

Corporate Social Responsibility in India: Regulatory Scenario, Compliance Evolution, and Strategic Trends

Post-2025 MCA Amendments & Fraud Analysis



The Corporate Social Responsibility (CSR) landscape in India, mandated by Section 135 of the Companies Act, 2013, is undergoing a pivotal transformation marked by heightened regulatory scrutiny and convergence with global Environmental, Social, and Governance (ESG) standards. The Ministry of Corporate Affairs (MCA) has recently implemented significant changes, primarily focused on enhancing accountability, improving reporting transparency, and ensuring strict management of unspent funds.

The key regulatory actions in 2024–2025 include the introduction of the **Companies (CSR Policy) Amendment Rules, 2025**, substituting e-form CSR-1 to mandate rigorous due diligence of implementation partners. Concurrently, to ease transitional difficulties relating to the MCA21 V3 migration, the deadline for filing Form **CSR-2 for the Financial Year 2023–24 was extended to June 30, 2025**. Non-compliance, particularly concerning the statutory transfer and utilization of Unspent CSR Amounts, now carries severe financial penalties up to ₹1 Crore for the company. Strategically, companies are moving beyond simple compliance, channeling funds into climate-resilient programs, R&D, and skill development, thereby integrating CSR expenditure directly into the corporate sustainability and long-term value creation model.

Section I: The Mandatory Framework: Applicability and Governance (CSR Scenario)

1.1 Legal Genesis and Mandatory Applicability Thresholds

India's mandatory CSR initiative, established under Section 135 of the Companies Act, 2013, was a pioneering legislative effort globally, designed to harness corporate resources to address the nation's socio-economic development challenges. This framework shifts CSR from a voluntary charitable function to a statutory corporate obligation.

Applicability criteria are determined based on a company's financial performance during the **immediately preceding financial year**. Compliance is mandatory if a company meets any one of the following thresholds:

- Net Worth of ₹500 Crore or more.
- Turnover of ₹1,000 Crore or more.
- Net Profit of ₹5 Crore or more.

The scope of this mandate is broad, covering every company, including its holding or subsidiary, and specifically extending to foreign companies operating through a branch office or a project office in India, provided they satisfy the financial criteria. The universal application ensures that all significant economic entities operating within India contribute to defined national development priorities.

1.2 Structure and Mandate of the CSR Committee (CSRC)

Qualifying companies must constitute a Corporate Social Responsibility Committee (CSRC) of the Board. The standard composition requires the CSRC to consist of three or more directors, with at least one director designated as an independent director.

However, the Act provides statutory flexibility for different corporate structures. If a company is not statutorily required to appoint an independent director under sub-section (4) of Section 149, its CSRC must comprise two or more directors. Similarly, a private company having only two directors on its Board is permitted to constitute its CSRC solely with those two directors. Foreign companies covered under these rules must constitute a CSRC comprising at least two persons, one of whom must be the authorized person specified under Section 380(1)(d) of the Act.

The responsibilities of the CSRC are multifaceted, focusing on strategic oversight and implementation accountability. Key duties include formulating and recommending the CSR Policy to the Board; recommending the specific amount of expenditure to be incurred; monitoring the execution of the policy; and formulating an annual action plan detailing approved projects, fund utilization modalities, and the necessary monitoring and reporting mechanism. The Committee is required to institute a transparent monitoring mechanism for implementation.

1.3 The Governance Nexus in CSR

The legal requirement for the inclusion of an independent director (or its functional equivalent in smaller boards) within the CSRC fundamentally changes the perception of corporate social responsibility. This provision ensures that CSR decisions are subject to the scrutiny of directors whose duty includes ensuring compliance and maximizing long-term stakeholder value. By embedding this oversight within the highest corporate governance mechanisms, the MCA effectively elevates CSR from a discretionary charitable function to a core, fiduciary Board responsibility. This structural linkage minimizes the risk of fund misuse, inappropriate transactions disguised as CSR, or deviation from the activities permissible under Schedule VII, making the CSR Committee an integral corporate checkpoint for accountability.

Furthermore, the detailed provisions tailored for foreign corporations and smaller private companies demonstrate a legislative commitment to comprehensive coverage, regardless of the complexity of the company's organizational structure. By tailoring the composition requirements—such as allowing just two directors for small private companies or stipulating specific representatives for foreign entities—the regulation accommodates diverse operational structures while concurrently closing potential legal avenues that could allow entities meeting the financial thresholds to circumvent the CSR mandate based on their corporate type.

