Migration Letters

Volume: 20, No: S4(2023), pp. 454-469

ISSN: 1741-8984 (Print) ISSN: 1741-8992 (Online)
www.migrationletters.com

ESG-Dependent Subsystems: Features of Audit and Identification of Reserves for Enhancing their Performance

Natalia Prodanova[1], Olga Tarasova[2], Eduard Osadchy[3], Irina Kosorukova[4], Maksuda Khajiyeva[5], Hafis Hajiyev[6]

Abstract

Presently, there is a heightened societal interest in ecological and social responsibility, particularly within the context of the proliferation of post-industrial societies. This phenomenon is attributed to the contemporary imperative placed upon companies to consider various intangible factors beyond mere economic metrics. The authors underscore that akin to the expanding influence of production factors that gradually impact organizational efficiency, the principles of ecological and social responsibility have become integral constituents of organizational development. This pertains to both their overall operations and the decision-making processes undertaken by external stakeholders.

Within the scope of this research, the authors delve into the principles of contemporary management approaches, encompassing the increasing incorporation of ESG (Environmental, Social, and Governance) audit agenda as an effective functional tool in enhancing the operational efficiency of economic entities. A meticulous analysis of the principles and tools within this audit domain is conducted, elucidating pertinent directions derived from a systematic examination of vectors and foundational aspects of resource conservation for the comprehensive support of key environmental components. The significance of ESG auditing in augmenting the credibility of corporate reporting is emphasized, as only a favorable environment, sustained by a systematic approach in management and control, new legal frameworks, additional financial resources, and on-site structures, facilitates the successful green transformation of all organizations earnestly adhering to it. The article further underscores the importance of this realm for national security and the stability of the populace's livelihood.

Keywords: *ESG financial impact; sustainable development; ESG-audit; corporate sustainability; financial performance; ESG factors.*

INTRODUCTION

In recent times, society has shown an increased interest in ecological and social aspects. This is understandable considering the prevalence of post-industrial society, which demands not only high economic performance from modern enterprises but also the consideration of accompanying intangible factors. Similar to the production factors that

[1] Plekhanov Russian University of Economics, 117997, Moscow, Russia
[2] Plekhanov Russian University of Economics, 117997, Moscow, Russia
[3] Kazan Federal University, Elabuga Institute of KFU, 423604, Elabuga, Russia
[4] Financial University under the Government of the Russian Federation, 125993, Moscow, Russia
Moscow University for Industry and Finance "Synergy", 127015, Moscow, Russia
[5] Urgench State University, 220100, Urgench, Uzbekistan
[6] Azerbaijan State University of Economics (UNEC), AZ1001, Baku, Azerbaijan

gradually increase in number and exert undeniable influence on organizational efficiency (such as information technology and marketing, which have become integral production factors in the 21st century), principles related to environmental and social responsibility have acquired the status of integral components of an organization. These principles play a crucial role in shaping operational strategies, influencing decision-making processes by external stakeholders, and interacting with user communities.

The justification for the relevance of this research lies in the context of growing global attention to the need for major corporations to reorient their activities towards improving human health, the economy, and the environment, as well as ensuring food security, in accordance with ESG principles.

Sustainability reporting, undoubtedly, is one of the mechanisms in contemporary realities that allows companies to document the level of progress in achieving goals related to various aspects of sustainable development, including ESG parameters. It also serves as a tool for identifying risks and consequences of their activities. Non-financial reporting enables companies to inform the public about the positive and negative impacts of their actions on the environment, society, and the economy, providing a basis for setting priorities.

Contemporary states increasingly align themselves with the support of this direction. An example is the new directive from the European Union - the CSRD (Corporate Sustainability Reporting Directive), under which corporations are obligated to implement new sustainability reporting standards and integrate a new regulatory framework into their business strategies. This initiative positions the EU to become a global leader in sustainable development reporting standards and will impact approximately 50,000 companies in the EU (compared to the current number of 11,700), opening up vast prospects in the field of sustainable development. (European Commission Directive on the disclosure of non-financial reporting data. DIRECTIVE 2014/95/EU (2022).

Nowadays, the compilation of an annual report with appealing images of nature and a fragmented ESG history is no longer sufficient for stakeholders and society. The market is moving towards compelling evidence that companies possess not only a sustainable economic model but also significant developmental potential. To achieve this, a clearly defined set of key performance indicators in the areas of ecology, social responsibility, and governance (ESG KPIs), reliable data, credible reporting, and clear strategic ideas are necessary. These elements can serve as benchmarks and guidance for interested parties. Companies are now called upon to adopt a more systematic and responsible approach to integrating ESG into their business practices, demanding clarity and transparency in reporting, as well as the demonstration of tangible results and the impact on the company's sustainability in the long term. In this context, ESG auditing is gaining momentum, reinforcing the reliability of ESG KPIs and providing the market with compelling evidence of the ability to achieve sustainable development. This becomes a crucial factor for investors and consumers seeking long-term and sustainable business partners.

