfare and sustainable development, has given corporate social responsibility (CSR) legal legitimacy in India.

Despite this legislative requirement and the regulatory framework established by the Companies (Corporate Social Responsibility Policy) Rules, 2014, a number of structural, operational, and regulatory obstacles still stand in the way of the successful implementation of

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<sup>8</sup> M.K. Ranjitsinh & Ors. v. Union of India, (Supreme Court of India Dec. 2025) 2025 INSC 1472

CSR efforts. The achievement of the intended goals of India's CSR laws is severely hampered by these difficulties<sup>9</sup>.

### **Inability to Take a Strategic and Holistic Approach to CSR:**

The inability of many companies to take a comprehensive and strategic approach to their CSR responsibilities is a basic obstacle to CSR implementation. Rather from having a significant societal impact, CSR projects are sometimes carried out only to guarantee legal compliance or to improve business image.

This compliance-focused strategy leads to short-term, dispersed, and unsustainable CSR initiatives. From the standpoint of corporate governance, CSR should not be viewed as an additional or peripheral activity, but rather as part of the company's larger strategic framework. The long-term financial success, less legal and reputational concerns, increased stakeholder confidence, and improved corporate reputation are all benefits of effective CSR governance. However, CSR's guarantee as a tool for sustainable business development is still undermined by the lack of a strategic orientation towards it.

### **Inadequate Funding and Institutional Framework:**

Administrative infrastructure, institutional competence, and significant financial commitment are often needed for CSR program execution. Allocating sufficient resources for CSR efforts may be challenging for businesses with operational or budgetary restrictions. Furthermore, project execution delays or insufficient CSR activity implementation may arise from ineffective financial planning and prioritisation of CSR expenditures. The scope and scale of CSR activities are severely limited by these financial and infrastructure constraints, especially in industries that demand long-term developmental investments.

### **Insufficient Stakeholder Engagement and Community Participation:**

Local communities and other stakeholders must actively participate in the implementation of meaningful CSR. However, there are a number of cases where CSR projects are planned and carried out without sufficient community consultation. Limited community involvement is frequently caused by local community ignorance about CSR initiatives as well as ineffective communication between businesses and grassroots stakeholders. As a result, CSR initiatives

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<sup>9</sup> Organisation for Economic Co-operation and Development (OECD), Principles of Corporate Governance <https://www.ijcrt.org/>

may be less effective and sustainable overall if they don't address the real socioeconomic needs of individuals who they are intended to promote.

### **Inappropriate Scheduling, Execution, and Monitoring:**

Systematic planning, competent execution, and ongoing monitoring are critical to the effective execution of CSR activities. Nevertheless, a lot of CSR initiatives include flaws in their project strategy, execution tactics, and performance assessment systems.

Rather of being long-term developmental plans, CSR initiatives are frequently carried out as transient charitable endeavours. Companies and regulators' capacity to assess the success of CSR initiatives is further hampered by the lack of organised monitoring frameworks and impact assessment tools. Therefore, CSR activities may fall lack of their intended goals of fostering equitable and sustainable development in the absence of institutional responsibility, strategic planning, and resilient monitoring systems.

### **Inadequacies in Accountability and Transparency Systems:**

Effective CSR governance requires both accountability and transparency. Companies frequently depend on outside implementation organisations to carry out CSR initiatives. However, inadequate disclosure of information about project implementation, financial audits, impact evaluations, and the use of CSR funding is a common source of concern.

Such lack of openness damages stakeholder confidence and hinders the growth of trust between implementing agencies and business entities. Additionally, the lack of strong reporting and verification systems may make it possible for CSR resources to be misallocated or used inefficiently. The Registrar of Companies, Ahmedabad, investigated the company for allegedly failing to comply with Section 135 of the Companies Act, 2013's obligatory CSR duties. The investigation concentrated on incorrect computation and non-expenditure of the required CSR sum during the applicable fiscal year. Due to inaccurate calculations and an inadequate in required spending, the RoC held the corporation accountable for violating CSR regulations. Section 135(7) of the Companies Act of 2013 was followed in the imposition of penalties<sup>10</sup>. The case upholds stringent regulatory oversight of CSR compliance and Section 198 calculating