Section II: Core Compliance Obligations and Financial Mandates

2.1 The Mandatory 2% Spending Rule and Calculation



The principal financial obligation requires the Board to ensure that the company spends **at least 2% of its average net profits** during the immediately preceding three financial years on eligible CSR activities. For companies that have not yet completed three financial years since incorporation, the average net profit is calculated based on the financial years completed since their establishment.



The calculation of the 'Net Profit' for CSR purposes is strictly governed by the methodology set out in Section 198 of the Companies Act, 2013. This specific legal reference is crucial because it dictates strict exclusions from the profit calculation. For instance, the calculation must exclude profits of a capital nature (such as profits from the sale of fixed assets or the entire undertaking), profits generated from the sale of forfeited shares, profits derived from premium on shares, and any notional gains, unrealized gains, or revaluation surpluses recognized in equity reserves. This approach ensures that the spending obligation is based on the company's true, recurring operational profitability, thereby guaranteeing the sustainability and reliability of CSR fund generation year after year.

In cases where a company spends more than the mandatory 2% threshold, the excess expenditure can be carried forward and set off against the mandatory CSR obligation for the immediately succeeding three financial years. This set-off provision is applicable for excess amounts spent from January 22, 2021, onwards.

2.2 Permitted Activities and Schedule VII Amendments

CSR activities must align with the broad areas or subjects specified in Schedule VII to the Act. This Schedule is periodically updated to reflect national development priorities. Recent legislative updates demonstrate a concerted effort to link corporate spending with strategic development goals.

The permitted areas include core human development activities such as promoting health care, sanitation, education (including special education and vocational skills), gender equality, and measures for vulnerable groups. The environmental mandate is stringent, covering ecological balance, animal welfare, conservation of natural resources, and specific contributions to dedicated mechanisms like the **Clean Ganga Fund**.

National security and relief efforts are also covered, including measures for the benefit of armed forces veterans and personnel from the Central Armed Police Forces (CAPF) and Central Para Military Forces (CPMF), and contributions to central government relief funds like the **Prime Minister's National Relief Fund** and the **PM CARES Fund**.

Critically, recent revisions to Schedule VII endorse contribution to **incubators or research and development projects in science, technology, engineering, and medicine (STEM)**, provided these projects are funded by the Central Government, State Government, Public Sector Undertakings (PSU), or any authorized government agency. This inclusion represents a deliberate policy decision to blend mandated social capital deployment with strategic national investments in innovation.

2.3 Statutory Management of Unspent CSR Amounts: The Financial Compliance Imperative

The framework establishes rigorous rules for handling any shortfall in the mandatory 2% expenditure, distinguishing clearly between ongoing projects (defined as multi-year) and non-ongoing projects. This distinction is critical for financial risk management, as penalties apply directly to the failure to transfer these amounts correctly.

Table 1: Statutory Management of Unspent CSR Amounts

Project Status	Transfer Deadline	Destination Account/Fund	Utilization Timeline/Requirement
Ongoing Project	Within 30 days of the end of the Financial Year (FY)	Unspent Corporate Social Responsibility Account (Scheduled Bank)	Must be spent within the next 3 FYs. If unutilized, must be transferred to a Schedule VII fund within 30 days upon completion of the third financial year.
Non-Ongoing Project	Within 6 months of the expiry of the Financial Year (FY)	Specified Fund under Schedule VII (e.g., PM CARES Fund)	Treated as a mandatory contribution; no further utilization requirement by the company.

The requirement to transfer funds related to ongoing projects to a segregated bank account within 30 days of the financial year end necessitates that project commitment and definition must be rigorously established by the Board before the year concludes. This mechanism prevents companies from indefinitely holding funds intended for deployment, discouraging the passive accumulation of CSR capital under the guise of "future plans."

2.4 Consequences of Non-Compliance (Penalties)

The penalties for non-compliance concerning spending, transferring, and utilizing unspent amounts are severe, reinforcing the mandatory nature of the obligation.

- **Company Liability:** The company is punishable with a penalty of **₹1 crore** or twice the amount required to be transferred (either to the Schedule VII Fund or the Unspent Corporate Social Responsibility Account), **whichever amount is less**.
- **Officer Liability:** Every officer of the company who defaults in compliance is liable to a penalty of **₹2 lakh** or one-tenth of the amount required to be transferred, **whichever is less**.

