



CSR Compliance and Readiness for NGOs

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Speaker Profiles



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Agenda

#	Topic	Speaker	Duration
1	Context Setting	Prasant Mohanty	5 minutes
2	Understanding broad areas of CSR compliance	Subhajt Sahoo	55 minutes
4	Questions from the audience		30 minutes

CSR law in a nutshell

The companies on whom the provisions of the CSR shall be applicable are contained in Sub Section 1 of Section 135 of the Companies Act, 2013. As per the said section, the companies having Net worth of INR 500 crore or more; or Turnover of INR 1000 crore or more; or Net Profit of INR 5 crore or more during immediately preceding financial year shall be required to constitute a Corporate Social Responsibility Committee of the Board "hereinafter CSR Committee" with effect from 1st April 2014.

On whom are the provisions of CSR applicable?

Qualifying norms:

- Net worth of INR 500 crore or more; or
- Turnover of INR 1000 crore or more
- Net Profit of INR 5 crore or more

What is section 135?

Section 135 of the Companies Act was notified from 1st April 2014. This made CSR mandatory for qualifying companies.

What is Companies Act 2013?

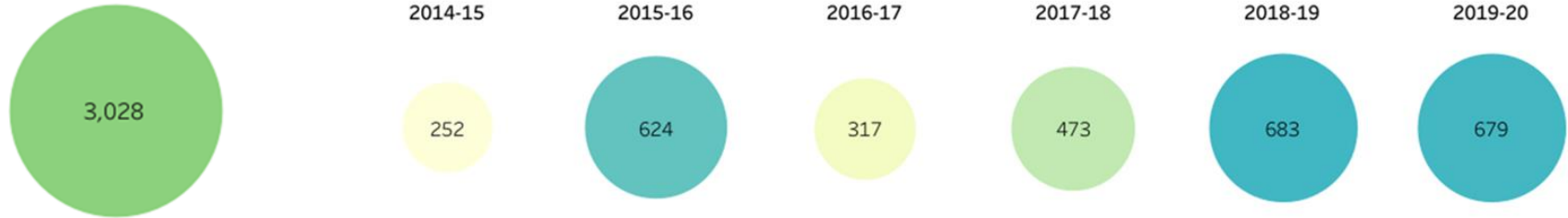
It is an Act, in the constitution of India, that mandates that qualifying companies spend 2% of their average net profits from 3 immediately preceding FY on social activities.

What is Corporate Social Responsibility Committee of the Board?

CSR Committee of the board is a three-member committee, consisting of 3 or more directors with one as independent director (honorary post).

CSR landscape in Odisha: Overview (2014-2020)

Total Spent



Top Funding Industries

- Mining
- Oil, gas, coal and petroleum
- Basic metal and alloys
- Energy
- BFS

Top Recipient Sectors

- Education
- Rural development
- Poverty, eradicating hunger, malnutrition
- Vocational skills
- Healthcare

Key areas of recommendations by the recent High Level Committee (HLC) on CSR



Thrust on Budgeted Spending



Annual CSR Survey



Utilization as Spend



Reporting / Disclosure



MCA – DPE
Collaboration



Impact Assessment



CSR Expert in the
Board



SDG alignment



Implementing Agencies
as Partners, not Vendors/Service Providers

Recent amendments under the Companies Act, 2013 based on the recommendations of HLC

On 18th March 2020, the Ministry of Corporate Affairs invited public comments on the Draft Companies (Corporate Social Responsibility Policy) Amendment Rules 2020. The Draft rules projected the Government's shift from a 'comply or explain' stand towards 'comply or pay'. Based on the public feedback, the Government recently amended the Companies (Corporate Social Responsibility Policy) Rules, 2014 and Section 135 of the Companies Act, 2013, **effective 22nd January 2021 (Amendments)**.

