Corporate social responsibility in India: re-engineering compliance and fraud mitigation strategies

Forensic & Integrity Services

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Building a better working world

Contents

Introduction

CSR has evolved in India over the last few years from being voluntary, philanthropic and unsystematic, to organizations instituting structured and strategic programs to contribute toward causes that enable the welfare of society as a whole. The focus and effort made around CSR was enhanced by the amendments to the Companies Act 2013 that defined the scope for organizations above a certain size and threshold. Key amendments included the introduction of Section 135 that outlines mandatory spends, a defined program and a dedicated committee to administer and monitor the program. Recent data released by the government highlights significant amounts being spent for the development and management of CSR initiatives, with a reported spend of close to INR12,000 crore in 2018-19, the highest since the Act became mandatory in 2014-15[1].

With the prevailing COVID19 pandemic, CSR teams and initiatives have had to step up and be at the forefront as the world faces turbulent and unprecedented times. Organizations are re-aligning priorities, ongoing projects are being reviewed for efficacy, while fostering new programs aimed at relief activities for wider community building and engagement. The impact of social initiatives is paramount, especially during times of crisis. But measuring the performance and impact of CSR initiatives can be challenging, particularly as it is aimed at delivering long-term value for communities at large. Instituting governance and compliance programs from an initial stage can strengthen the supervision and the outreach, minimize any waste or leakage and deter unethical practices.

Integrity needs to be at the heart of CSR initiatives to make a real difference. However, implementing programs, optimizing available resources and broadening the outreach in the current era of social distancing can prove to be an arduous task. And with separate and substantial budgets being earmarked for CSR and the amount of funding expected to augment with time, it is critical for organizations to setup safeguards against fraud and other vulnerabilities. Enhancing internal controls and streamlining processes to mitigate potential financial and reputational risks would be crucial.

To assess the probable incidence of fraud and unethical practices in CSR programs, gaps seen and organizations' preparedness to manage these risks through anti-fraud and integrity mechanisms, EY Forensic & Integrity Services conducted a survey with key CSR executives in India. The survey results highlight India Inc.'s high dependence on third-party implementation partners to lead and execute programs. However, the level of governance in identifying vulnerabilities and understanding the authenticity and credentials of third parties tends to be very rudimentary. Other aspects emerging from the survey findings were low involvement of management and limited monitoring over the implementation process, including understanding if the allocated funds were utilized for the actual purposes as described in the CSR plan.

Overall, the survey results point toward a strong need for corporate India to integrate ethics within their CSR programs, encompassing practices and processes in the engagement of partners to mitigate financial and reputational risks. We would like to thank everyone who shared their perspective and feedback for this survey and hope that it proves valuable.

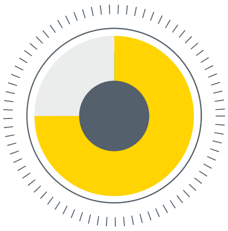
A Singh

Arpinder Singh

India and Emerging Markets Leader,
Forensic & Integrity Services, EY

1 https://www.business-standard.com/article/companies/companies-spent-rs-11-867-cr-on-csr-activities-in-fy19-highest-so-far-119121200394_1.html

Understanding the third-party challenge in CSR programs



75%

of the survey respondents had worked with implementation partners to execute their CSR programs in the past five years.

41%

of respondents indicated having worked with five or more implementation partners.

For organizations looking to derive maximum value from CSR programs, engaging third parties – or implementation partners tends to be a logical step. Implementation partners such as non-government organizations (NGOs), non-profit organizations, trusts or institutes can bring precision, discipline and efficiency when running an organization's CSR project. Some key advantages they offer include an in-depth domain knowledge in the target geographies, sectors or social causes aligned with the organization's mission and vision. Being specialists, they can easily customize projects to suit organizational needs, as well as lower the cost of operations and resources used.

Corporate India's dependence on third party vendors or specialists has increased over time. However, one of the most common challenges that persists is a lack of readily available and transparent information on these specialists. Attempting to estimate the social impact of the organization's initiatives can be a daunting task, making the threat of misrepresentation, fraud and unethical practices a reality.

In the current pandemic stage, wherein corporates are mobilizing resources to support the government address the immediate threat, the need of diligence cannot be over emphasized. Organizations may be keen to get involved in ongoing pandemic relief schemes and collaborate with (unknown) third parties to deliver innovative solutions with maximum reach. But the engagement may potentially expose them to both financial and reputational risks.

45%

of the respondents indicated a struggle to find the right implementation partner.

The approach to identify the right partner to build and sustain CSR programs can have several roadblocks. Organizations need to assess the background, competence and effectiveness of the prospective implementation partners and only then make an informed decision to bring them onboard. According to the Companies Act 2013, the implementation partner managing the organization's CSR activities should have an established track record of three years in undertaking similar programs or projects. However, according to the EY survey, less than half (only 45%) of the survey respondents had taken any steps to check their past record.

