
CSR IN THE SHADOWS: RED FLAGS AND FRAUDULENT PRACTICES IN CORPORATE SOCIAL RESPONSIBILITY

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ABSTRACT

Corporate Social Responsibility has been long time being thought as an important tool to enable Sustainable Development and be a solution for Social Issues. Despite the generosity enslaved in CSR programs, they are becoming a tool for business crime, financial abuse, and even illicit acts. The present paper delves into these darker dimensions of CSR by mapping out the features of red flags, conventional fraudulent practices, and their impact.

Specific patterns of suspicious transactions and high-risk Corporate Social Responsibility (CSR) projects are examined, with a particular focus on the exploitation of inactive or fictitious non- governmental organizations (NGOs) and third-party intermediaries. It highlights the contributing factor of weak governance structures and regulatory loopholes that allow fraudulent practices to be conducted in the name of development while noting the absence of accountability and oversight in the allocation and implementation of CSR funds. To solve these problems, the article assesses the use of technological tools like artificial intelligence, block- chain, and real-time auditing tools to increase transparency and accountability. It also provides recommendations for Policy Reforms & Best Practices related to Stakeholder based Governance Frameworks for CSR, Compliance and misuse risk mitigation. By exploring the dark side of corporate social responsibility, this paper seeks to provide valuable insights for those in regulatory, corporate, and stakeholder positions on maintaining the integrity of CSR as a force for good.

Keywords: Corporate Social Responsibility, Artificial Intelligence, Financial Abuse

INTRODUCTION

Currently companies have a vital role in their communities. Business clearly contributes to the development of civilizations. Any nation's socio-economic progress is significantly influenced by its corporate sectors. Through their corporate social responsibility initiatives around the world, corporations have frequently taken the lead in addressing issues related to livelihoods, health, education, and the environment. The European Commission and the United Nations claim that corporate social responsibility, or CSR, results in a triple bottom line: financial gain, environmental preservation, and social justice advocacy.”

If providing good governance to its stakeholders and the society at large is what is expected of a corporate, it is because it receives so much from the society that it is only appropriate that the corporate gives back to it at least something in return in the form of good governance. It is thus understood that good corporate governance itself is part and parcel of corporate responsibility to society.¹”

Business practices that philanthropically go beyond their purely profit-seeking endeavors and attempt to equally contribute positively to society and the environment at large are known as corporate social responsibility, or CSR. But behind the altruistic gestures and sustainability projects is a harsher reality: CSR is being abused for tax avoidance and as a loophole in the VAT payment system. Despite the fact that CSR should be focused on social impact, some businesses misuse this mechanism to avoid paying taxes, which, in the worst case scenario, results in the negative aspect of CSR. Beyond their conventional goals of making a profit, companies have an ethical obligation to consider the well-being of society and the environment, which is reflected in corporate social responsibility (CSR). In addition to moral behavior, it addresses corporate governance, social progress, environmental preservation, sustainable development, and accountability.”

“Ethics must take into account how operations affect stakeholders and the environment, and one of its most important components is being aware of how the environment is used and conserved. In terms of social impact, it encompasses programs for affordable housing, healthcare, education, food aid, community service, and job help. These days, meeting

¹ Subhash Chandra Das, *Corporate Governance in India: An Evaluation* (PHI Learning Private Limited, New Delhi, 3rd edn., 2012).

the expectations of the target audience, improving brand image and company reputation, reducing risks, and developing sustainable and eco-friendly business models all depend on having a well- thought-out CSR policy.²

However, there is a significant risk to ethics and the law because corporate social responsibility can be misused to evade paying taxes. To avoid paying taxes, corporations employ a variety of technicalities, such as exaggerating expenses, misrepresenting activities, taking advantage of legal loopholes, evading taxes, or creating corporate havens for tax avoidance. These actions are a complete violation of the CSR code of integrity and can have detrimental effects on society, including corruption, nonpayment of taxes, and a failure to perform public services. Even if corporate social responsibility (CSR) is essential to societal welfare, the abusive implications of tax evasion are a major ethical transgression in business, which emphasizes the need for increased accountability and openness in business activities in the marketplace.