LITERATURE REVIEW

The ESG concept was initially proposed by the Secretary-General of the United Nations to draw attention to transformations in ecology and the rapid changes in climate. In the early 2000s, there were approximately 10 U.S. companies considering ESG principles. However, by 2021, the number had surged to 800. (Proposals for a relevant and dynamic EU sustainability reporting. Report on Sustainable Development Goals 2030 (2015). In Russia, ESG concepts have not yet gained widespread popularity among companies. Nevertheless, global economic trends indicate that attention to ESG principles will likely grow in the near future. In particular, Neri Tollardo, Vice President of Tinkoff Bank, believes that in the foreseeable future, global investors will only invest in organizations with high ESG ratings and adherence to sustainability principles based on them. This underscores the increasing importance of ESG considerations in the global economic landscape. (ESG-TRANSFORMATION: ECOtrends in Real Estate. (2022), Afanasiev, M.P., Shash, N.N. (20230

ESG risks can exert influence on key business processes and management systems, exacerbating financial risks and posing potential threats to the sustainability and survivability of a company (Asante-Appiah, B. (2020).

Additionally, it is crucial to consider the perspective that underscores the intricacies involved in conducting an audit of ESG reports due to their inherent complexity. (Asante-Appiah, B., Lambert, T.A. (2022), Narula, R., Rao, P. & Rao, A. A. (2023). Therefore, it is imperative not only to assess them accurately but also to monitor them in a timely manner to achieve maximum effectiveness. (Kaplan, & Ramanna, 2021; Kovalenko et al., 2023).

The consensus among most researchers is that favorable indicators in the realms of ecology, social responsibility, and managerial efficiency significantly enhance the attractiveness and performance of investments. (Giudice, & Rigamonti, 2020), (Belousov, 2022).

The consensus among the majority of researchers unequivocally asserts that favorable indicators in the domains of ecology, social responsibility, and managerial efficiency significantly enhance the attractiveness and efficacy of investments. (Suttipun, 2021). The quality of conducted audits is intended to contribute to this enhancement. (Wang et al., 2022; Hwang et al., 2021; Saenko et al., 2023).

The formation of ESG ratings for organizations is carried out by independent research agencies. The rating evaluation is based on three criteria (E, S, and G respectively), and each criterion is assigned a score on a scale of 100 points. Unfortunately, there is no uniform approach to analyzing a company based on ESG components, leading to potential variations in assessments by different rating agencies. For instance, the rating agency MSCI assigned a high score on the ESG scale to Boohoo, despite the company having serious issues in the realm of social welfare for its employees (such as wage suppression and non-compliance with WHO directives during the COVID-19 pandemic). Other rating agencies took this factor into account, influencing their assessments to be lower. (Serafeim, & Yoon, 2023).

To boost clarity, many rating agencies use a letter scale to publish ESG ratings for organizations. For example, companies with ratings of A and AA are considered leading in ESG principles. Companies with ratings of AAA, B, and BB are assessed to have an average level of adherence to ESG principles. Finally, companies that least consider ESG risks and lag behind in sustainable development principles are assigned ratings of B and CCC.

The rating compiled by specialized agencies holds high strategic significance as it directly influences an organization's ability to secure capital. Despite many companies actively working on their key performance indicators in the realms of ecology, social responsibility, and governance (ESG KPIs) and providing reporting on sustainable development aspects (ESG), they are currently in the preparatory stage for the inevitable intensification of requirements from legislation and credit rating agencies. Consequently, the preparation for adapting to heightened standards and norms remains a pertinent challenge for the business community. Successful adaptation to these changes will be crucial for ensuring financial stability and access to capital investments. (Time for transparency through ESG reporting (2022).

The significance of ESG principles is escalating in tandem with the heightened societal attention toward non-financial issues. While environmental and social responsibility concerns were nascent in the public consciousness during the 1980s and 1990s, they have now evolved into integral components of the economic system. This paradigm shift is attributable to a new generation of executives and decision-makers who espouse distinct values. For them, the business is not merely a pursuit of financial gains and dividends; it encompasses a conscientious focus on environmental sustainability and social well-being (Korableva et al., 2020a, 2020b; Ling, & Yumashev, 2018).

Consequently, there is a growing acknowledgment of the imperative to align business practices with the contemporary demands of globalization. Given that corporate reporting serves as the primary conduit for interaction between an organization and its external stakeholders, there arises an essential need to expand the reporting framework to incorporate non-financial dimensions, particularly through the comprehensive disclosure of ESG-related information. Subsequently, an indispensable aspect emerges: the verification of adherence to these factors by independent expert auditors.

In 2021, research conducted by the International Federation of Accountants revealed that the majority of organizations incorporate information on ESG principles in their reporting. Moreover, countries in the Middle East and the Asia-Pacific region have shown significant growth in considering ESG principles for sustainable development in their local economies. Notably, certain institutional investors in the East occasionally impose more stringent requirements on ESG aspects compared to their European counterparts. Importantly, the sample analyzed by the International Federation of Accountants included Russian companies, and their results in disclosing ESG risks aligned with the average of the sample.

Indeed, since 2000, several Russian organizations have been aligning themselves with global reporting standards, expanding the scope of non-financial information disclosed in corporate reporting. For instance, the Russian Union of Industrialists and Entrepreneurs has dedicated a separate section on its website to "Sustainable Development," maintaining a registry of corporate reports from companies regarding non-financial information. Currently, the registry includes 197 domestic entities covering 1163 ESG criteria, dating back to 2000. The majority of companies disclosing non-financial information belong to sectors such as oil and gas, energy, metallurgy and mining, finance and insurance, and the production of food and other consumer goods. (National Register of Corporate Non-Financial Reports (2023).