Section III: Analysis of Recent Regulatory Changes (2024–2025 Notifications)

The period between 2024 and 2025 has been marked by crucial amendments from the MCA aimed at digitalizing compliance and increasing accountability throughout the CSR value chain.

3.1 Enhanced Accountability of Implementing Agencies: The Revised Form CSR-1 (2025)

A significant regulatory tightening measure is the issuance of the **Companies (Corporate Social Responsibility Policy) Amendment Rules, 2025**, notified on July 7, 2025, and effective from July 14, 2025. This amendment mandates the substitution of the existing e-form No. CSR-1 with a new version.

The central impact of this revision is the shift in compliance risk toward the implementing agencies—the Section 8 companies, registered trusts, or registered societies that execute CSR projects on behalf of the corporate donor. The revised CSR-1 form requires substantially more detailed information to facilitate enhanced due diligence.

To ensure legitimate utilization of funds, the new rules promote greater transparency by requiring entities to disclose their establishment history and track record. Specifically, non-statutory implementing entities (trusts or societies) must have an **established track record of three years** in undertaking similar programs before a company can route funds through them. This standardized verification process, coupled with digital authentication, professionalizes the CSR implementation sector by enhancing transparency, accountability, and legal enforceability.



3.2 Reporting Compliance: E-Form CSR-2 Requirements and Deadlines

Form CSR-2 is the mandatory electronic report for all companies covered under Section 135, required for FY 2020–2021 and every financial year thereafter. It must be furnished as an **addendum to the company's annual financial statements filed in Form AOC-4** (or its variants).

The form demands extensive data granularity across approximately 11 pages. Key disclosures required include a detailed breakdown of the CSR amount spent over the preceding three financial years, specific details of all ongoing projects, the composition of the CSR Committee, mandatory disclosures published on the company's website, and verification of net profit figures.

Crucially, the Ministry of Corporate Affairs (MCA) has issued notifications to manage recent deadlines. The Companies (Accounts) Amendment Rules, 2025, extended the deadline for filing Form CSR-2 for **Financial Year 2023–24 to June 30, 2025**, superseding previous deadlines. This extension was partly necessitated by the technological transition of the MCA filing platform from V2 to V3, which required additional time for companies to comply smoothly. A circular dated June 16, 2025, confirmed that independent filing of e-Form CSR-2 is now permitted, streamlining the process post-MCA21 V3 migration.

A unique requirement in Form CSR-2 is the detailed information regarding any **capital assets** created or acquired through CSR spending, including the location, registered owner, and cost.

Table 2: Key MCA Regulatory Amendments Impacting CSR (2024–2025)

Amendment/Notification	Key Notification Date	Impact Area	Key Change/Implication
Companies (CSR Policy) Amendment Rules, 2025 (CSR-1)	July 7, 2025 (Eff. July 14, 2025)	Implementing Agency Accountability	Substitution of e-form CSR-1, mandating enhanced due diligence, transparency, and verification of implementation partners.
CSR-2 Filing Extension (FY 2023–24)	May 19, 2025 (Amendment Rules, 2025)	Reporting Deadline & Compliance	Extension of the filing deadline for Form CSR-2 for FY 2023–24 to June 30, 2025.
MCA General Circular No. 02/2025	June 16, 2025	Filing Process/Technology	Facilitates independent filing of CSR-2, linked to the transition of the MCA21 V3 portal.
Companies (Accounts) Second Amendment Rules, 2025	May 30, 2025 (Eff. July 14, 2025)	Board Report Disclosures (AOC-4)	Insertion of mandatory disclosures regarding the number of sexual harassment complaints received and disposed of during the year in the Board's Report.



3.3 Regulatory Maturation and Data Utility

The regulatory strategy of the MCA reflects a calculated approach toward system maturation. By granting compliance relief through the CSR-2 filing extension for FY 2023–24, the government acknowledged the difficulties associated with new system implementation (v3 transition). Simultaneously, by introducing the stringent vetting requirements for implementing agencies via the revised CSR-1, the MCA signals a permanent increase in the standard of integrity required for CSR execution. This phased approach ensures the regulatory framework evolves without causing undue disruption while significantly enhancing the quality of data and fund utilization integrity moving forward.

