

Control Framework For CSR:

Corporate Social Responsibility (CSR), should on one hand, reflect the Corporate Philosophy and on the other hand should ensure implementation of those activities which would meet the expectations of the society and the region in which the company functions.



Section 135 of The Companies Act, 2013 has made CSR mandatory for every such company which has :

1. Net worth of rupees five hundred crore or more, or
2. Turnover of rupees one thousand crore or more, or
3. Net profit of rupees five crore or more.

The applicable company shall ensure that it spends, in every financial year, at least two per cent of the average net profits made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

Implementation of CSR could happen in either of the below referred forms, namely:

- A. Making Of Charity Donations, Or
- B. Venturing into an independent entity which would be formed by coalition with other like minded companies. This entity shall pool resources from all the participating



companies and create a **“Joint CSR Programme”**. As per **Rule 4(2)** of “The Companies (Corporate Social Responsibility Policy) Rules, 2014”, this entity has to be registered in India as a trust, or as a society, or as a non-profit company under section 8 of the Companies Act, 2013.



Qualities

The venture referred to in second option above gives rise to a term called “[Implementing Agencies](#)” which would be implementing CSR projects for like minded companies. Further it becomes essential for both the [Contributor Company](#) and also for the Implementing Agency to ensure that a framework is established by which entire CSR activity would be monitored and executed. Thus adequate diligence

needs to be exercised while identifying and selecting the Implementing Agency. Ideally the implementing agency should demonstrate following qualities:

1. An organisation of repute and standing,
2. Experience of handling CSR activities of similar nature,
3. Quality of resilience, especially in cases where the implementation faces challenges due to cross views between coalition of Contributing Companies,
4. Ability to liaise and cross communicate across the CSR Committees of different contributing companies,
5. Accomplish the activity but at the same time ensure high accountability in terms of deployment of the funds for agreed purposes,
6. Deployment of framework that facilitates implementation of adequate controls which would act as “[Whistle Blower](#)” in event where the mandated parameters are breached,
7. Setup systems and processes which facilitate third party audits,
8. Dynamic and resourceful in terms of understanding and assessing the implementation of the activities,
9. Ability to quickly make comprehensive appraisal and evaluation of the mandate prescribed by the contributing companies and at the same time ensure adherence to the budgets prescribed.

As would be evident from above, the process of setting up of an “[Implementing Agency](#)” is prone to several risk areas. Without adequate

mechanism to ensure timely detection and surfacing of any deviations from preset/expected course of action, there is high degree of possibilities of [perpetration of frauds](#) in form of :

- a. Inflated expenses,
- b. Bogus bills,
- c. Setting up of fictitious NGOs and non existing projects,
- d. Connivance with vendors and corresponding kickbacks,
- e. Diversion of funds for personal expenses or for expenses which are not part of the policy

Similarly, unless adequate mechanism is being instituted for framing of the committee, there is a probability that when there is [laxity in relevant controls](#), the committee members who are influencing the activities of the Implementing Agency may divert the activities or funds towards their respective Trusts. Such diversions may also culminate into misutilization of funds for personal gains of committee members, coupled with danger of CSR activities being used as vehicle for promoting activities of political parties or act as garb for executing actions of bribery and corruption.



[Speculative risk](#) is an inevitable part of doing any business and its complete elimination is not possible. But risks could be managed by instituting [preventive, detective and corrective controls](#). Proper risk management and internal control helps

organisation to understand the risks that they are exposed to. Thus there is a need to put controls in place to counter threats, and effectively pursue objectives. Control frameworks are therefore an important aspect of an organisation's governance, management and operations

Generally companies are exuberant in setting up of the team vested on whom is the onus of executing CSR, however, frequently companies fail to understand the degree of **vulnerability that CSR could get exposed to**. Therefore there is a need of establishing framework which would institute controls at each stage right from the inception stage of harmonising Company Philosophy with the intended CSR, policy formulation, committee screening, selecting allied companies for implementing CSR, identifying and selecting implementing agency, deciding on the organisational status of the implementing agency, instituting **red flag mechanism** in the operational and financial aspects of the implementing agency.

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