Indeed, in all the mentioned organizations that publish comprehensive reports, encompassing non-financial information, data on sustainable development is present. Some organizations go a step further by crafting a separate ESG report, in addition to their annual report. However, the credibility and completeness of these reports often remain in doubt, hindering external users from relying on them when making various financial and investment decisions. The issue of integrating non-financial ESG reports is a pressing concern.

MATERIALS AND METHODS

The applied research methods encompassed analytical and empirical approaches to address the objectives in investigating the principles of ESG auditing. Information structuring was achieved through the utilization of abstract-logical methods. To process data arrays, the authors employed systemic and comprehensive analyses. Additionally, throughout the study, general scientific logical techniques and methods of inquiry were applied.

RESULTS

The study has facilitated the identification and justification of current preconditions and the developmental potential of ESG auditing as an active instrument within the green development paradigm. In pursuit of sustainable development objectives, the authors have accorded particular attention to the comprehensive engagement of various levels of management and coordination within distinct sectors of the economy. These findings underscore the significance of coordinating efforts across diverse levels of management and economic domains for the successful implementation of sustainable development.

DISCUSSION

Despite the growing momentum of integrating ESG concepts into the business environment in Russia, domestic auditors are not yet prepared to take non-financial information into account and continue to base their conclusions solely on reliable financial reporting. Some financial scholars have encountered the issue of narrow perception within the field of auditing in Russia. In 2005, the Financial University developed the theory of "Broad Understanding of Audit." Drawing on the views of the Dutch scholar Theodore Limperg, the authors proposed a concept of a new audit – "Business Audit," encompassing not only financial reporting but also non-financial indicators. At that time, this research had a theoretical nature. However, the question now arises about the practical implementation of tools for assessing non-financial information in the domestic audit system.

Let us delve into the foreign experience of integrating the non-financial aspect of auditing into legislation. The European Commission, in particular, promulgated a directive empowering member states of the European Union to mandate the assurance of non-financial reporting. Concurrently, the European Financial Reporting Advisory Group (EFRAG) embarked on crafting specialized standards for non-financial reporting, intended to guide auditors in providing assurance for ESG reports. Consequently, on January 5, 2023, a directive was enacted, mandating that companies within the European Union furnish assurance for their non-financial reporting on sustainable development, grounding their practices on EFRAG reporting standards, commencing from 2025 (pertaining to the reporting year 2024, accordingly). (CSRD (2022), DIRECTIVE 2014/95/EU (2022), FRAG (2021).)

Concerning the countries of the Middle East and the Asia-Pacific region, there is an absence of legislative frameworks for the attestation of non-financial reporting. Therefore, a portion of economic entities in these nations provides assurance for sustainability reports with consideration for local investment requirements.

At present, in Russia, the legislative foundation and direct application in the field of non-financial reporting are in the developmental stage (Iarutin, & Gulyaeva, 2023; Muradyan, 2023). Nevertheless, references to the attestation of sustainability reports can be identified in several legal acts:

- recommendations of the Bank of Russia on the disclosure of non-financial information by joint-stock companies;

- recommendations of the Bank of Russia on the implementation of responsible investment principles. (The Concept of Development of Public Non-Financial Reporting (2017), The draft federal law "On Public Non-Financial Reporting" (2017).

In 2017, the Ministry of Economic Development prepared a draft law on public non-financial reporting, later renamed to a draft law on public reporting in the field of sustainable development, aligning with global trends in defining ESG factors. By the end of 2021, at the President's instruction, active work resumed to refine the draft law and incorporate up-to-date information. However, in October 2022, work on the project was suspended for two reasons. Firstly, amid the possibility of additional sanctions, organizations preferred to withhold information regarding sustainable development. Secondly, at this stage, organizations are using existing legislation to disclose ESG information. Under the current legislation, this implies the Bank of Russia's recommendations for joint-stock companies regarding the disclosure of ESG information. (Information Letter on recommendations on disclosure by public joint stock companies of non-financial information correlation to the activities of such companies (2021).

After the publication of these recommendations, approximately 30% of existing companies disclosing their annual reports began integrating ESG principles into their business strategies (Baraboshkina, & Kudryavtseva, 2023; Volkova et al., 2020).

Given that the Bank of Russia's Information Letter on Recommendations for the Disclosure of Non-Financial Information by Public Joint Stock Companies (hereinafter referred to as the Recommendations) is being utilized by domestic organizations as a tool to standardize non-financial reporting, it is essential to analyze the structure of this document.

According to the Recommendations, there are five principles for disclosing information regarding the company's sustainable development (Figure 1).