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<sup>10</sup> Registrar of Companies, Ahmedabad, In re Ganesh Green Bharat Ltd., Adjudication Order No. ROC-GJ/203/ADJ-Order/Sec. 454/2024-25 (July 11, 2024)

## **2.1 Independent CSR Monitoring Panel and Legal Authority Requirements:**

Corporate Social Responsibility (CSR) has become a crucial part of sustainable development and corporate governance. Although firms are required by law to engage in CSR activities, a strong monitoring and accountability mechanism is crucial to the success of these projects. CSR activities may remain symbolic and have no discernible social impact in the absence of an impartial inspection system. Therefore, to guarantee openness, compliance, and efficacy in the execution of CSR obligations, the creation of an impartial CSR monitoring panel with legal authority is crucial. Monitoring systems are essential for determining if businesses are carrying out their social obligations in compliance with legal requirements and moral standards. Regulators and stakeholders can track the development of CSR programs, evaluate their results, and pinpoint areas that need improvement with the help of effective monitoring. Additionally, it helps guarantee that CSR contributions are used effectively and in accordance with sustainable development goals.

Additionally, by guaranteeing that businesses continue to answer to shareholders, regulators, and the general public for their CSR pledges, an impartial monitoring body would improve corporate accountability. Additionally, it would lessen the likelihood that CSR funds would be misused or diverted, and it would motivate businesses to engage in significant social interventions as opposed to symbolic actions done only to improve their brand.

Therefore, the creation of a specialised regulatory body devoted to CSR oversight will greatly increase the efficacy of CSR implementation and guarantee that corporate resources support real social development.

## **2.2 Regulatory Body's Structure, Composition, Powers, and Functions:**

The suggested regulatory organisation should be set up as an independent statutory body that operates under the Ministry of Corporate Affairs' oversight in order to effectively control CSR operations. This body's institutional structure should guarantee administrative effectiveness, operational independence, and professional expertise.

### **Composition and Structure:**

A multidisciplinary panel of specialists should make up the regulating body in order to guarantee thorough scrutiny of CSR initiatives. The suggested composition could consist of:

- A central government-appointed chairperson with knowledge of business law or corporate governance.
- Members of the Ministry of Corporate Affairs and other pertinent government agencies.
- legal professionals with a focus on regulatory compliance and corporate law.
- Experts in finance and audits with knowledge of corporate transparency and accountability.
- Representatives of non-governmental organisations and civil society groups engaged in social development projects.
- Subject-matter specialists in areas like rural development, education, healthcare, and environmental sustainability.

#### **Regulatory Authority Powers:**

To guarantee that CSR duties are effectively enforced, the proposed CSR regulatory body should be endowed with sufficient statutory authorities. These abilities could consist of:

**Supervisory and Regulatory Powers:** to keep an eye on businesses that fall under the purview of the Companies Act of 2013's CSR regulations.

**Investigative Powers:** The ability to look into situations where CSR monies have been misreported, misused, or diverted.

**Audit and Verification Powers:** to require independent audits and third-party confirmation of CSR initiatives and expenditures.

**Advisory and Policy-Making Powers:** To provide recommendations and directions for bettering CSR implementation and governance.

**Enforcement Powers:** The ability to suggest fines or legal action when CSR commitments are broken.

#### **2.3 CSR initiatives by Indian companies:**

**Infosys:** One of the first companies to embrace corporate social responsibility was Infosys. In collaboration with Bangalore Metro Rail Corporation Limited, they have undertaken initiatives such as the rehabilitation of Karnataka's water bodies and the building of metro stations. Through their Go Sports Foundation, they are also supporting sports. They have a relief fund for Kerala, Karnataka, and Tamil Nadu as part of their CSR project.