CORPORATE SOCIAL RESPONSIBILITY AND THE STAKEHOLDER”

In essence, corporate social responsibility is the idea that businesses voluntarily incorporate societal and environmental issues into their operations and interactions with stakeholders. This means not only meeting lawful requirements but also going above and beyond conformity by making investments in stakeholder relations, the environment, and human capital. The emergence of corporate social responsibility (CSR) is a reflection of the community's and stakeholders' increasing expectations regarding how businesses should respond to mounting social, environmental, and financial demands as well as their changing role in society. By voluntarily committing to corporate social responsibility (CSR), businesses want to influence their stakeholders in a positive way, invest in their future, and boost profitability.

EXPECTATIONS OF THE SOCIETY FROM CORPORATES

“As is well known, businesses rely on society for many of the amenities they enjoy, such as well- developed infrastructure, a calm work environment, and skilled personnel. Additionally, they rely on society to keep the law and order in the places where they operate. Furthermore,

² Christine a Mallin, *Corporate Social Responsibility: A Case Study Approach* (Edward Elgar Publishing Limited, 2nd edn., 2009).

it should be kept in mind that the people who buy the products that businesses sell are the representatives of society and without them, businesses could not exist. As a result, it is the duty of commercial organizations to contribute appropriately to the well-being of society after gaining so much from it. In addition, businesses need to maintain operating efficiency, product safety and quality standards, a clean and healthy atmosphere, and support energy and natural resource conservation. Additionally, they are supposed to create jobs in any way imaginable.”

It is crucial for corporations to create and maintain "goodwill" among their stakeholders and the community at large in this age of fierce competition.³ Active involvement in a variety of social welfare initiatives will therefore undoubtedly raise corporates' profile and elevate them to a position of great public respect. Businesses should realize that social responsibility and economic aims don't have to conflict with one another. Instead, both can be accomplished and maintained as inclusive growth at the same time, and they can coexist.

COMMON FRAUDULENT PRACTICES IN CSR

Businesses must be cognizant of both what they are doing and how they are doing it in our contemporary, digitalized world. The company's reputation depends on the total effects of its operations on the economy, society, and environment in addition to the caliber of the goods it sells. In a congested market, their feeling of social duty gives them a competitive advantage over rivals. CSR is a comprehensive and integrated management concept that enables businesses to align their business goals with their social and environmental objectives.

Business practices shouldn't be unsustainable and detrimental in the pursuit of profit maximization, and taxation is one concrete way that firms can fulfill their social responsibilities in this regard. One of the simplest methods for corporations to satisfy their responsibilities to the government and society at large is to pay taxes. Nonetheless, a number of studies conducted recently have shown a connection between corporate governance and social responsibility and tax avoidance and evasion. There are several instances of multinational corporations engaging in tax avoidance on a global scale. Corporate social responsibility (CSR) is not an obligation (legal/business) that businesses must perform; rather, it is something that goes beyond these ideas and preserves the vital bond between a firm and its clients.

³ Sonam Sharma, “A Study on Corporate Social Responsibility for Business Organization in India” 6 *IJASRET* 110.

TAX EVASION

Taxes are mandatory payments made by the general public to the government for public purposes. There is a chance that an individual or entity would willfully and illegally evade paying taxes when they are collected. Income inequality, economic stagnation, and organizational system instability are all brought on by tax evasion. The difference between tax assets and tax liabilities is significant.⁴ Clearly, there are four main causes of tax evasion: economic, legal, institutional, cultural, and behavioral aspects, as well as demographic considerations.

Closing the income gap requires an effective and dependable tax collection system. Simplifying tax laws and closing legal loopholes is the best way to reduce the amount of money evaded. Current trends indicate that the Indian tax system is completely outdated and archaic. Unlike developed countries, emerging countries lack efficient taxation. In developing countries, tax revenue is essential for the construction of public infrastructure and the provision of governmental services.

Methods of Tax Evasion

- When a person files their taxes, they may include erroneous or false information in an effort to reduce or avoid paying the required amount of tax.
- Using fictitious documentation to claim exemption.
- In some circumstances, a person may offer officials a bribe in order to get them to waive the tax.
- Non-payment of Dues- One of the most popular strategies to avoid paying taxes is by not paying what is owed.