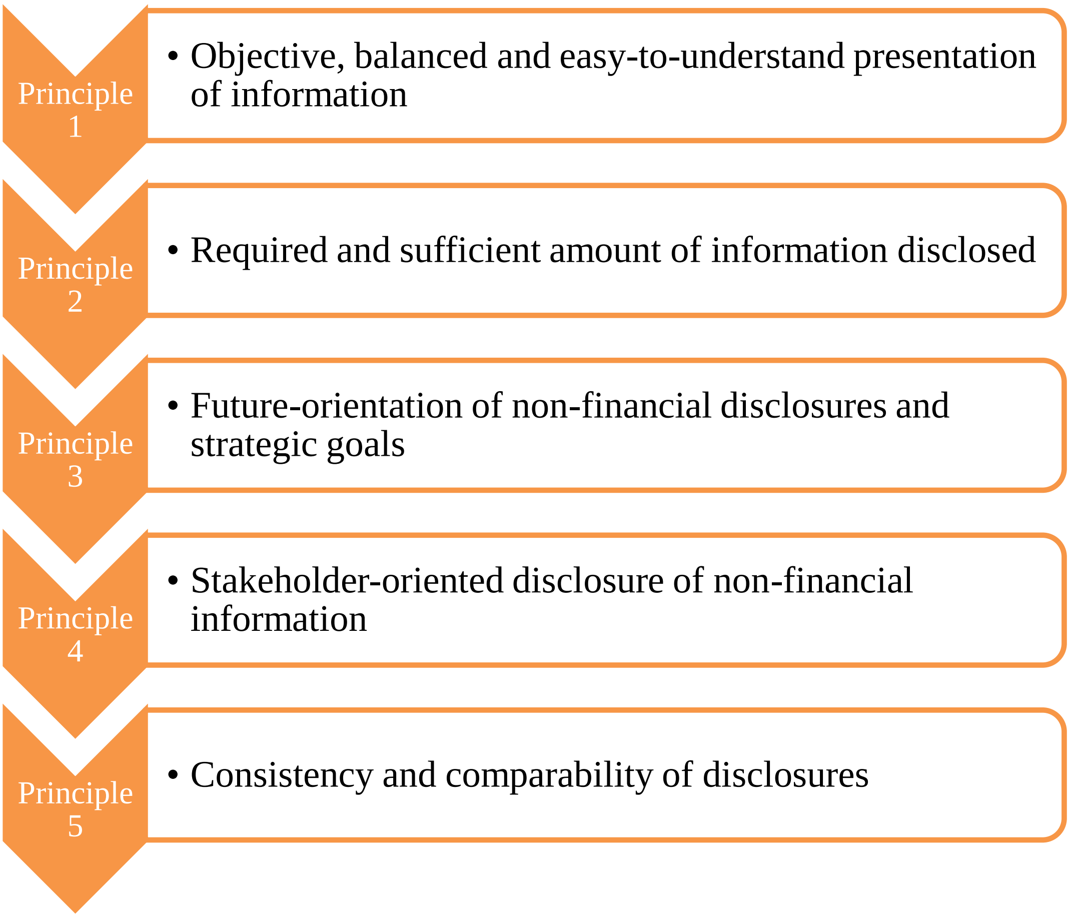

Figure 1: Principles of non-financial information disclosure

Compiled by the authors on the basis of Information Letter of the Bank of Russia No IN-06-28/49 dated 12.07.2021 "On Recommendations on the Disclosure by Public Joint Stock Companies of Non-Financial Information Correlation with the Activities of Such Companies" https://www.cbr.ru/StaticHtml/File/117620/20210712_in-06-28_49.pdf, section 4.

The enumerated principles resonate with those governing independent audit practices and, as a corollary, are poised to constitute integral facets of a comprehensive business audit framework (Minich, 2023). This framework encompasses not only the disclosure of financial information but also the nuanced portrayal of ESG (Environmental, Social, Governance) concepts.

The principle of "Objective, Balanced in Composition, and Easily Perceptible Presentation of Information" posits that information disseminated through reports should furnish an objective and impartial assessment of an organization's environmental, social, and managerial dimensions. The proffered information should be articulated in straightforward and intelligible language, eschewing terminological incongruities, given its intended audience of external stakeholders. Where recourse to technical terminology is inexorable, accompanying explications should be de rigueur (Nascimento, & Martins, 2022).

In the divulgence of substantive non-financial information, it becomes imperative to delineate the contextual backdrop of organizational activities for enhanced comprehension. Furthermore, elucidating the nexus between disclosed non-financial information, the organizational developmental strategy, and the characteristics underpinning risk assessment assumes pivotal importance.

The inclusion of information pertaining to the nature and methodologies governing the company's influence on the environment, its social policies, and corporate culture assumes a position of paramount significance (Begishev et al., 2021; Poghosyan, 2018; Kuts et al., 2023). The principle advocates for a synergistic amalgamation of qualitative and quantitative indicators in the evaluation of organizational performance vis-à-vis sustainable development. In this context, quantitative metrics amplify the representational fidelity of the disseminated information, while qualitative indicators serve to streamline the user's assimilation of the organizational milieu.

The "Necessary and Sufficient Volume of Disclosed Information" principle underscores the criticality of information necessity and sufficiency for stakeholder decision-making. Given that the ESG report is presented concurrently with the annual report, the disclosed information should accurately depict the organization's dynamics for the reporting period and correlate with other sections of the annual report. Cross-references to various sections of the annual report are utilized not only to ensure information comparability but also to circumvent redundancy, ensuring brevity and precision.

Should the disclosure of information contravene confidentiality principles, it can be presented using general formulations.

The "Orientation of Non-financial Information Disclosure Toward the Future and Strategic Goals" principle mandates that information in the ESG report should align with the company's mission, business goals, and strategy. It should encompass information about the organization's prospects in the near and distant future. This information can be presented using quantitative and qualitative indicators, along with an assessment of probable risks and issues the organization may encounter in the next three to five years. Such information aids stakeholders in assessing the organization's commitment to development through ESG components.

The "Orientation of Non-financial Information Disclosure Toward Stakeholders" principle underscores that information regarding sustainable development is directed at external users, encompassing not only investors or potential capital participants but also employees, consumers, suppliers, and various social partners. Hence, the provided information should be diverse, not geared towards the interests of specific users.