The requirement in Form CSR-2 to detail capital assets created or acquired through CSR spending is not merely an administrative detail; it is a critical regulatory control measure. This ensures that any infrastructure or asset intended for public benefit (e.g., a community health center or school) is legally owned and managed in a manner that serves its original CSR objective. By requiring the location, cost, and registered owner, the MCA establishes an explicit audit trail, preventing the eventual diversion of public assets into private hands and ensuring perpetual corporate accountability over the investment.

Section IV: Strategic Trends and the Future of Corporate Social Investment

The current trends demonstrate a strong strategic evolution in Indian CSR, moving from a mandate of minimum expenditure toward a holistic alignment with sustainability principles and broader national development goals.

4.1 Convergence of CSR and ESG Frameworks

Indian CSR is increasingly integrated with the Environmental, Social, and Governance (ESG) agenda, transitioning from a simple compliance framework to a strategic tool for fostering sustainable growth and social equity. This shift is being driven by stakeholder expectations and domestic regulatory requirements, such as SEBI's mandatory Business Responsibility and Sustainability Report (BRSR) framework.

The focus is now on integrated frameworks, collaboration, and blended finance to achieve scalable, measurable impact across complex, interconnected sectors like healthcare, nutrition, livelihoods, and gender equity. This convergence requires companies to view their CSR spending not as isolated expenditure, but as contributions that accelerate India's progress toward achieving its Sustainable Development Goals (SDG) and net-zero commitments. Consequently, companies are adopting digital dashboards and analytics to better track and measure the efficacy and alignment of their CSR initiatives with ESG metrics.

4.2 Sectoral Allocation Trends (2025 Outlook)

CSR fund allocation continues to prioritize foundational human development sectors, although strategic funding is rapidly diversifying toward technology and climate action. Healthcare and Education remain the sectors receiving the highest overall allocations, addressing significant societal deficits. Companies demonstrate significant investments in educational initiatives such as digital literacy, vocational training, and educational infrastructure development.

Growth in strategic funding is evident across three main Sectors:

1. Climate & Sustainability: Contributions focused on environmental conservation, climate-resilient programs, and green supply chains are seeing increased contributions, reflecting the influence of the 'E' component of ESG.

2. Rural Development: There is growing traction for sustained investments in rural areas and community engagement, moving towards hyper local impact models that emphasize utilizing local resources and skills.

3. Innovation and Skill Development: Funds are increasingly channeled into skill development programs aligned with national missions (like Skill India) and supporting startup incubation centers, particularly those focused on technology in Tier-2 and Tier-3 cities. This aligns with the recent Schedule VII provision endorsing R&D funding.



Table 3: Strategic CSR Allocation Trends in India (2025)

Sector/Activity	Allocation Trend	Strategic Rationale/Policy Alignment
Healthcare & Education	Highest sustained allocation	Addressing foundational social deficits; aligned with SDG 3 & 4.
Climate & Sustainability	Rapidly increasing contribution	Driven by ESG mandates, BRSR requirements, and national net-zero commitments.
Skill Development & Startup Incubation	Strong growth in strategic funding	Focus on creating economic livelihoods and leveraging corporate expertise, endorsed by Schedule VII R & D provisions.
Rural Development	Growing traction and sustained investments	Addressing regional imbalances; promoting community co-creation and localized impact.

4.3 Implementation Challenges and the Need for Rigorous Impact Measurement

Despite the substantial generation of funds under the mandatory framework, challenges persist in achieving optimal effectiveness. One primary difficulty is the varying capacity among companies to implement and manage large-scale CSR projects, often resulting in an overemphasis on achieving spending targets rather than generating quantifiable social impact. Furthermore, the distribution of funds remains geographically unequal across regions, indicating a need for stronger governmental guidance or regulatory mechanisms to ensure funds are strategically channeled to areas with the highest developmental needs.

The most profound challenge identified by industry experts remains the difficulty of rigorous impact measurement (Return on Social Investment, or SROI). While digital tracking tools are becoming available, the transition from merely reporting financial inputs (money spent) to accurately assessing transformative outcomes (lasting social change) requires significant enhancement in standardized evaluation methodologies.

4.4 Policy Alignment and Corporate Value

The strategic inclusion of R&D and incubator funding within Schedule VII is an attempt to create a powerful synergy between corporate social mandates and national economic policy. By encouraging mandatory funds to support government or PSU-affiliated R&D projects in STEM, the government utilizes CSR capital as an effective form of development finance. Corporations fulfill their statutory obligation while simultaneously fostering an enhanced national innovation landscape, which ultimately benefits the business environment. This policy subtly blends mandatory social contribution with strategic investments that bolster India's technological and economic resilience.