**Tata Group:** One of the most prominent supporters of sustainability in recent years has been Tata Chemicals. The firm works with local communities to create an eco-friendly and sustainable habitat, and it has started a number of environmental conservation activities and projects. In FY 2020–21, the firm invested Rs. 21 crores in its CSR initiatives. Tata Power has prioritised empowering women in the Gujarat Kutch area through its Self-Help Groups. This program offers loans and financial assistance for housing, buying livestock, starting a company, getting married, getting an education, and paying for medical expenses. For the last 100 years, Tata Steel has dedicated itself to Jharkhand's socioeconomic advancement. Improving the standard of living in the communities it serves is the CSR committee's agenda item. In addition, they established a mobile hospital that provides healthcare to underserved areas of India and a train known as Lifeline Express<sup>11</sup>. They have also carried out a number of AIDS awareness campaigns<sup>11</sup>.

#### **2.4 Comparative Models of Regulation from Different Jurisdictions:**

An analysis of global CSR regulatory frameworks offers insightful information about efficient enforcement and monitoring systems. Different governments take different tacks when it comes to CSR governance, from mandated sustainability reporting to voluntary disclosure frameworks.

##### **United Kingdom;**

The Companies Act of 2006's corporate reporting obligations are the main way that CSR is regulated in the UK. According to the Act, big businesses must provide a "Strategic Report" in their yearly filings that includes information about environmental, social, and governance (ESG) issues.

Companies are legally obligated to disclose the social and environmental effect of their commercial operations, even if CSR investment is not mandated in the UK. In addition to encouraging transparency, this disclosure-based strategy enables stakeholders and investors to assess corporate social performance.

The Financial Reporting Council exercises regulatory control of corporate governance and reporting standards, ensuring adherence to reporting requirements and corporate governance guidelines.

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<sup>11</sup> Kasmin Fernandes, Top 100 Companies in India for CSR and Sustainability in 2021, The CSR Journal (Dec. 30, 2021) <https://thecsrjournal.in/top-100-companies-india-csr-sustainability2021/>

### **The European Union:**

Through the Corporate Sustainability Reporting Directive, the European Union has established a thorough legislative framework for sustainability reporting. According to this regulation, big businesses must provide comprehensive information about their corporate governance, social responsibility, human rights, and environmental effect.

By requiring standardised sustainability reporting and independent verification of given information, the rule greatly increases transparency. The European Union hopes to improve corporate accountability and encourage sustainable economic growth by requiring thorough reporting standards.

### **The United States:**

The majority of CSR regulations in the US are disclosure-based and driven by the market. The U.S. Securities and Exchange Commission enforces securities regulations that govern corporate social and environmental reporting.

Public businesses must reveal significant governance, social, and environmental issues that could have an impact on investors. The legal framework promotes openness and investor-driven accountability, even though CSR spending is not required.

## **CHAPTER: 3 TRANSPARENCY, REPORTING AND DIGITAL ACCOUNTABILITY:**

In the context of corporate social responsibility (CSR), transparency refers to the open sharing of data on results, implementation and spending procedures, and CSR policies. It guarantees that the public, government officials, employees, and shareholders can obtain information about how businesses carry out their social obligations. Since the corporation publicly publishes its CSR activities, transparency helps to prevent misuse of CSR funding, mismanagement, and corruption. It also helps to develop confidence among stakeholders and improves the legitimacy of corporate institutions. The Companies Act, 2013, specifically section 135, and the Companies (CSR Policy) Rules, 2014, are the main laws governing CSR disclosure in India. Companies must include information about CSR in their Board's Report, Annual Financial Statements, Company Website, and CSR Impact Assessment Reports to guarantee openness. One of the most crucial methods for guaranteeing transparency in CSR

initiatives is reporting<sup>12</sup>. Businesses are required to give detailed information about their spending and CSR initiatives. With technological improvements, digital tools have become indispensable for tracking CSR efforts and guaranteeing transparency. Using digital platforms, databases, and reporting systems to monitor CSR expenditures and project execution is known as “digital accountability.” This chapter discusses the significance of openness, digital accountability systems, appropriate reporting, implementation difficulties, and strategies for enhancing CSR governance in India.