The "Consistency and Comparability of Disclosed Information" principle accentuates the importance of disclosed information on the company's sustainable development complementing other non-financial and financial report information without contradiction. Moreover, comparability of information is crucial for ensuring objectivity and consistency. Thus, indicators used should reflect the dynamics over a period of no less than three years. If there are changes in approaches and methodologies for calculating and disclosing these indicators during this period, the provided information should be accompanied by specific explanations for simplicity of comprehension and data comparability.

Thus, the foundational principles outlined in the Recommendations are currently being employed by Russian companies in the compilation of sustainability reports. Notably, this document is crafted based on a substantial body of international sources, including the United Nations (UN) Global Compact, and the previously mentioned Directive 2014/95/EU of the European Parliament and of the Council on disclosure of non-financial and diversity information by certain large undertaking and groups. This underscores the inclination of Russian legislation to align its legal framework with international standards. (Proposals for a relevant and dynamic EU sustainability reporting. Report on Sustainable Development Goals 2030 (2015), GRI Standards (2006), ISO 26000 Social responsibility (2017), Guidance on social responsibility (2015).

In addition, following global trends in enhancing the quality of the business environment, United Nations member states have the opportunity to create universal documents and recommendations related to auditing and discuss pressing audit issues within the organization specifically established for this purpose – INTOSAI (International Organization of Supreme Audit Institutions). Established in 1953, this organization brings together key bodies of financial control in participating states, aiming to elevate the level of audit standards and standardize audit practices (Akhmetshin et al., 2018). The Accounts Chamber of the Russian Federation has been a member of INTOSAI since 1995. Therefore, participating countries can utilize documents, criteria, and recommendations jointly developed by INTOSAI for conducting audits within their own borders. In 2019, a series of documents were developed, including:

- INTOSAI Fundamental Principles of Public-sector Auditing (IFPP),

- International Standards of Supreme Audit Institutions (ISSAIs),

- INTOSAI Guidelines.

When conducting ESG audits in the public sector, it is crucial to consider the normative and legal documents adopted by INTOSAI. These may include ISSAI 100 "Fundamental Principles of Public-sector Auditing," ISSAI 300 "Audit of Performance Results," as well as GUID 5202 "Sustainable Development. The Role of Supreme Audit Institutions," GUID 5290 "Guidance on Auditing the Formation and Use of Key National Indicators," and GUID 9020 "Assessment of Government Policies" concerning the audit of non-financial information.

Let us scrutinize the ESG auditing process, grounded in the guidance delineated by the INTOSAI working group on sustainable development goals, along with their corresponding key performance indicators. (Draft ESG Audit Guidelines prepared by the INTOSAI Working Group on SDGs and Key Sustainable Development Indicators (2023).

In the preparatory phase of audit organization, the foundational principles are delineated. In the context of ESG auditing, the following can be construed as pivotal principles:

1. The existence of a mandate from the Supreme Audit Institution (hereinafter referred to as SAI) for the execution of an audit pertaining to sustainable development.

2. Assurance of the competency and independence of auditors involved in the scrutiny and attestation of non-financial disclosures.

3. Sufficiency of tools and resources for the conduct of audits on non-financial information.

Given the novelty and idiosyncrasy of this audit genre, one may posit that the gamut of requisite tools and resources, and consequently, auditor expertise, is notably circumscribed. Nevertheless, it is precisely proactive innovation that begets veracity in the domain of sophisticated ESG auditing.

The subsequent step in the preparatory phase of the audit involves the identification of key entities. The audit of non-financial information, or ESG audit, constitutes a continuous process with the following objectives:

- Assessing the effectiveness of integrating ESG principles into the national audit system.

- Evaluating the conformity of information provided in sustainable development reports to the standards under which they were compiled, as well as its alignment with financial reporting for the given period. The outcomes of this examination will enable the establishment of the credibility, objectivity, and completeness of information regarding the implementation of sustainable development principles.

- Assessing the degree of harmonization of sustainable development principles with national legislation and the extent of their integration into projects of economic, social, and environmental development.

As for the scope of ESG audit (the audit subject), it entails an examination of organizations' activities concerning the implementation of sustainable development principles and the extent of their involvement in the operational processes of the organization.

The audit scope may encompass economic entities, non-financial organizations, as well as joint-stock companies with a government stake in the capital.

Due to the relatively limited regulatory framework for conducting non-financial audits, it is recommended to employ the "Audit of Performance" standard (ISSAI 300) and the "Compliance Audit" standard (ISSAI 400) to enhance the rigor and systematic nature of the ESG audit process, addressing the current gap in the normative and legislative foundation for non-financial auditing.

ISSAI 300, focusing on the audit of performance, provides a structured approach for assessing the effectiveness of activities and processes. This standard facilitates the evaluation of how well organizations have implemented ESG principles and the extent to which these principles contribute to sustainable development objectives. On the other hand, ISSAI 400, centered around compliance auditing, offers a framework for scrutinizing adherence to established standards and regulations. When applied to ESG auditing, this standard aids in assessing the conformity of non-financial information provided in reports with the standards under which they were formulated and with the applicable legal and regulatory requirements. (ISSAI 300, ISSAI 400).