Tax Evasion and CSR

There is a positive correlation between corporate social responsibility (CSR) and tax evasion; that is, when CSR rises in a nation, so does tax evasion. There are two ways by which taxes

⁴ Shivangi Dhawan, "Corporate Social Responsibility in India: Issues and Challenges" 11 *IJMS* 96 (2020).

can be evaded and these are as follows:

- **Under-reporting Income:** Under-reporting is the deliberate understatement of income or revenue compared to actual receipts. Businesses and individuals generally underreport their incoming income in an effort to avoid or reduce their respective tax obligations. The true income is either not displayed at all or is displayed to such an extent that CSR efforts are not necessary or, if they are, are significantly less than what was truly required.⁵
- **Overstating Deductions:** Under the Internal Revenue Code, taxpayers can deduct certain expenses from their gross income to calculate their tax burden. A lot of tax deductions involve initiatives that the government wants to support; such letting a business deduct the cost of certain benefits for its employees. Overall tax payments are lower for those who take more deductions. The deductions are inflated, and in order to claim a deduction that hasn't even been used, fake and counterfeit bills are created.

The consequences of tax evasion through CSR fraud are as follows:

- Penalties will be levied on the assesses in accordance with the provisions of the companies act and Taxation act.
- Businesses and CSR foundations run a serious risk of defamation, harm to their reputation and damage to their brand image when they work with these NGOs and CSR consulting firms. Businesses that fit the CSR requirements usually have to collaborate with NGOs to carry out CSR initiatives and develop employee capabilities.
- Evaded CSR will diminish the income of the government funds and eventually it will disturb the development and progress of the country.
- Evaded CSR will prevail and very less of actual CSR activities will take place.

⁵ Deem Kemsley, "Tax Evasion and Money Laundering: A Complete Framework" 5 *JFC* 4 (2018).

Since the current rules are so strict that no one can avoid engaging in CSR activities, the scenario that is pertinent to today's situation is that tax evasion can only occur through public trusts. In 2019, a Schedule VII was released that lists the businesses and companies that are eligible to use the CSR funding. As a result, it is now more difficult for businesses to avoid paying taxes, or they must use the money for corporate social responsibility (CSR) initiatives that comply with Schedule VII of the Companies Act.

TAX AVOIDANCE

All legal strategies and instruments used to either avoid paying taxes altogether or pay as little as possible are collectively referred to as tax avoidance. People and businesses frequently take advantage of gaps in their nations' tax laws. Although tax evasion is not illegal, there are some laws that carry severe penalties in the event that the assessor underreports their income or an officer discovers unreported income while conducting an investigation. In India, it is easy to observe that businesses and corporations, as well as individual taxpayers, engage in tax avoidance.⁶ Companies send large sums of money for corporate social responsibility (CSR) in order to boost their profits rather than pay taxes to the government, which is something to avoid.

However, the relationship between tax evasion and corporate social responsibility varies greatly across nations. There are differences in corporate attitudes and conventions because no two nations have the same institutional and legal frameworks and surroundings. In the past, corporations have had a harder time getting away with tax dodging tactics and vague CSR declarations when the nation had a robust framework and institutions. It is really necessary to implement a strict system that emphasizes openness and mandatory disclosures.

ETHICAL IMPLICATION OF CORPORATE SOCIAL RESPONSIBILITY

Ethics are regarded as everyone's business in any firm, from the highest levels of management to the lowest-level workers. It involves not only reaching high economic performance levels but also conducting one of the most significant social concerns facing business in an ethical manner. In the business world, ethics are simply the dos and don'ts for business users. Its foundation is a set of moral and ethical principles. These principles must be absolute,

⁶ AC Fernando, *Corporate Governance: Principles, Policies and Practices* 314 (Pearson, 2nd edn., 2017).

meaning you must respect them highly enough to put them ahead of any human defenses, frailties, ego, or shortcomings. Everyone benefits greatly from ethical management in the workplace, including managers, engineers, companies, and society at large.”

Ethics entails determining what is right or wrong and then doing accordingly, although doing "the right thing" is not quite as simple as it is often described. The majority of moral conundrums in the workplace are not just yes-or-no situations.⁷ Business ethics refers to a company's interactions with the general public as well as its individual interactions with a single consumer, which leads to the business's justification in terms of the social, ecological, and economic domains. Globalization and liberalization have brought about significant changes in the way that business is conducted, but the 21st century has also seen the production of significant byproducts such as corruption, nepotism and favoritism, a decline in human values, and numerous economic, governmental, and social scams. There is a decline in trust in societal tools. Businesses are growing in size and possessing substantial financial, human, and technical resources, but their continued existence in society is always based on dubious principles. Innocent Indians are becoming less trusting of the government, courts, and laws every day.