Incorporating many recommendations put forth by the High-Level Committee on CSR 2018, the Amendments

- ▶ implicitly highlight the Government's deeper intent to push corporates to be more strategically involved with the CSR initiatives and on an ongoing basis
- ▶ explicitly lay out CSR functions and responsibilities of the corporates, and
- ▶ implement the Government's intention to penalise corporates breaching CSR provisions through monetary penalties.

Opportunities under CSR



Broad areas of CSR compliance

1 Field Area of N.G.O.

2 Objectives of the N.G.O.

3 Eligibility of N.G.O.

4 Statutory Compliance

5 Compliance with TOR

6 Grant Budget Management

7 Closure of Grant

Field Area of NGO

- Where you work
- What is the need/Requirement of the Area
- Which are the companies working in the Area
- Are there any Representative of the Company in your Area.
- Any specific issues related to the Area of your work
- Any significant change in the Area
- How you can bargain and put forth of the claim the CSR

Objective of NGO as per Schedule-VII of the Act

- Eradicating hunger, poverty and malnutrition
- Promoting education, including special education
- Promoting gender equality, empowering women
- Ensuring environmental sustainability
- Protection of national heritage
- Measures for the benefit of armed forces veterans
- Rural development projects
- Slum area development
- Disaster management, including relief
- Covid activities under 1-9 above

Eligibility of N.G.O.

- Trust/Societies/Section-8 Company
- Past 3 years Track Record with similar nature of objectives.
- Registered under the MCA (CSR Registration w.e.f 1.4.2021)
- Registered under the provision of Section 12A & 80G.(Renewal)
- Registration under the provision of FCRA,2010 (Renewal)
- Last 3 years ITR-7
- Last 3 year's FC-4
- Registration under various social security measures
- Any other Act as applicable to NGOs

Statutory Compliances

- Societies Registration Act
- Companies Act
- Income Tax Act
- Tax Deducted at Source
- FCRA 2010
- EPF
- ESI
- Minimum Wages Act
- Shops & Establishment Act
- Professional Tax Act

Compliances with the TOR

- Provisions in the Agreement
- Adherences to the conditions of the Grant
- Grant V/S Service Agreement
- TDS From the Grant
- FC V/S Local Grant
- No Furtherance of Business of Funder
- Output/Outcome/Impact under Program

Basics – Grant Accounting & Process

Methodology of Accounting Grants:

Grants received by an organization could be of the following types:

1. **Restricted Grants:** Grants received in support of specified projects or activities mutually agreed upon by the organisation and the donor.

1. **Unrestricted Grants:** Grants received which organisation may freely use for whatever purpose as per its defined objectives of the Organisation.
 - Restricted Project Grants should be recognized as income, based on the **terms** in the grant approval letters received from the donors.(This has changed with amendment.)
 - The **unutilized** portion of the project grants at the year end, if any, should be disclosed separately in the Balance Sheet. (Income Tax Compliances form 10/9) (Has to be refunded to the funder if not utilized)

Best Practices

- a. The organization should have a well-defined Finance Manual to provide the basis of accounting (cash basis or accrual basis).
- a. The organization should have a well-defined chart of accounts to be used by the organisation.
- a. The accounting structure of the organisation should be uniform across all the projects. This is important keeping in view the various requirements of FCRA and Income Tax.
- a. The financial system should ensure donor-wise reporting using cost- centers as all the donors will have the different budget heads.
- a. The organisation should differentiate between the maintenance of books of account as required under the statute and as desired by the funder which requires project wise reporting. The both should not be mixed up.

Common Cost Allocation Policies

- Shared costs are to be apportioned individually to different donors based on certain mechanism. In no case, shall the allocation be based on “availability of funds.” Examples of allocation basis are percentage of space utilized, number of units, total staff utilized or volume of grant.
- Allocation V/S Apportion (**AI-Location V/s Ap- Portion**)
- This is important for all the organization to compile its annual budget based on the different projects approved by multiple donors and identify the most suited basis of allocation of common cost based on the availability of funds to different projects.