In the preparatory phase of ESG auditing, it is prudent to articulate a comprehensive roster of foundational structural elements requisite for the execution of a conventional audit. These encompass meticulously defined objectives, audit criteria, formulated hypotheses, methodologies for the collection of information, and the procurement of auditorial evidence. The delineation of objectives and criteria during this preliminary juncture serves to predefine the trajectory of the audit, the consummation of which yields auditable evidence characterized by both quality and reliability.

An auspicious practice during the preparatory stage is the cultivation of collaboration with external entities, thereby seeking expert opinions and preemptive assessments. This collaborative engagement introduces an invaluable dimension to the audit process by integrating external perspectives and insightful evaluations.

The articulated set of structural elements establishes a methodical underpinning for the ESG audit, aligning it meticulously with established audit principles and methodologies.

The precise demarcation of objectives and criteria, coupled with the infusion of expert perspectives, augments the audit process with profundity and comprehensiveness, ultimately culminating in the acquisition of robust audit evidence. This proactive and interdisciplinary approach serves to elevate the overarching quality and reliability of the ESG audit paradigm.

A pivotal aspect in the planning of an ESG audit involves the formulation of hypotheses. A hypothesis represents a probable inference arising from audit scrutiny, substantiated or refuted by evidence. It is articulated as a statement that may underscore specific risks, the occurrence of which might signify the ineffectiveness of the organization's ESG policy. An example of hypotheses in the preparatory stage of an ESG audit could be:

- Lack of well-established interaction between the organization and stakeholders regarding the development of ESG aspects, negatively impacting the organization's adherence to the concept of sustainable development.

- The organization fails to disclose information concerning sustainable development, adversely affecting its future development within the broader economic milieu.

A crucial stage in ESG auditing is the formulation of its objectives. Professional documents from INTOSAI offer principles that can serve as guidance in setting objectives:

- Analyze the measures implemented by the organization's leadership to integrate sustainable development principles into the company.

- Evaluate the completeness and accuracy of the information provided regarding the organization's policy implementation of ESG principles.

- Analyze the organization's strategy for sustainable development activities.

- Assess the completeness and accuracy of non-financial reporting regarding the implementation of ESG principles.

The subject of ESG auditing encompasses an organization's activities from the standpoint of implementing ESG principles, along with the analysis and verification of the company's non-financial reporting regarding sustainable development.

The object of ESG auditing is a commercial organization, specifically its reporting concerning ESG.

For a more nuanced understanding of the audit evidence to be obtained during the audit process, it is imperative to formulate audit criteria aligned with its objectives. Specifically, as the aim of the audit is to express an opinion regarding the reliability of non-financial reporting, the audit criteria must address questions related to the completeness, objectivity, and accuracy of the provided information. In defining audit criteria, it is crucial to trace the cause-and-effect relationship between the audit objective and the outcome. An exemplary criterion for ESG auditing could be the following assertion: the non-financial reporting provided by the organization allows for an assessment of its sustainable development performance and conforms to the reporting standards of GRI. (Global Reporting Initiative).

For a full-fledged quality audit, be it an ESG audit or any other audit, risk assessment is an important factor. A risk-oriented approach should be applied at all stages of the audit. This is important when setting audit objectives, selecting audit methods, analysing the tools required for its qualitative execution. Risk assessment unfolds in several interrelated stages:

- identification of risks at the preparatory stage of the audit, drawing up the so-called risk register, which lists the name, description of the risk, its causes and factors of occurrence;

- risk analysis includes the probability of occurrence of risk and the degree of severity of its results;

- risk prioritisation mapping. As a result of the analysis, the most significant risks for the audit are identified and prioritised.

An integral stage in conducting an ESG audit involves consultations with stakeholders and recruitment experts. Given that sustainable development and the integration of ESG concepts into the business environment are relatively new and underexplored topics, it is crucial to engage in effective interactions with stakeholders for their awareness and to gauge the extent of market participants' involvement in current issues. Additionally, seeking consultations from experts who have firmly embraced the path of sustainable development is essential. Such engagement can occur at specific stages of the ESG audit or throughout its entirety. In addition to consultations, strategic sessions, specific modeling exercises, interviews, and surveys may also be employed.

The preparatory stage is of utmost significance for a thorough and comprehensive ESG audit. The subsequent stage involves the actual execution of the ESG audit.

During the main stage, the auditor selects audit procedures in accordance with the audit objectives and the chosen methods of execution. To obtain audit evidence in ESG audits, the following procedures may be employed:

- document Collection- gathering relevant documentation.

- examination and Analysis- in-depth study and analysis of pertinent materials.

- interviews- engaging in interviews with relevant individuals.

- other procedures- implementing additional procedures as deemed necessary.

To ensure a seamless collection of necessary audit evidence during the audit process, it is crucial to establish continuous interaction with the ESG audit subject.

For the audit conclusion to be comprehensive, reliable, and aligned with the audit objectives, all collected audit evidence must be sufficient. The effectiveness of the audit procedures employed directly influences the depth and quality of the audit conclusion in the realm of ESG auditing.

Within the scope of conducting an ESG audit, organizations are advised to execute the following measures:

1) Analysis and assessment of corporate governance documents. Conducting a thorough analysis and evaluation of the company's articles of association to substantiate the incorporation of ESG principles and the alignment of its operations with the overarching framework of sustainable development. This necessitates a comprehensive examination of both constitutional documents and distinct directives mandating the assimilation of ESG principles into the organizational structure, where applicable.