The CSR Voluntary Guidelines (2009) have stated explicitly that, with legitimate grounds, a company's government systems should be backed by Ethics, Transparency, and Accountability. They shouldn't take part in anti-competitive, corrupt, unfair, or abusive commercial practices. CSR is closely related to the "Sustainability" principles, which contend that businesses should base their decisions on the immediate and long-term social and environmental effects of their operations in addition to financial considerations like profits or dividends. As a result of the rise of specialized CSR organizations around the world, CSR has gained prominence in business terminology and strategy. The realm of ethical responsibility in CSR encompasses various pivotal components, including:

- **Transparency** - The foundation upon which trust is based is transparency. Companies need to be open and honest about their financial situation, operations, and decision-making procedures. Businesses that embrace transparency send a

⁷ Jamshed, "The Importance of Corporate Social Responsibility and Business Ethics" 4 *IJTSRD* 800.

strong message of accountability in addition to reducing unethical behavior.

- **Fair Treatment** - Treating workers, clients, suppliers, and other stakeholders fairly is a must. Fair wages, decent working conditions, and the assurance of a secure workplace that aligns with CSR values are all included.
- **Ethical Marketing and Advertising** - Businesses must avoid misleading advertising, making exaggerated promises, and using manipulative techniques that could mislead or influence customers in order to adhere to ethical marketing standards.
- **Ethical Leadership** - The foundation of a company is ethical leadership. Setting the example for the entire company and cultivating an ethical corporate culture that pervades every aspect of operations, leaders are required to embody the highest ethical standards.

ROLE OF TECHNOLOGY IN DETECTING CSR FRAUD

The terms “fraud”, “corporate crime”, and “white collar crime” are all used to describe economic crimes involving fraudulent activity. According to an above perspective, economic crimes are unlawful activities carried out by a single person or by a group of people in order to gain financial or professional advantage.⁸ The globe has moved toward digital payments during pandemics, making frauds more prevalent than before. Many new forms of banking fraud have been made possible by the digital revolution. Advanced technologies have aided scammers, who are always searching for new ways to commit crimes.

Effective risk management, particularly in the corporate finance industry, depends heavily on fraud detection. Strong detection systems are more important than ever as companies continue to face rising financial fraud risks. The purpose of risk management strategies is to recognize, evaluate, and reduce risks that can endanger a company. Financial fraud is one of the most dangerous of these dangers since it can result in large financial losses, difficult legal issues,

⁸ Chittimalla Bhargavi, “Significant Role of Digital Technology in Detecting Banking Frauds in India” 6 *IJAMRS* 1124 (2023).

and harm to one's reputation. In order to lessen the impact of fraudulent activity and stop additional harm, fraud detection technologies assist businesses in identifying it in real time.

Organizations can adopt a proactive strategy instead of a reactive one by integrating fraud detection into risk management. Manual audits and other traditional fraud detection techniques can be laborious and prone to human mistake. A more effective method of identifying irregularities and questionable trends in financial transactions is provided by contemporary technology-driven systems, especially those that make use of artificial intelligence and machine learning. These tools enable prompt intervention by continuously monitoring data and identifying anomalies that can point to fraudulent activity.”

A. Fraud Detection System using AI Technology

FDS is the process of detecting financial frauds rather than strengthening security from the perspective of service users; as a result, it is accompanied by an increase in each party's personal security awareness.⁹ This makes it more difficult to detect as the number of electronic financial transactions and the frequency of payments have increased due to the variety of payment methods. This will directly affect the reduction of possible phishing damages in addition to fortifying the technological security system. FDS has been organized and operated as follows:-

- **Collecting and Processing the Information** - By accumulating as well as processing the information via the user's financial transaction device, the data is applied to the essential form in the following phase by means of quality enhancement and quantitative reduction. Machine learning is used in this process to process operational data.
- **Analyzing and Detecting** - One of the crucial financial tasks is transaction analysis. By looking at previously processed financial transaction data and accumulating anomalous financial transaction patterns, this stage use machine learning to identify anomalous transactions. In this case, a variety of AI analysis methods are used, including hybrid detection using deep learning, anomaly detection, and data misuse

⁹ Michael Nwez, “The Role of AI and Machine Learning in Fraud Detection: Enhancing Risk Management in Corporate Finance” 5 *IJRPR* 2822 (2024).

detection.