The non-profit ecosystem is highly fragmented and unstructured; today, India has over three million[2] NGOs, non-profit organizations and trusts. So, the evaluation process typically involves narrowing down a chosen few in this vast ecosystem of non-profit set-ups and understanding who best aligns with the organization's vision. Deciding after that may still not be easy as many third parties have limited or no information available on their backgrounds, past performance, projects undertaken, method of functioning, ownership and end-use of funds. The inherent challenges presented before organizations have them often struggling with deciding on the most appropriate implementation partner as the entire evaluation process turns out to be extremely time consuming, tedious and complex.

Post COVID19, it is will be critical to direct the right of resources to the right people, at the right time and place and therefore select the right implementation partner. This will be an important step when making a true difference.

65%

of the respondents did not have a defined third-party due diligence policy that covered execution partners.

According to the EY survey, conducting due diligence before onboarding an implementation partner is an area overlooked by most organizations. Dealing with third parties can bring forth a host of risks and it is important for organizations to know exactly who they do business with, not just as a best practice, but as smart compliance. Organizations today are operating in a global and interconnected world, with rising enforcement standards and a high probability of penalties or fines being imposed for the actions of their third parties, who represent these companies in various areas. Global anti-corruption laws such as the Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act (UKBA) have put the onus on corporations for unethical acts committed by third parties acting on their behalf. Insulation against these risks particularly in managing CSR programs is very critical.

Case study 1

A leading conglomerate with diversified business interests was looking for an implementation partner to execute their CSR program. The CSR committee identified four potential partners and being seasoned professionals, they decided to conduct a comprehensive due diligence check prior to their final decision. An external forensic consultant was brought in to uncover any gaps prior to the roll out of the project, assess any risks, identify possible conflicts of interest, verify competence track record and reputation of the execution partners.

The due diligence included getting information from the NGO itself, independent checks comprising public domain and database searches and reference checks with different stakeholders of the NGOs. The information gleaned from the process revealed issues around legal disputes, regulatory defaults and crucial information about the funding channels of the two of the four NGOs. The company's CSR committee was therefore able to make an informed decision when finalizing an ethical execution partner for their CSR project.

Lack of standardization is another challenge as there is a different set of regulations that would typically govern the implementation partners. With no benchmarking data, credential checks and other information, evaluating the authenticity of the programs implemented, assessing their capability, commitment and strength becomes a difficult exercise. An implementation partner's credence is determined by its market reputation as well as business history and operations. As a result, it is essential to get information on potential undisclosed litigation or regulatory matters, bankruptcy issues and allegations of unethical concerns before appointing an implementation partner. Organizations should conduct a thorough risk assessment review of a potential implementation partner's track record of the previous three years using publicly available information and databases.

The goal and strategy for the CSR program needs to be in conformity with the organization's purpose and value. Omitting adequate due diligence at the time of implementation partner selection may lead to potential ethical or integrity-related concerns and expose the company to financial and reputational risk.

2 https://economictimes.indiatimes.com/news/politics-and-nation/chief-justice-tells-slow-government-to-audit-all-30-lakh-ngos/articleshow/56463986.cms?from=mdr

Governance and oversight of CSR programs – is it optimal?

75%

of the respondents shared that their businesses did not have a governance structure or a definite policy to address any ethical lapses or fraud in CSR programs.

I The CSR committee

As per the Companies Act 2013, a certain set of companies are mandated to constitute a CSR committee with the board consisting of three or more directors, out of which at least one director shall be an independent director. The responsibilities of CSR committees are immense. As part of their duties, they are tasked with providing recommendations to the board on the activities to be undertaken, expenditure to be incurred, formulation and implementation of the plan, reviewing and monitoring activities and creating an annual or bi-annual report on the status of activities undertaken. They also need to institute a transparent monitoring mechanism for the policy and projects, and factor in potential risks.

29%

of the survey respondents shared that they did not have a dedicated CSR function or department in place.

Successful businesses tend to have a robust governance structure and internal controls for all departments. For CSR, the role and responsibilities of the committee members are crucial to create and run programs (with or without implementation partners) effectively and bring any issues to the forefront. Boards and CEOs should provide the overarching guidance, while the responsibilities of the committee should focus on granular matters such as reviewing and advising on policies and practices related to causes such as diversity, environmental responsibility, ethics, community involvement, human resources, global sourcing, philanthropy and product safety. A CSR policy should be introduced, with activities outlined in a clear and precise manner. The annual report should disclose the committee's composition and other compliance measures undertaken by the company and all details should be published on the company's website.

An interesting question is thrown up by the EY survey on oversight of CSR programs – in the absence of a formal committee or structure, who was responsible for the oversight of these programs?

22%

of the respondents stated that the CSR committee formed by their organization included the CEO.

56%

shared that there was no involvement of the board in the CSR committee.

Limited leadership involvement or absence of a dedicated committee may have companies face adverse repercussions, increased exposure to a wide-ranging set of risks or even incorrect reporting.