2) examination of regulatory and methodological framework. Scrutinizing and appraising organizational regulatory and methodological documents to ascertain the presence of information pertaining to the integration of sustainable development principles within the company. This entails discerning the credibility, adequacy, and contemporaneity of these documents, coupled with their adherence to prevailing standards.

3) evaluation and scrutiny of non-financial reporting: Systematically studying and analyzing extant processes within the organization concerning the formulation and authentication of non-financial reporting, specifically in the context of sustainable development. This involves an initial assessment of the procedures for report generation and the delegation of responsibilities within this domain. Subsequent to this, a direct evaluation of ESG reporting is undertaken, adhering rigorously to non-financial reporting standards. The disclosure of information within the sustainable development report is

mandated to reflect the objective panorama concerning the company's environmental initiatives (both positive and negative), matters of social welfare, and managerial nuances. This information is to be presented in a temporal context spanning the preceding three years and should be characterized by comparability. The analysis of reporting should judiciously incorporate risk assessment germane to ESG factors.

4) analysis of interactional processes. Undertaking a meticulous analysis of the efficacy of the organization's interactive processes with external information consumers, clientele, and stakeholders, with a specific focus on sustainable development. Discerning the objectives of the organization concerning the ESG paradigm from the standpoint of clients and stakeholders, as well as gauging their level of involvement in the instantiation of ESG principles, assumes paramount importance. This encompasses the cultivation of a continual discourse with governmental bodies and ensuring the accessibility of communication channels with the same.

5) analysis of stakeholder contentment. Conducting a nuanced analysis of stakeholder contentment with the company's strategy vis-à-vis sustainable development. The perceptions of external users wield considerable significance in formulating a comprehensive audit judgment concerning the organization's fidelity to established ESG objectives. Methodologies such as sociological surveys and in-depth interviews may be invoked to facilitate this evaluative process.

6) comparative analysis of non-financial and financial reporting. Undertaking a comparative analysis of non-financial and financial reporting to gauge their congruence and informational resonance. The dynamic interplay between financial and non-financial information may encompass the delineation of budgetary allocations directed towards the realization of ESG objectives. Information articulated in the ESG report is obliged to complement, rather than contradict, the information disseminated in the financial report.

7) benchmarking against international practices. For a panoramic understanding, it is recommended to juxtapose the implementation of ESG concepts within the operational framework of the entity against international practices. This exercise aims to identify potentially more sophisticated practices in effectuating the principles of sustainable development.

To ensure the unimpeded acquisition of audit evidence, a judicious approach involves furnishing entities undergoing ESG audits with a succinct questionnaire, encapsulating queries germane to the thematic elements expounded in this section within the ambit of the information solicitation process.

As the ESG audit progresses through its pivotal phase, the auditor is engaged in the meticulous construction, analysis, and evaluation of information within working documents. It is at this juncture that conclusions and recommendations take shape, intertwining with the discernment and evaluation of risks previously identified and articulated in the risk map during the preparatory phase. Culminating these procedures is the meticulous crafting of the auditor's denouement (Mielcarz et al., 2023; Bhagwonparsadh, Y., & Pule, K. 2023).

The auditor's pronouncement on non-financial reporting, analogously paralleling its financial counterpart, is mandated to conform to elemental criteria:

- conciseness and brevity: The termination of the audit should manifest as a distilled synthesis of the executed endeavor, furnishing affirmative insights without succumbing to the pitfalls of redundancy or tautological convolution.

- clarity and understandability. Given that the auditor's report is primarily tailored for external information consumers and stakeholders, it is incumbent upon it to eschew the pitfalls of jargon-laden intricacies. However, this linguistic prudence should not compromise the report's requisite tone of professionalism, transcending the perils of oversimplification.

- representational integrity of information. Augmenting the perspicuity of the information embedded within the auditor's report finds facilitation through the strategic integration of visualization tools. Tables, diagrams, charts, and illustrations operate as conduits for enhanced comprehension and explication.

The summation in an ESG audit serves as a manifestation of a company's depth of engagement in the assimilation of ESG principles into its operational framework, the fidelity and comprehensiveness of non-financial data encapsulated in its report, and the organization's commitment to continued adherence to the tenets of sustainable development. An illustrative exemplification of an adapted conclusion might elucidate that the scrutinized entity omits disclosure on pivotal matters; the ESG report exhibits lacunae on specific facets, and the organization furnishes no substantive rationale for the non-inclusion of particular data in the non-financial report.

A seamless segue from these deductions involves proffering recommendations to the audited entity. Ergo, these recommendations are calibrated to potentially ameliorate the identified inadequacies outlined in the conclusion. They are envisaged to be precision-targeted, succinct, cognitively accessible, and perspicuously delineate concrete measures requisite for mitigating pinpointed issues and their consequentialities vis-à-vis sustainable development.

During subsequent ESG audits, the organization's assiduity in assimilating the proffered recommendations can be appraised, affording an analytical lens to scrutinize the efficaciousness of measures undertaken or planned to rectify previously ascertained issues.

CONCLUSION

ESG auditing stands as a pivotal component of contemporary corporate governance, serving as a metric to assess a company's adherence to environmental, social, and governance criteria. The reports produced by enterprises, encompassing indicators related to sustainable development, exert a substantial positive influence on two key user groups. The first group, comprising investors, seeks a deeper understanding of sustainability-related risks and prospects, aiming to comprehend the impact of their investments on society and the environment. The second group, inclusive of civil society entities such as non-governmental organizations and social partners, endeavors to more effectively monitor their commitments regarding societal and environmental impact accountability.