Moreover, the increasing convergence with ESG and the necessity of disclosing CSR performance in formats like the BRSR mean that non-compliance carries broader financial risks. Institutional investors increasingly rely on ESG scores as a proxy for operational and compliance risk. Consequently, poor management of CSR obligations—such as failure to transfer unspent funds or inability to demonstrate measurable social outcomes—can negatively impact a company's overall ESG rating. This directly affects the company's cost of capital and investor confidence, tightly linking the immediate compliance tasks, such as timely CSR-2 filing, to the corporation's long-term financial strategy.

High-Impact Recommendations

The Indian CSR environment is characterized by strict compliance requirements, ongoing digitalization of reporting, and a strong strategic push towards ESG integration. Regulatory changes in 2025 signal an era of heightened accountability for both the obligated companies and their implementing partners.

Based on the current regulatory structure and strategic trends, the following high-impact recommendations are critical for ensuring compliance and maximizing corporate social value:

1. Prioritize Q2 2025 Compliance: Companies must ensure the accurate and timely filing of **Form CSR-2 for FY 2023–24** by the extended deadline of **June 30, 2025**. This filing must be meticulously reconciled with the company's financial statements (Form AOC-4) and include verified details regarding any capital assets created through CSR expenditure.

2. Mandate Rigorous Fund Transfer Protocols: Internal finance and compliance teams must institute strict protocols to accurately categorize projects as 'ongoing' or 'non-ongoing.' This categorization determines the precise legal timeline for transferring unspent funds—either within 30 days to the Unspent CSR Account or within 6 months to a Schedule VII fund.

Failure to adhere to these deadlines exposes the company and its officers to significant statutory penalties.

3. Update Implementing Agency Vetting Policies:

All new or existing relationships with implementation partners must adhere to the enhanced due diligence requirements introduced by the revised **CSR-1 rules (effective July 2025)**. Companies must verify the legal standing and the mandated **three-year track record** of non-statutory implementing entities (trusts/societies) prior to committing funds.

4. Align CSR Strategy with ESG Metrics: Boards should move beyond simple charitable contributions toward strategic projects aligned with measurable ESG outcomes and the modern scope of Schedule VII, such as climate resilience, digital skilling, or sponsored R&D. This shift ensures that CSR expenditure contributes positively to the company's external ESG performance and sustainable enterprise value.

In essence, the evolution of India's CSR framework is transitioning from a static obligation to a dynamic ecosystem of social investment. The 2025 regulatory amendments, particularly the rigorous digital reporting via Form CSR-2 and the heightened scrutiny of implementing partners, formalize a commitment to transparency and accountability. Moving forward, the true measure of success will be the corporate sector's ability to strategically align mandated spending with long-term ESG goals, thereby transforming compliance into a powerful engine for national socio-economic resilience and sustainable value creation.

Corporate Social Responsibility Fraud: Analysis of Recent Enforcement Raids and Compliance Risk Escalation (2024–2025)

The Crisis of Confidence in CSR Philanthropy and Escalated Regulatory Risk

The regulatory environment surrounding Corporate Social Responsibility (CSR) expenditure in India has undergone a dramatic transformation, moving decisively from administrative compliance oversight to active criminal investigation by centralized enforcement agencies. This shift signals a fundamental crisis of confidence in the integrity of philanthropic implementation agencies. Government agencies, including the Enforcement Directorate (ED), the Income Tax (IT) Department, and State Crime Branches (CB), are now treating high-value CSR fund misuse not merely as an administrative default under corporate law but as serious economic crime warranting immediate custodial interrogation and asset seizure.

The scale of detected fraud underscores the severity of the systemic abuse. Recent investigations by the IT Department revealed an alarming scope of misappropriation, particularly the discovery that three trusts were involved in the siphoning off and misuse of more than ₹800 crores worth of CSR donations.

Such widespread and high-value fraud exposes a critical systemic failure in the corporate vetting of implementing agencies.

The primary implication for corporate donors is that the reliance on the existing disclosure-based compliance framework, which the Ministry of Corporate Affairs (MCA) maintains provides "sufficient safeguards", is demonstrably insufficient. To mitigate soaring criminal and reputational risks, corporations must immediately mandate mandatory third-party audits and integrate rigorous anti-shell company forensic checks into all Enhanced Due Diligence (EDD) processes for their implementing partners.