Senior management commitment where the leadership has a high involvement in devising the right strategy, design and execution of strong CSR programs can help maximize the program's success and minimize associated risks. From the organizational perspective, this helps fortify the company's CSR engine, scale up competencies and gives management greater insights and control. It also helps manage the efficacy of CSR programs, right from the stage of identification to the integration of its principles into the organization's mission statement. At a micro level, this not only helps create awareness, both internally and externally, but also sends out the right message to the employees to actively contribute in initiatives directed at social upliftment.

II The CSR policy

Lack of a clearly articulated policy and definition of CSR activities can potentially set an organization on the path to fraud and misconduct. However, a well-articulated CSR policy alone is not enough to mitigate risks and malpractices, even though it is a significant element in an organization's all-encompassing risk mitigation framework.

24%

of the respondents did not have a CSR policy in place in their organization.

20%

of the respondents shared that the roles and responsibilities of the CSR committee have not been categorically outlined within their organization.

The EY survey highlights that most organizations seem to have made the effort to adhere to Schedule VII of the Companies Act 2013, which covers the activities that may be included by organizations in their CSR policies. However, their policy was still not comprehensive enough to include details of the specific activities or projects that were to be undertaken under these categories. This may create a significant grey area when it comes to laying down the path for implementation, monitoring and measurement.

COVID19 caught the world off-guard - unaware and unprepared. In the new normal, many countries went through a state of lockdown and remote working operations lacked a personal, on-ground and tangible way of business which everyone is accustomed to. For corporates, it is important to become willing and flexible when embracing the new way of working in their CSR efforts to support the ecosystem. Innovative approaches need to be adopted to explore how CSR project planning can be modified to accommodate these extraordinary circumstances. The adoption of technology is one area for example, moving classroom skill programs to online or mobile-based courses, advocacy or counselling support in healthcare sector through voice based mobile applications.

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The Companies Act has mandated 2% CSR contribution by corporate India to eligible NGOs or through its own network. Based on recent statistics, mandatary CSR spend by the corporate sector continues to fall short of annual estimates. This trend has made the Ministry of Corporate Affairs propose, insertion of sub-section (7) to section 135, imposing penal consequences in case of non-compliance. With the current debate going on whether the government should impose civil or criminal liability on the defaulters, the survey indicates that it is imperative for the stakeholders to review their CSR obligations. Budget 2020 has proposed further re-registration, compliance requirements on registered charitable trusts. These developments now indicate that from a corporate governance perspective, it is important to review the current CSR policy and ensure CSR spends through its implementing partners in a compliant manner.

Rajiv Chugh
Partner and National Leader
Policy Advisory and Speciality Services

Unmasking risks in implementation

I Implementation partners

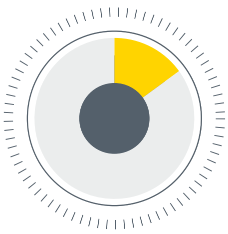
Merely handing over the CSR program and its implementation to an external partner is not the answer. In addition to identifying the right implementation partner and conducting third-party due diligence, organizations need to make sure that the process of execution by the implementation partner during the entire life cycle of the CSR program is conducted with integrity. The overall approach, steps involved, and mechanisms should be outlined categorically, firmly put in place and periodically monitored to determine the progress and identify any gaps along the path.

13%

of the respondents said they had come across unethical behavior (either committed in the past by its employees, or implementation partners and their employees) pertaining to CSR projects or activities.

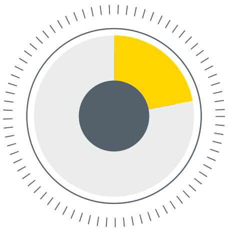
8%

respondents were aware that the company had received complaints regarding fictitious expenditure incurred during the execution of CSR projects.



15%

respondents had no knowledge on the nature of the CSR expenditure incurred, if it was real or fictitious.



22%

of the respondents did not have a definite policy to address any violation or fraud in CSR programs.

Many companies still do not have adequate anti-fraud monitoring mechanisms in place to ascertain ethical lapses or gaps in programs. Some of the most prevalent within the industry by CSR implementation partners included:

- Financial misrepresentation
- Conflict of interest
- Tax evasion
- Ghost beneficiaries or ghost CSR activities
- Diversion or siphoning of CSR funds
- Irregularities in disbursal of CSR funds
- Fraud in the procurement of goods and services for CSR activities or projects
- Inflated CSR expenditure on travel, food, entertainment, transportation and salaries

33%

of the respondents cited financial misrepresentation of CSR funds as the most critical unethical practice demonstrated by implementation partners.

This may include abusing funds for non-CSR activities that may include personal (may also include family or friends) or business travel and other similar expenses.

Fraud in the procurement of goods and services for CSR projects was rated the second most prevalent unethical practice with 34% responses. This may include fraud vulnerabilities linked to vendor favoritism, kickbacks to procurement team members for preferential treatment, lower or fake billing for sales or services, creation of dummy sales for commission or kickbacks and conflict of interest situations leading to lower revenue collection. 30% of the respondents cited diversion of funds next in the most prevalent unethical practice encountered while working with implementation partners.