### **3.1. Standardized Reporting, Financial Disclosure and Role of Authorities**

To guarantee accountability and transparency in CSR spending, businesses must adhere to standardised reporting procedures, financial disclosure standards, and regulatory authority scrutiny. These systems guarantee that CSR monies are utilised efficiently and serve societal requirements. The Ministry of Corporate Affairs is the primary authority responsible for CSR regulation. They frame CSR rules and guidelines, monitor CSR compliance, maintain CSR data through filings, issuing clarifications and amendments. Every eligible company must form a CSR Committee. The company should formulate CSR policy, recommend CSR expenditure, monitor CSR activities, and ensure compliance with legal requirements. The committee reports to the Board of Directors. Standardized reporting and financial disclosure play a crucial role in ensuring the effective implementation of CSR obligations in India. Regulatory oversight by authorities such as the Ministry of Corporate Affairs and Registrar of Companies ensures that companies remain accountable for their social responsibilities. Strengthening transparency, monitoring mechanisms, and impact evaluation will help CSR achieve its primary goal of sustainable social and economic development.

CSR-2 Form was introduced by the Ministry of Corporate Affairs (MCA) in 2022. Form CSR-2 is an essential addition to CSR reporting. Companies must file this form as a separate document, providing a detailed account of CSR activities. CSR-2 ensures that accurate, standardized data on CSR initiatives is available for regulatory authorities to review<sup>13</sup>. Key sections of CSR-2 include the CSR committee details and project wise details of CSR activities including mode of implementation financial reporting of CSR expenses. *M/s Comviva Technologies Limited v ROC Delhi, 2022* In this case, the RoC imposed penalties for failing to

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<sup>12</sup> Global Reporting Initiative, GRI – The Global Leader for Sustainability Reporting. <https://www.globalreporting.org/>

<sup>13</sup> Clear (formerly ClearTax), Income Tax E-Filing & GST Software Platform, [clear.in](http://clear.in)

transfer unspent CSR funds to specified funds within the stipulated six-month period, establishing that voluntary admission does not waive penalties.

### **3.2 Centralized CSR portal, Real-Time Tracking, and Public Participation**

A Centralized CSR Portal is a digital platform created and managed by the government to collect, store, monitor, and disclose information related to CSR activities undertaken by companies. Such a portal acts as a single unified database where all CSR-related information is recorded and made accessible to regulators, companies, and the public. A centralized platform allows stakeholders to access detailed information about CSR projects, including the project location, the amount spent, beneficiary groups, implementing agencies. This transparency reduces the possibility of corruption or misuse of funds. Regulatory authorities can easily monitor whether companies are fulfilling their CSR obligations<sup>14</sup>. Real-time tracking refers to the continuous monitoring of CSR activities through digital technology. It allows stakeholders to observe project progress, financial transactions, and implementation outcomes as they occur. If a CSR project faces delays or implementation issues, real-time tracking enables immediate corrective action. NGOs and other implementing agencies are required to update project progress regularly, ensuring accountability. Digital monitoring systems generate measurable data that can be used to assess the impact of CSR initiatives. Real-time tracking in Corporate Social Responsibility (CSR) leverages digital tools like IoT sensors, blockchain, and specialized SaaS platforms to monitor impact, ensure compliance, and increase transparency.

Key solutions include TechCSR and CyberSWIFT for project management, Benevity for volunteering, and IoT for tracking environmental metrics like energy use or waste management instantly. Public participation in CSR refers to the active involvement of citizens, communities, NGOs, and stakeholders in the planning, implementation, monitoring, and evaluation of CSR activities. Instead of companies deciding projects independently, public engagement ensures that CSR initiatives address real social needs<sup>15</sup>. According to the *United Nations Development Programme*, stakeholder engagement and community participation are key elements for sustainable development because they allow people affected by projects to contribute to decision-making. Technology has significantly enhanced public participation in CSR. The Government of India launched the National CSR Portal, which provides information

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<sup>14</sup> Ministry of Corporate Affairs, Government of India, National CSR Exchange Portal, <https://www.csrchange.gov.in/>

<sup>15</sup> TheCSRUniverse, CSR, Sustainability, ESG & SDG Knowledge Platform, <https://thecsruniverse.com/>

about CSR spending, projects, and implementing agencies.