The Regulatory Architecture of Vulnerability and Enforcement Precedents



A. Foundation of CSR Compliance and the Section 447 Nexus

The foundation of India's CSR framework, articulated under Section 135 of the Companies Act, 2013, establishes the process as a "Board driven process." The company's Board is empowered to plan, decide, execute, and monitor CSR activities based on the recommendation of its CSR Committee. The existing legal architecture relies heavily on mandatory annual disclosures filed in the MCA21 registry and accountability structures within the Board and CSR Committee, which were previously considered adequate mechanisms for governance.

However, the contradiction between these stated "sufficient safeguards" and the factual discovery of multi-hundred-crore frauds indicates a severe failure in internal accountability systems. The vulnerability is typically situated not within the corporate spending commitment itself, but in the selection of collusive or fraudulent implementation agencies (such as NGOs, trusts, or Section 8 companies) that execute the mandate. These entities are easily masked under a disclosure-based system that primarily tracks financial input rather than verified output. The procedural failure lies specifically in the inadequate due diligence performed on the agents responsible for execution, making a decisive shift toward mandatory external verification, such as Impact Assessment and Third-Party Audits, an essential step to ensuring compliance and preventing criminal misuse.

B. Enforcement Statistics and Compoundable Defaults

The Ministry of Corporate Affairs maintains oversight of CSR-related defaults. While many minor compliance failures remain compoundable offenses, the MCA has sanctioned prosecution in 366 cases. Of these, 148 applications for compounding have been made, and 75 cases have been successfully compounded. These statistics indicate that the majority of breaches are handled through administrative and monetary settlements. Nevertheless, the recent involvement of criminal investigative agencies for large-scale fraud suggests that high-value misuse is now separated from administrative defaults and routed directly for criminal investigation, dramatically raising the legal exposure profile for directors and involved third parties.

Analysis of Recent Enforcement Actions and High-Profile Raids (2024–2025)



A. Case Study I: ED and Crime Branch Operations in Kerala (February 2025)

Recent events in Kerala illustrate the intensified coordination among investigative agencies. The special investigation team (SIT) of the Crime Branch (CB) has been actively probing a significant CSR funds scam, continuing the custodial interrogation of key accused individuals. The investigation focused heavily on specific entities, including Social Bee Ventures, one of four firms allegedly set up by the accused. The coordination—or overlapping jurisdiction—was made apparent when officials from the Enforcement Directorate (ED) visited the offices of Social Bee Ventures for raids but deferred action because the CB-SIT was already present and searching the premises.

The involvement of the ED in these investigations is a clear signal that alleged CSR fraud has crossed a critical legal threshold, classifying it as a Scheduled Offense under the Prevention of Money Laundering Act (PMLA). The investigation thus shifts focus entirely from corporate statutory default to tracing the “proceeds of crime” and executing asset attachment. The simultaneous operational presence of both state (CB-SIT) and central (ED) agencies confirms that these investigations are a high-level, coordinated clean-up operation addressing criminal misconduct, rather than isolated regulatory inspections.

B. Case Study II: Income Tax Department Crackdown on Tax Evasion Trusts

In a parallel enforcement effort, the Income Tax Department launched a widespread crackdown specifically targeting tax evasion facilitated through the misuse of CSR donations. This investigation revealed a staggering scale of misappropriation, focusing on three trusts that were collectively responsible for siphoning off and misusing more than ₹800 crores.

The method of operation involved gross misrepresentation of charitable activities. The trusts claimed to be operating in critical sectors such as education, health, employment, and social welfare; however, search investigations conclusively confirmed that these entities were “not involved in any charitable activities” whatsoever. The sheer magnitude of the detected fraud confirms that certain trusts are created solely as fronts designed for illicit enrichment and aggressive tax evasion. Because these trusts lacked operational capacity, they functioned purely as pass-through entities. The corporate donor, having met its mandated 2% expenditure, receives the indirect tax benefit of fulfilling the obligation, while the fraudsters profit entirely through the siphoning operation. This confirms that CSR misuse is now being employed as a sophisticated, integrated scheme requiring coordinated action by law enforcement.