Case study 2

A pharmaceutical company decided to work with an NGO for their CSR project, whose background and track record seemed to be aligned with the directive of the company. Being a multinational firm, the management was wary of risks related to third parties and was bound by global anti-corruption and compliance laws. They decided to undertake a proactive and extensive forensic due diligence, encompassing research on the company profile, checks through compliance websites, public domain and social media to understand the NGO's reputation.

On completion of the review, it was discovered that the NGO was previously accused of misusing project money and key stakeholders were allegedly diverting funds to other businesses. It also revealed a possible conflict of interest situation, where one of the company's senior executives (and decision maker to select an implementation partner) was a close associate of a key stakeholder in the NGO. An analysis of this report by the management and CSR committee led to the organization rejecting this particular NGO.

The perils of third-party sub-contracting

21%

of the respondents allowed implementation partners to sub-contract the CSR projects to third parties.

A key risk in the CSR program implementation process is the inclusion of third-party sub-contractors. They come into play when the NGO or trust partnering an organization in its CSR journey sub-contracts the execution of the program. This may sometimes happen without the knowledge and consent of the organization.

The risk emanating from sub-contracting can be catastrophic, especially if the organization is not aware of it. If agreed upon, these third-party sub-contractors need to be taken through the due diligence process and monitored regularly. However, implementations tend to have limited mechanisms in place to report any acts of non-compliance or unethical behavior by such third parties. According to the EY survey, 10% had no reporting mechanism present and only 5% had a hotline in place to report any unethical behavior by such third parties.

II Regulatory non-compliance

10%

of the respondents admitted to witnessing cases of non-compliance related to CSR activities or projects in their organizations in the last five years.

In July 2019, there were media reports about the government authorizing the prosecution for over 350 cases for non-compliance with CSR norms under the Companies Act (2014-15 period)[3]. Data from the government of over 20,000 companies falling under the Act highlights that 9,753 companies were non-compliant, i.e., did not report CSR activity in 2017-18[4].

According to the Companies Act 2013, organizations have also been given three years to channelize the funds earmarked for CSR toward identified CSR activities. Any surplus exceeding that timeframe is to be put into a public welfare focused fund set up by the government.

50%

reported that the surplus funds were utilized for employee welfare.

14%

of respondents stated that surplus funds arising out of CSR projects go unutilized.

71%

of the organizations reinvested and utilized the funds for their CSR projects in the subsequent years.

III Internal risks

There is an equally large internal implementation risk that can increase fraud vulnerabilities including employee and management-led fraudulent practices.

Employees form the core of any organization. However, there have been recent news reports which have put the spotlight on rising instances of employee fraud. A key characteristic here is the rationalization given for the act of fraud such as "it's a victimless crime" or "no one can catch me" or "my seniors asked me to do this." Human behavior can be very complex, so organizations need to understand and manage employee issues before they commit any unethical act. An internal breach by an insider can be very damaging as it can shake the very foundation of what the company stands for, its culture and purpose.

37%

of the respondents conducted conflict of interest checks to assess possible linkages with employees.

17%

shared that they faced pressure from their stakeholders to limit spending on CSR.

Some of the most common risks include:

- Money laundering by channelizing black money into the company through CSR activities
- Unethical spends by preferring a particular beneficiary on account of conflict of interest among key stakeholders
- Working with or representing fictitious charitable trusts leading to the CSR program becoming a farce
- Inflating the size and scope of the project to extract more funds for it and then not utilising it for the earmarked purpose also leading to disproportionate budget allocation
- Indulging in bribery and corruption
- Diversion of funds or activities to committee or board or management's relatives or personal stake or connections
- Choosing a public trust intentionally to take undue advantage of the absence of centralized repository of information on them

3 https://economictimes.indiatimes.com/news/company/corporate-trends/csr-non-compliance-prosecution-sanctioned-in-366-cases/articleshow/70022089.cms

4 https://www.business-standard.com/article/companies/no-jail-csr-non-compliance-should-be-a-civil-offence-govt-appointed-panel-119081301401_1.html

Impact of fraud and non-compliance

With the growing demand for transparency and governance, organizations may increasingly face an adverse impact to their brand image and reputation in case of any unethical practices or if a fraudulent incident is unearthed.

The risk does not end there. Many companies are still fairly complacent in their approach and do not recognize that the ill effects of unethical practices would reflect poorly on them. It can also erode shareholder trust and demotivate investors and the terms of their lending arrangements. Internally as well, it could lead to low levels of employee satisfaction and reduced business opportunities because of the loss of customer loyalty.

30%

of respondents recognized a negative impact on brand image.

27%

stated decreased stakeholder trust.

8%

stated reduced business opportunities.