This platform enables citizens, researchers, and NGOs to track CSR activities and participate in discussions regarding corporate contributions to social development. The portal promotes transparency by allowing the public to review the company disclosures and CSR reports. Several cases handled by Registrar of Companies (ROC) such as, *Technicolor India(P.) Ltd or Rapid Estates Pvt Ltd*<sup>16</sup>, involved compounding offences where the default in filing disclosures was made good after being tracked through MCA.

## **CHAPTER: 4 ENFORCEMENT MECHANISM, RECOMMENDATIONS AND CONCLUSION**

The United Nations Development Programme emphasizes outcome-oriented development for sustainable impact. Independent external audits should be made compulsory for CSR activities to prevent manipulation and misreporting of funds. The World Bank highlights that third-party verification enhances accountability and credibility in development projects. CSR Committees and company officials must be trained in project planning, monitoring, and social impact assessment to ensure effective implementation. The Ministry of Corporate Affairs has also stressed improving institutional capacity for CSR governance. Adoption of digital tools like the National CSR Portal for real-time tracking, reporting, and data analysis can significantly improve transparency.

### **4.1 Civil and Criminal Liability, Director Liability and Penalties:**

From a civil liability perspective, directors are bound by fiduciary duties to act in good faith, exercise due diligence, and ensure that CSR funds are utilized effectively and transparently. Failure to comply with statutory obligations—such as the mandatory 2% spending requirement, proper disclosure, and transfer of unspent funds—results in financial penalties and reputational damage. As emphasized by the Ministry of Corporate Affairs, directors must ensure that CSR policies are not only formulated but also properly implemented and monitored. Civil liability thus plays a corrective role by encouraging compliance through monetary consequences and accountability mechanisms.

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<sup>16</sup> Income Tax Officer v. Registrar of Companies, In re Rapid Design Pvt. Ltd., Company Appeal under § 252 of the Companies Act, 2013, National Company Law Tribunal, New Delhi Bench (2024), available at <https://nclt.gov.in>

At the same time, criminal liability serves as a deterrent against serious violations such as fraud, misappropriation of CSR funds, and false disclosures. Provisions like Section 447 (fraud) and Section 448 (false statements) impose stringent punishments, including imprisonment and heavy fines, thereby reinforcing the seriousness of corporate misconduct. Although amendments have decriminalized certain procedural CSR defaults, the law continues to impose strict consequences for intentional wrongdoing. According to the *Organisation for Economic Co-operation and Development*, strong enforcement of director liability is essential to ensure responsible business conduct and maintain corporate integrity. Furthermore, global institutions such as the *World Bank* and the *United Nations Development Programme* stress the importance of accountability, transparency, and stakeholder participation in ensuring effective CSR governance. They highlight that director liability must be complemented by participatory mechanisms, digital transparency tools, and impact-driven evaluation frameworks. In this regard, initiatives like the National CSR Portal represent a progressive step towards real-time monitoring and public accountability, thereby strengthening the enforcement ecosystem

In **conclusion**, the imposition of civil and criminal liability on directors under the Companies Act, 2013 serves as a cornerstone of effective CSR governance in India. While civil liability ensures compliance through financial accountability, criminal liability acts as a strong deterrent against fraudulent and unethical practices. However, the true success of these provisions lies in their consistent enforcement, integration with digital monitoring systems, and alignment with global best practices. Strengthening these aspects requires not only regulatory oversight but also active digital monitoring by the public and shareholders, which enhances transparency and participatory governance. Platforms such as the *National CSR Portal* can empower stakeholders to track CSR activities in real time and hold companies accountable. Furthermore, the establishment of an independent CSR monitoring panel or authority with the power to closely supervise and evaluate the actions of the Board of Directors would ensure stricter compliance and prevent misuse of CSR funds. Such a multi-layered approach—combining legal liability, technological oversight, stakeholder participation, and institutional monitoring—will ensure that CSR evolves from a statutory obligation into a robust, transparent, and impactful instrument of sustainable development and corporate accountability.