Forensic Analysis: Modus Operandi for CSR Fund Diversion and Misuse

A. Shell Company Architectures and Layering Techniques

The forensic analysis of high-value fraud reveals that the successful diversion of CSR funds relies on complex financial layering, demonstrating the professionalization of this crime. Perpetrators utilize “complex financial architectures (e.g., shell companies, trade-based money laundering schemes)” specifically designed to hide money trails from investigators.

The schemes are often facilitated by collusion with essential intermediaries. For example, fraudulent schemes frequently involve collaboration with an “insider – such as a corrupt branch manager or other mid-level bank employee” – who can personally ensure that illicit transactions routed through the banking system are not detected by standard internal compliance mechanisms. This professional integration of money laundering expertise, which includes the use of colluding bank staff, elevates CSR fraud above simple embezzlement and into the realm of organized financial crime. Consequently, corporate donors cannot rely solely on basic Know Your Transaction (KYT) procedures; they must apply rigorous Know Your Beneficiary (KYB) standards to the implementation agencies and their associated banking relationships.

B. Actionable Forensic Indicators for Due Diligence

Corporate due diligence protocols must be immediately updated to screen for known shell company indicators used in CSR fraud. Fraudulent entities frequently display specific anomalous characteristics.

Table 4: Forensic Indicators of Shell Company Risk in Implementing Agencies

Shell Company Indicator	Description & Red Flag	Relevance to CSR Fund Fraud	Mitigation/Due Diligence Focus
Outlier Directorships	An individual holds an unrealistic number of roles across multiple registered entities (e.g., 5,751 roles in 2,883 companies).	Concealment of beneficial ownership; central control over a network of fraudulent trusts.	Enhanced screening of key personnel and trustees; mandatory Ultimate Beneficial Owner (UBO) disclosure.
Mass Registration	Multiple NGOs/Trusts share the same non-descript or virtual mailing address, often hosting tens of thousands of businesses.	Indicates centralized, paper-based corporate formation without physical charitable infrastructure.	Physical site visits and independent verification of operational address.
Lack of Operational Capacity	Entity reports large expenditure but lacks verifiable staff, assets, or project infrastructure.	Directly contradicts the reported charitable activities, confirming the entity is a funding conduit.	Mandatory third-party audits and rigorous project monitoring.
Rapid Fund Cycling	Immediate, successive transfers of large donor funds soon after receipt, with minimal on-ground expense documentation.	Classic layering technique used in money laundering.	Review of implementing agency's bank statements and detailed transaction history.

Historical precedents confirm that these mechanisms are used to divert CSR funds for non-CSR purposes, such as personal expenses, political donations, or the renovation of properties, rather than genuine social welfare. Furthermore, funds are systematically redirected into “tax-saving avenues” instead of genuine relief efforts, confirming the financial and tax-centric motive behind the fraud.

Elevated Responsibility and Reporting: The Role of the Statutory Auditor



A. Mandatory Reporting Thresholds (MCA Notification)

The Ministry of Corporate Affairs (MCA) has taken explicit steps to enhance transparency and accelerate the reporting of corporate fraud, significantly increasing the liability of the statutory auditor. A recent MCA notification introduced a clear monetary threshold for mandatory reporting fraud involving ₹1 Crore or more.

The notification establishes strict procedural compliance requirements. If an auditor suspects fraud involving ₹1 Crore or more, they must report the issue to the company's Board or Audit Committee within 2 days of becoming aware of it. The Audit Committee or Board is then required to respond within 45 days.

If the Board fails to respond or adequately address the fraud within this window, the auditor is mandated to forward the report directly to the Central Government within the subsequent 15 days, ensuring the government is notified within 60 days of initial awareness. For frauds below ₹1 Crore, the auditor must still report to the Board or Audit Committee within 2 days, and details of the fraud—including its nature, approximate amount, potential parties, and remedial actions—must be disclosed in the company's Board Report.

B. Implication of Escalated Liability for Auditors

This notification strategically transforms the statutory auditor into a mandatory, centralized enforcement reporter for high-value fraud cases. By creating a direct, time-bound reporting channel to the Central Government, the MCA effectively bypasses the possibility of internal corporate inertia or suppression tactics. This regulatory change mandates immediate and documented attention to any CSR fraud exceeding the ₹1 Crore threshold to prevent regulatory exposure resulting from the auditor's direct report.