Case study 3

A consumer goods company began its CSR journey with a focus on providing specialized training to underprivileged sections of the society. A third party was enlisted to set up and run the operations of the training centers across various cities in India. A year into the initiative, the company received an anonymous tip of potential misconduct by the implementation partner. Post an internal review, an investigation was launched to ascertain the issues.

The results indicated several discrepancies – the third party was charging a fee for the trainings, meant to be free for the identified target audience, there were inflated records indicating a higher number of enrolled versus attendee trainees, placements were not offered to all the participants as was planned and there were discrepancies in the locations of the training centers itself. All these highlighted false claims by the implementation partner, draining the funds. These could have potentially been avoided, had the company instituted a proactive mechanism to monitor the CSR program with on-ground feel and effectiveness, and focus on the utilization of funds.

Monitoring and reporting: indispensable elements to detect and deter fraud

37%

of the respondents shared that regular monitoring and evaluation of projects was a key challenge.

46%

of the respondents conduct reviews and monitor CSR activities.

20%

of the respondents did not have any mechanism to track the project, assess gaps and handle any anomalies.

Corporate India needs to put in place monitoring mechanisms to make sure the CSR projects are being carried out as planned, funds are being used correctly and the opportunities for unethical behavior are minimized. Business need to define action in case of non-compliance with the CSR regulation and formulate appropriate response plans.

Measuring the effectiveness of an organization's CSR engine rests on the soundness of the CSR committee, the proper alignment of the policy, the strategy and the mechanisms that have been put in place to regularly monitor the external and internal risks, especially the work performed by implementation partners. Additionally, organizations need to assess at an initial stage if the execution partner has the capabilities to achieve the project target and conduct regular reporting and impact measurement of the project itself to make sure it is on track. The project and its operations should be run in accordance with the contract, agreement or business plan. Organizations also need to ensure that the funds are utilized for and aligned to the desired goal thereby reducing the risk of fraud or diversion. A clear framework indicating spends on pre-identified initiatives, reporting any unutilized amount, carrying it forward, the mode of implementation and monitoring framework used.

46%

of the respondents stated that they opt for CSR process review during an internal audit.

37%

of the respondents investigate through the CSR committee.

32%

of the respondents conduct external compliance audits.

21%

of the respondents have stringent whistle-blower policies and frameworks.

From the lens of integrity, organizations need to work closely with and adequately oversee processes when working with implementation partners, monitor staff and other internal stakeholders and develop a transparent and conducive business culture. They can also consider roping in external consultants who conduct background checks prior to onboarding, take proactive steps monitor the activities of the CSR implementation partner and identify and plug in gaps, if observed. This will have the CSR program move in the right direction. A systematic approach to conduct periodic reviews and a robust monitoring framework would be beneficial and cover the critical aspects.

Some of the areas which would be a focus are:

Third-party due diligence

Once the implementation partner is shortlisted, organizations should determine adherence to schedule of authority, terms of contract, purchase orders and the outlined process of payment. They should also conduct a periodic audit of the books of account to identify possible high-risk transactions, payouts or disbursement. A systematic diagnosis of the end utilization of funds should be conducted, trends or patterns should be identified, gaps in implementation should be assessed and CSR activities should be documented.

Whistle-blowing framework

Companies need to set up a formal whistle-blowing policy and mechanism as per the Companies Act 2013 and notification by the Securities and Exchange Board of India (SEBI). This will enable stakeholders – including individual employees and their representative bodies – to freely communicate their concerns about illegal practices in such companies.

Internal stakeholders including employees are typically the first ones to become aware of any misconduct occurring in an organization. A whistle-blowing mechanism can guide them toward taking the required steps, using different channels to be followed or approached to report any such incidents. These channels also extend to the other stakeholders – employees of the suppliers, contractor, etc. and having a robust mechanism in place would enable the timely reporting of any incidents.

Corporate governance

There should be a sound governance structure for CSR activities, with the responsibility of reviewing and advising on policies and practices on issues as such diversity, environmental responsibility, ethics, community involvement, human resources, global sourcing, philanthropy and product safety.

Tone at the top

The perspective, conviction and action by senior management and the board is crucial in steering the culture of an organization. Tone at the top means sending the message of doing the right thing to all stakeholders, fostering an ethical work environment and driving sustainable growth. For purposeful CSR initiatives, employees and particularly the CSR committee need to echo management's sentiment to make it a success.

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The key to success for CSR committees will be maintaining compliance with the law, conducting due diligence and regular monitoring of the CSR activities and seeking guidance from senior management and the board. Foresight is another critical aspect to safeguard the sanctity and veracity of CSR programs, encompassing the implementation process, partners and procedures, and to minimize any associated risks.

Saguna Sodhi
Partner
Forensic & Integrity Services, EY

Technology

Organizations need to harness the power of technology, use data analytics, artificial intelligence and machine learning in their programs to identify any potential conflicts of interest as well as suspicious patterns or trends. These tools can also be useful in keeping a check on the nature of spend that is reported and raise red flags in case of any discrepancies. The use of technology not only makes monitoring simpler but also substantially accurate, leading to time savings.

