HOW INTERNAL AUDIT CAN HELP TO IMPROVE EBIDTA

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Role of IA in CSR Projects

Companies Act, 2013 prescribed mandatory CSR provisions since then, CSR activities in India have transitioned from voluntary to mandatory form. While specified classes of companies under the Companies Act, 2013 are required to earmark and spend large amounts of money into CSR activities they also need to exercise necessary checks and balances to ensure that the CSR activities are targeted in the most needed areas and yield desired outcomes. Likewise, charitable trusts and non-for profits have to design and develop programmes aligned to their stated trust objects.

Donor organizations and CSR implementation partners are vulnerable to several legal and business risk factors, herein the role of internal auditors can be suitably designed so that organizational objectives are achieved efficiently.

Boards & CSR Committees may find difficulties in conducting risk analysis, internal auditors may assist in conducting risk analysis of CSR projects and activities once annually to identify key areas of priority. Further, internal auditors may adopt an objective driven approach by independently reviewing following CSR subject matters: -

a) Constitution of CSR committee (mandatorily required where CSR spend exceeds Rs. 50 lacs) with a minimum of 3 members and one of them being independent.

b) Formulation and adoption of comprehensive CSR policy including guiding principles for selection, implementation and monitoring of CSR activities, adequate and accurate website disclosures.

c) Budgets, limits and CSR spends to be in line with the CSR rules framed under the Companies Act, 2013.

d) Effectiveness of implementation of CSR - Annual Plan and CSR project implementations at the ground level in terms of interview of beneficiaries, end use of funds and impact assessment studies especially for those projects that exceed the prescribed limits under the CSR rules.

e) Review of the administrative overheads in CSR entities to verify and provide assurance that the said overheads are within prescribed norms. As per recent amendments, CSR entities can incur upto 5% of general management and administration expenditure.

f) Review of carry forward and set off of excess CSR expenditure in succeeding financial years.

g) Review of transfer of unspent funds (not relating to on-going projects) within 6 months of closure of financial year

h) Review of quality of CSR reporting to the CSR Committee, Board and in the annual report

i) Review of fraud risks associated with CSR activities such as dummy CSR project schemes, dummy KYC records of beneficiaries, false expenditure entries/ records, etc

j) Due diligence of the CSR Implementation Agencies in terms of KYC, reputation and requisite legal registrations under Income-tax & Companies Act.

Complexities in designing and implementing CSR projects have increased many folds along with accompanying legal framework amendments. Internal auditors can play a pivotal role in providing subject matter assurance to the CSR - Board Committees and stakeholders in achieving organizational objective of successful CSR program implementation.