- **Responding** - At this point, additional authentication is carried out in order to approve and block unusual transactions. Additionally, data may be collected and users and the administrator may be notified.
- **Auditing and Monitoring** - The Fraud Detection System's auditing and general monitoring procedures are used to identify anomalous transactions. Therefore, compared to traditional security solutions in financial institutions like banks, credit card companies, or online spaces that include payment systems, FDS is more active in identifying and halting anomalous transactions.

B. Integration of AI/ML into Financial Systems

This section discusses best practices for integrating AI/ML into existing systems and technology stack considerations, including cloud computing and data warehouses.¹⁰

- **Define Clear Objectives:** Organizations must set specific goals and success indicators prior to deploying AI/ML technology. These ought to tackle particular fraud detection issues and be in line with the overarching company objectives. For instance, a company might want to raise the detection rates of fraudulent transactions or decrease false positives by a specific proportion. Well-defined goals aid in directing the creation and assessment of AI/ML systems.
- **Develop a Robust Training Framework:** The effective implementation of AI/ML systems requires a thorough training framework. This entails establishing procedures for model training, validation, data preparation, and monitoring. In order to enable models to adjust to evolving fraud trends over time, organizations need also put in place continuous learning methods. This may entail using methods like online learning, which gradually updates models as new data becomes available and retraining models on a regular basis with fresh data.

¹⁰ Prabin Adhikari, "Artificial Intelligence in Fraud Detection: Revolutionizing Financial Security" 13 *IJSRA* 1464 (2024).

- **Ensure Compliance and Ethical Considerations:** When using AI/ML systems, organizations need to take ethical and compliance issues into account. This entails making sure AI decision-making procedures are transparent and abiding by data privacy laws like the General Data privacy Regulation (GDPR). In order to evaluate the ethical implications of their AI/ML systems, especially with regard to potential biases in algorithms and data sources, organizations should also regularly audit their systems.

SOCIAL RESPONSIBILITY AND INDIAN CORPORATION

Signing checks for welfare programs and social causes is no longer the only way to be philanthropic. The business community is now interacting with the community. Since many employees, including senior management, are now contributing to causes that are important to them, the commitment is growing much stronger. Many Indian businesses carry out their social obligations in a very satisfactory manner.¹¹ Many businesses have succeeded in these endeavors, but their accomplishments are insufficient when compared to the nation's enormous demands. Companies' contributions to social causes typically represent a negligible percentage of their total revenue. Here are a few illustrations of the different social responsibility functions that Indian companies typically perform:

- **Colgate Palmolive** undertook pioneering work in the promotion of sports, oral health and small industry growth.
- Through its Infosys Foundation, **Infosys Technologies** has assisted rural schools in acquiring buildings, classrooms, and libraries. It has also benefited research and higher education. Additionally, it has supported a number of public health initiatives.
- In terms of carrying out its social responsibility, **Tata Steel** has led the way and made several contributions in fields including rural industrialization, social welfare, community development, agriculture and allied activities, and tribal region development.

¹¹ "Case Study Analysis: Success and Failure of CSR Initiatives in Various Indian Companies" (*Sper Social*) <<https://www.spersocial.com/blog/success-and-failure-of-csr-initiatives-in-various-indian-companies>>.

CONCLUSION

Corporate Social Responsibility (CSR) plays a crucial role in bridging the gap between businesses and society, yet faces challenges from fraudulent practices, particularly tax evasion and avoidance. While CSR should focus on positive social and environmental impact, some corporations misuse these programs as tax manipulation tools, undermining their core purpose.

Technology, especially AI and Machine Learning, offers promising solutions for detecting and preventing CSR fraud through transaction monitoring and anomaly detection. However, these systems must be implemented with careful consideration of ethical guidelines and compliance requirements.

Indian corporations show varying levels of CSR commitment, with companies like Tata Steel, Infosys, and Colgate Palmolive demonstrating positive examples through their social initiatives. Yet, contributions remain inadequate compared to national needs. The future of effective CSR depends on maintaining a balance between profitability and social responsibility, supported by technological systems, ethical leadership, and transparency to ensure genuine societal impact while preserving corporate integrity.