Case study 4

A large metal and mining company received a whistle-blower compliant about various malpractices by the CSR partner, including ineffective utilization of funds, inflated expenses and favoritism. The company, a compliance driven and ethically inclined firm decided to initiate an independent third-party review of the allegations made on the partner and its program. External forensic consultants were brought in to conduct a fact-finding review of the CSR activities across several states in India. This covered detailed discussions with the company, review of CSR-related documents, progress reports and the selection criteria. During the investigation process, off-site discussions and public domain searches were carried out and forensic imaging of the machines of certain suspected employees was conducted.

The due diligence noted multiple areas of potential conflict of interest including a parallel NGO run by one of the employees. There were also cases of bribery, favoritism, SOPs being bypassed at various occasions, repeated work provided to same NGO despite unsatisfactory work as well as kickbacks to certain employees. Immediate action was taken by the company by reporting the matter to the authorities, terminating the employment of certain employees and filing criminal charges against a few employees.

Reporting mechanisms

A CSR program must be able to stand up to scrutiny. The actions undertaken must be precise, transparent and reportable.

17%

of the respondents cited challenges in reporting their financial and non-financial details to the regulators.

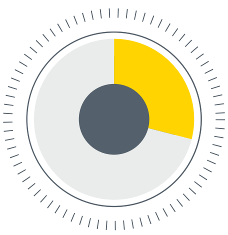
Schedule III of the Act mandates a certain set of companies to report their CSR activities, disclosing the details on CSR implementation, including the allocation of funds, the targeted state and the chosen sector for the CSR initiatives through the filing of an annual report. Any failure in appropriate expenditure must be reported in their annual financial statement.

35%

of the respondents shared that their companies reported periodically to the CSR committee.

17%

of the respondents shared that their businesses had a provision for periodic external evaluation.



29%

of the respondents shared that CSR process reviews were undertaken during internal audits.

38%

of the organizations tend to conduct an internal inquiry if a case of unethical activity or fraud came to light.

Organizations need to invest in creating a reporting process as well as reporting mechanisms. However, in case of an internal inquiry being conducted to review a report of an unethical practice, the questions that come up are:

- Does the team conducting internal inquiry understand the process of investigation?
- Do they have the expertise to gather facts at the grassroots level?
- Can other vested interests within an organization impact a fraud investigation?
- Do the investigators have access to the right information to do justice to the fraud investigation?

20%

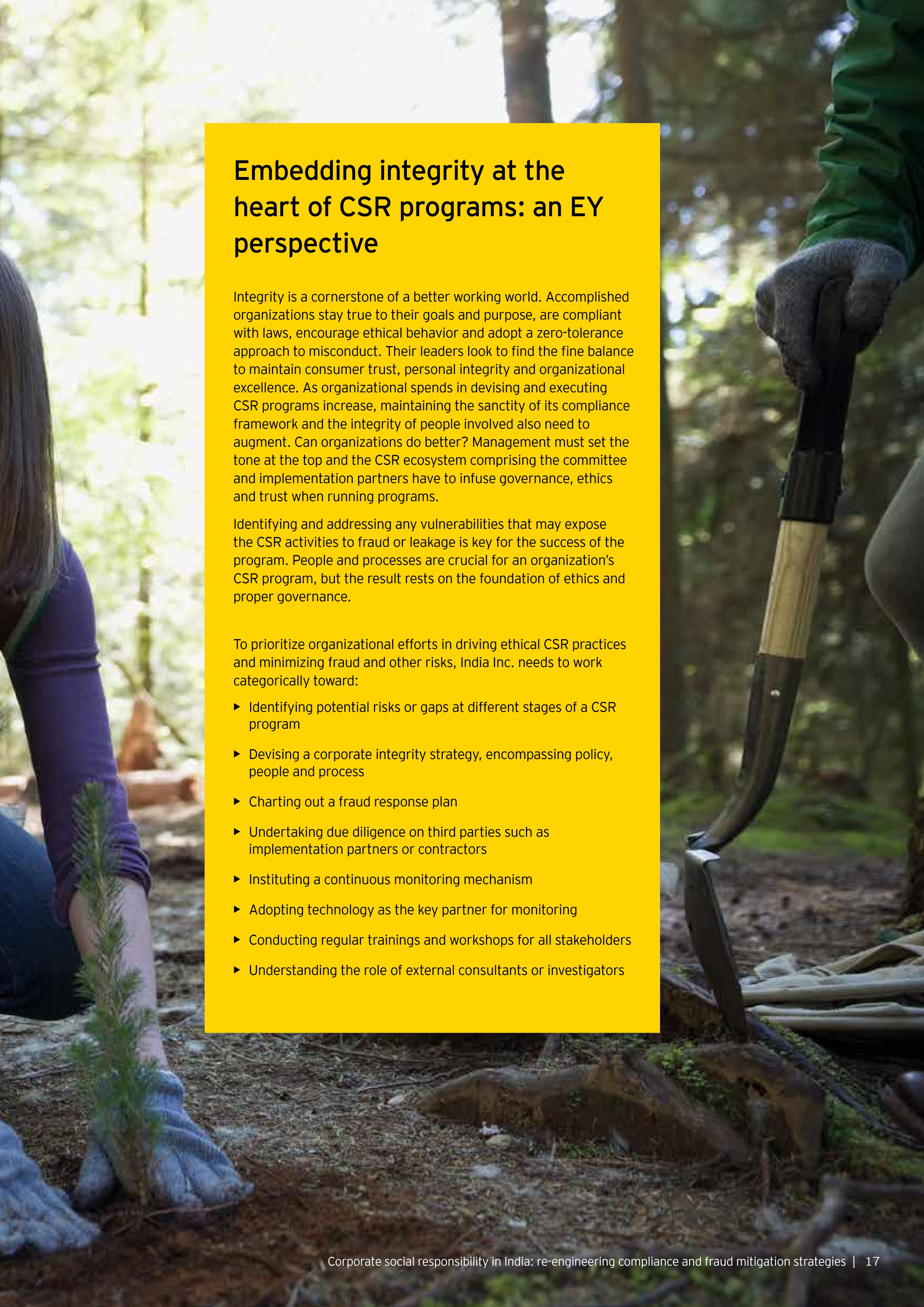
of the survey respondents admitted that investigating a CSR fraud was a key challenge.