Table below illustrates these critical mandatory auditor reporting thresholds:

Table 5: Mandatory Auditor Reporting Thresholds for CSR Fraud (MCA Guidelines)

Amount of Alleged Fraud	Initial Reporting Recipient (within 2 days)	Action Required by Board/Audit Committee (within 45 days)	Final Reporting Authority and Timeline
₹1 Crore or Above	Board/Audit Committee	Furnish response to the auditor	Auditor must report to Central Government (within 60 days of initial awareness)
Below ₹1 Crore	Board/Audit Committee	Furnish response to the auditor	Disclosure of fraud details (Nature, Amount, Parties, Remedial Actions) in the Board Report

Strategic Recommendations for Enhanced Due Diligence and Systemic Controls



A. Shifting Governance Focus: From Input (Spending) to Output (Impact)

Effective mitigation strategies must focus on verified outcomes rather than merely reviewing expenditure receipts. Fraud thrives in systems where expenditure is easily masked. Therefore, compliance must transition from tracking financial allocations (input) to demanding measurable results (output).

The highest recommendation is the institution of mandatory third-party audits for large CSR projects to verify spending integrity and prevent misuse. Companies are urged to move beyond merely complying with spending targets and instead focus on creating “meaningful social change” by publishing rigorous impact assessments that demonstrate actual results. Mandating verifiable impact assessments substantively raises the barrier to entry for fraudulent trusts that have no genuine operational capacity.

B. Operational EDD Protocols for Implementing Agencies

1. Vetting Key Personnel: Rigorous Character Risk Due Diligence must be applied, including comprehensive screening of personnel associated with the accountable entity. This proactive measure identifies individuals with conflicting roles or dubious corporate histories.

2. Vigilance Against Exploitation Scams: Due diligence requires extreme care during periods of crisis or disaster. Scammers frequently exploit mass casualty events, natural disasters, or terrorist attacks by impersonating legitimate charities or high-profile victims to solicit fraudulent donations.

Criminals may employ Artificial Intelligence (AI) to increase the perceived legitimacy of their fraud or impersonation schemes. Specific controls must be implemented immediately to verify all parties involved in disaster relief funding and prevent diversion of funds to unverified crowd funding or relief campaigns, an issue highlighted by multiple law enforcement warnings.

3. Promoting Collaboration: Companies should be encouraged to pool their CSR funds across industries and collaborate with established NGOs and local authorities. This cooperation enables the execution of larger, high-impact projects (e.g., establishing rural healthcare systems or large-scale climate adaptation initiatives) which are inherently easier to monitor and audit than numerous, small, isolated donations.

C. Policy and Systemic Recommendations (Future-Proofing the Framework)

To enhance long-term integrity, policymakers should prioritize the development of a centralized national CSR portal. This system would serve as a unified platform for companies to report projects and usage, connecting corporate donors with pre-vetted NGOs and aligning funds with necessary government schemes, thereby improving transparency and fund matching. Furthermore, policies should incentivize long-term projects that address the root causes of societal problems, such as comprehensive education reforms and environmental sustainability, rather than favoring easily executed, short-term events or donations. Adopting internationally recognized frameworks, such as the Global Reporting Initiative (GRI) Standards and aligning disclosures with the UN Sustainable Development Goals (SDGs), can also ensure broader scrutiny and enhanced stakeholder confidence in corporate responsibility efforts.



Mitigating Criminal and Reputational Risk

The coordinated raids conducted by the Enforcement Directorate, the Crime Branch, and the Income Tax Department represent a permanent and substantial escalation in the regulatory landscape. High-value CSR fund misappropriation is now definitively classified and actively prosecuted as an economic crime under PMLA, carrying severe penalties that extend to asset forfeiture and custodial sentences.

The existing safeguards proved ineffective in preventing multi-hundred-crore fraud, necessitating an immediate shift in corporate governance priorities. Corporations must abandon reliance on implementation agencies based solely on tax status and instead proactively adopt forensic due diligence protocols, specifically screening for shell company indicators like mass registration and outlier directorships. Mandatory third-party audits of large projects and strict, documented adherence to the new MCA auditor reporting requirements for fraud exceeding ₹1 Crore are no longer advisory measures but essential components of corporate risk management and survival in this heightened enforcement climate.



CA Neha Sedhara

CA Neha is a distinguished Chartered Accountant and corporate advisor with specialized expertise in Corporate Social Responsibility (CSR), The Apprentices Act, and Mergers & Acquisitions. She is known for her strategic perspective and extensive experience in guiding organizations on sustainable business practices and corporate governance under the Companies Act, India.