Points to be kept in mind while determining the indirect cost and the basis of allocation:

Analysis should be made to ensure that the cost is:

- Indirect Costs
- Allowable
- Allocable
- Reasonable
- Consistent

Best Practices

a. The organisation should maintain a consolidated salary sheet at organizational level and the salary allocated to all the donors should be mentioned in the same.

a. This consolidated salary sheet should be signed by authorized personnel. This will help the organisation to demonstrate that there are no excess / double charging of salaries at organisation level.

a. Further the organisation should make every effort to maintain the **time sheets** to demonstrate the salary allocation done in the monthly salary sheets.

Budget Management

The purpose of the budgeting and budgetary control procedure is to:-

- Prepare annual and project-wise operational budgets
- To record daily income and expenditure by the recipient of grant, budget item-wise: Procurement policy, travel & reimbursement
- To record cumulative expenditure to date, by budget item-wise: Supporting bills, GST
- To compare & monitor cumulative expenditure against budget item to the original or revised budget allocations.

These procedures of budget control should satisfy the requirements of the donors funding the project.

Best Practices

- a. Information from the budget book can be used in the budget-monitoring sheet for reporting and for assisting in controlling expenditure.

- a. Generally, the budget book is maintained on a computer spreadsheet. However, sometimes this becomes a time-consuming process due to large number of projects then efforts should be made to convert this into an automated system in the accounting software itself. (By putting budget amount into software)

- a. This above can be achieved by modifying the accounting system to enable the automated generation of budget deviation reports from system.

Grant Monitoring System

- Grant monitoring is the process by which an organisation reviews and measures the programmatic as well as the financial performance over the grant implementation period.
- Grant monitoring should assess the **progress**, identify **risks** as well as corresponding **mitigation** measures to ensure that the funds are used as intended, and that programs achieve the **impact** expected under the project agreement.

Important Tools and Process:

- Detailed Budget sheet for all finance as well as programme activities
- Regular Monitoring of deviation in the budget for both finance and programme: – This step is critical for all the organizations as most of the organization either focus on the programmatic achievement or the financial numbers but miss to **compare** both the statements together.

Best Practices

a. The organisation should have a system in place to ensure that these reports (finance as well as programme deviation) are prepared on periodic basis (at least monthly) and discussed in staff meetings involving finance & program staffs for any **deviations**.

a. Summary reports should be prepared and presented to the management on quarterly basis.

Compliance with Terms and Condition of Grants

- All the grant funds comes with certain terms and conditions, mentioned in the grant agreement or its annexure.
- It is important that these grant agreements are shared with the finance department prior to finalization to list out the expectations of the donors and the changes required in the accounting system to meet that.

Example:

- a. Separate Books of Accounts for the Grant Funds
- b. Separate Bank Account for the Grant Funds
- c. Bills and Vouchers to be defaced with the project stamp.
- d. Limit on Cash Expenditure.
- e. Any other deviation from the existing finance manual of the organization
- f. Periodic Financial and other Reports to be shared with the funder.

Best Practices

a. This step will help the organisation to negotiate with the donor to amend the terms and condition of the grant, if it is not feasible for the organisation to comply with any specific condition mentioned in the agreement.

a. Once the grant agreement is signed, there should be a **compliance calendar** of the grant to ensure that the terms and conditions are met (including timely reporting to donor)

Closure of Grant

Like management of Grant, closure of grant is an essential part of a project.

The following processes should be ensured during the closure of a Grant.

- To ensure all the **conditions** as per the MOU with the funder has been agreed with.
- All the **utilisation certificates** have been submitted along with the periodic activity reports duly acknowledged by the funder.
- Closure report from the Finance & Accounts department in the proper format giving therein the reconciliation of Grant received and utilized taking into account the **interest** earned on the said amount.
- The interest earned if any should be properly disclosed in the utilization certificate submitted to the Funder and in the line of provisions in the MOA.
- Acknowledgement from the funder of NO DUES after the submission of final report and total utilization of funds along with the closure report.

FAQ