50%

of the respondents did not have a case management workflow or governance structure for reported or identified violations related to CSR projects.

This is attributed to reasons such as lack of processes or key personnel with the appropriate skill sets, knowledge to evaluate cases of possible fraud.

Many companies still do not have adequate anti-fraud monitoring mechanisms in place to ascertain ethical lapses or gaps in CSR programs.



Embedding integrity at the heart of CSR programs: an EY perspective

Integrity is a cornerstone of a better working world. Accomplished organizations stay true to their goals and purpose, are compliant with laws, encourage ethical behavior and adopt a zero-tolerance approach to misconduct. Their leaders look to find the fine balance to maintain consumer trust, personal integrity and organizational excellence. As organizational spends in devising and executing CSR programs increase, maintaining the sanctity of its compliance framework and the integrity of people involved also need to augment. Can organizations do better? Management must set the tone at the top and the CSR ecosystem comprising the committee and implementation partners have to infuse governance, ethics and trust when running programs.

Identifying and addressing any vulnerabilities that may expose the CSR activities to fraud or leakage is key for the success of the program. People and processes are crucial for an organization's CSR program, but the result rests on the foundation of ethics and proper governance.

To prioritize organizational efforts in driving ethical CSR practices and minimizing fraud and other risks, India Inc. needs to work categorically toward:

- Identifying potential risks or gaps at different stages of a CSR program
- Devising a corporate integrity strategy, encompassing policy, people and process
- Charting out a fraud response plan
- Undertaking due diligence on third parties such as implementation partners or contractors
- Instituting a continuous monitoring mechanism
- Adopting technology as the key partner for monitoring
- Conducting regular trainings and workshops for all stakeholders
- Understanding the role of external consultants or investigators

About the survey

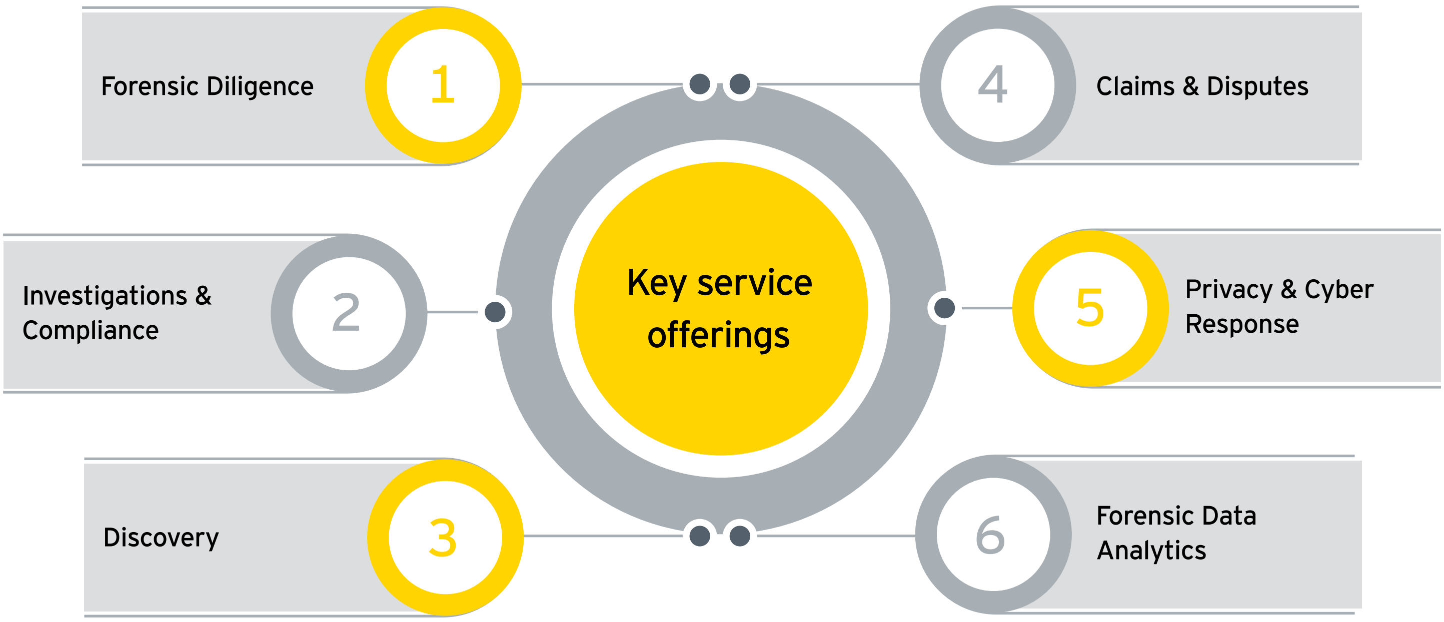
This survey is prepared by EY Forensic & Integrity Services in India. Its objective is to understand fraud and leakage in CSR programs in India, companies' preparedness and measures put in place to safeguard against future fraud risks.

The survey was conducted through an online questionnaire and over 100 responses were received. The respondents were senior executives from CSR functions, representing a mix of Indian enterprises as well as the Indian subsidiaries of MNCs. They operated in a wide range of industries including banking and financial services, manufacturing, infrastructure, media and entertainment, IT/ITeS, life sciences, automotive, retail and consumer products etc. All respondents are based in India. In addition to the survey results, the report includes our viewpoint based on experience over a period of time.

Note: Some of the percentages in the charts total to more than 100%, since the respondents were allowed to make multiple selections. Not all the questions in the survey were answered by all the respondents. Therefore, all the percentage figures are derived from the total number of respondents who answered a particular question and not on the total number of overall respondents.

About EY Forensic & Integrity Services

Embedding integrity into an organization's strategic vision and day-to-day operations is critical when managing complex issues of fraud, regulatory compliance, investigations and business disputes. Our international team of more than 4,000 forensic and technology professionals helps leaders balance business objectives and risks, build data-centric ethics and compliance programs, and ultimately develop a culture of integrity. We consider your distinct circumstances and needs to assemble the right multidisciplinary and culturally aligned team for you and your legal advisors. We strive to bring you the benefits of our leading technology, deep subject-matter knowledge and broad global sector experience.



Let's talk

For help and more information, please contact one of EY Forensic & Integrity Services' leaders.

Arpinder Singh
Partner and Head – India and Emerging Markets
Direct: + 91 12 4443 0330
Email: arpinder.singh@in.ey.com

Sandeep Baldava
Partner
Direct: + 91 22 6192 0817
Email: sandeep.baldava@in.ey.com

Vivek Aggarwal
Partner
Direct: + 91 12 4464 4551
Email: vivek.aggarwal@in.ey.com

Mukul Shrivastava
Partner
Direct: + 91 22 6192 2777
Email: mukul.shrivastava@in.ey.com

Anurag Kashyap
Partner
Direct: + 91 22 6192 0373
Email: anurag.kashyap@in.ey.com

Rajiv Joshi
Partner
Direct: + 91 22 6192 1569
Email: rajiv.joshi@in.ey.com

Yogen Vaidya
Partner
Direct: + 91 22 6192 2264
Email: yogen.vaidya@in.ey.com

Dinesh Moudgil
Partner
Direct: + 91 22 6192 0584
Email: dinesh.moudgil@in.ey.com

Jagdeep Singh
Partner
Direct: + 91 80 6727 5300
Email: jagdeep.singh@in.ey.com

Amit Rahane
Partner
Direct: + 91 22 6192 3774
Email: amit.rahane@in.ey.com

Vikram Babbar
Partner
Direct: + 91 22 6192 2155
Email: vikram.babbar@in.ey.com

Harshavardhan Godugula
Partner
Direct: + 91 40 6736 2234
Email: harshavardhan.g@in.ey.com

Vinay Garodiya
Partner
Direct: + 91 22 6192 2164
Email: vinay.garodiya@in.ey.com

Saguna Sodhi
Partner
Direct: + 91 12 4443 4353
Email: saguna.sodhi@in.ey.com

Avantika Ghildyal
Vice President – Marketing & Communications
Direct: + 91 22 6192 1026
Email: avantika.ghildyal@in.ey.com

Rajiv Chugh
Partner and National Leader, Policy Advisory and Speciality Services
Direct: + 91 12 4443 4780
Email: rajiv.chugh@in.ey.com

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