Ultimately, comparable and detailed information, validated by independent auditing specialists, cultivates a conducive environment for the development and growth of the economic system, contributing to its more balanced and sustainable evolution. Therefore, the execution of an ESG audit should undoubtedly be regarded as a contemporary solution for the efficient collection, management, and analysis of data, facilitating the enhancement of assessment and management processes related to the sustainability of corporate operations.

References

Afanasiev, M.P., Shash, N.N. New Information in Financial Disclosures Related to Sustainable Development in the Concept of ESG (Version IFRS). Stud. Russ. Econ. Dev. 34, 696–703 (2023). https://doi.org/10.1134/S1075700723050027

Akhmetshin, E. M., Vasilev, V. L., Mironov, D. S., Zatsarinnaya, E. I., Romanova, M. V., & Yumashev, A. V. (2018). Internal control system in enterprise management: Analysis and interaction matrices. European Research Studies Journal, 21(2), 728-740.

Asante-Appiah, B. (2020). Does the severity of a client's negative environmental, social and governance reputation affect audit effort and audit quality?. Journal of Accounting and Public Policy, 39, 106713. https://doi.org/10.1016/j.jaccpubpol.2019.106713.

Asante-Appiah, B., Lambert, T.A. The role of the external auditor in managing environmental, social, and governance (ESG) reputation risk. Rev Account Stud (2022). https://doi.org/10.1007/s11142-022-09706-z

Bhagwonparsadh, Y., & Pule, K. (2023). Learning Support Strategies to Overcome the Effects of Promoting Condoned Senior Phase Mathematics Learners to the FET Phase. Research in Social Sciences and Technology, 8(1), 16-30. https://doi.org/10.46303/ressat.2023.2

Baraboshkina, A. V., & Kudryavtseva, O. V. (2023). Assessment of competitiveness of a Russian electric car as a substantiation of the need to stimulate electric cars market in Russia. Russian Journal of Economics and Law, 17(2), 269–288. http://dx.doi.org/10.21202/2782-2923.2023.2.269-288

Begishev, I., Khisamova, Z. & Vasyukov. V. (2021). Technological, Ethical, Environmental and Legal Aspects of Robotics. E3S Web of Conferences 244, 12028. https://doi.org/10.1051/e3sconf/202124412028

Belousov, A. L. (2022). Legal and organizational aspects of introducing ESG-standards in the Russian banking sector. Russian Journal of Economics and Law, 16(3), 577–586. http://dx.doi.org/10.21202/2782-2923.2022.3.577-586

Compiled by the authors on the basis of Information Letter of the Bank of Russia No IN-06-28/49 dated 12.07.2021 "On Recommendations on the Disclosure by Public Joint Stock Companies of Non-Financial Information Correlation with the Activities of Such Companies" https://www.cbr.ru/StaticHtml/File/117620/20210712_in-06-28_49.pdf, section 4.

Directive on corporate non-financial reporting. Corporate Sustainability Reporting Directive (CSRD) (2022) https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464

Draft ESG Audit Guidelines prepared by the INTOSAI Working Group on SDGs and Key Sustainable Development Indicators (2023). https://ach.gov.ru/upload/pdf/intosai-working-group-on-key-national-indicators-/Проект%20Руководства%20по%20ESG%20аудиту.pdf

ESG-TRANSFORMATION: ECOtrends in Real Estate. (2022). https://urbanru.ru/events/konferentsiya-esg-transformatsiya-ekotrendy-v-nedvizhimosti/

European Commission Directive on the disclosure of non-financial reporting data. DIRECTIVE 2014/95/EU (2022). https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32014L0095

Giudice, A., & Rigamonti, S. (2020). Does Audit Improve the Quality of ESG Scores? Evidence from Corporate Misconduct. Sustainability. https://doi.org/10.3390/su12145670.

Global Reporting Initiative, GRI. https://rben.ru/home-old/2-pages/341-standart-globalnoj-initsiativy-po-otchetnosti-global-reporting-initiative-gri

Guidance on social responsibility (2015). https://docs.cntd.ru/document/1200097847

Hwang, J., Kim, H., & Jung, D. (2021). The Effect of ESG Activities on Financial Performance during the COVID-19 Pandemic—Evidence from Korea. Sustainability. https://doi.org/10.3390/su132011362.

Iarutin, Ia. K., & Gulyaeva, E. E. (2023). International and Russian Legal Regulation of the Turnover of Crypto-assets: Conceptual-Terminological Correlation. Journal of Digital Technologies and Law, 1(3), 725–751. https://doi.org/10.21202/jdtl.2023.32

Information Letter on recommendations on disclosure by public joint stock companies of non-financial information correlation to the activities of such companies (2021). https://www.cbr.ru/StaticHtml/File/117620/20210712_in-06-28_49.pdf

International Standard on Supreme Audit Institutions ISSAI 300. https://www.eurosai.org/handle404?exporturi=/export/sites/eurosai/.content/documents/others/ISSAI/ISSAI-300-Performance-Audit-Principles_RU.pdf

International Standard on Supreme Audit Institutions ISSAI 400 https://www.eurosai.org/handle404?exporturi=/export/sites/eurosai/.content/documents/others/ISSAI/ISSAI-400-ruso.pdf

ISO 26000 Social responsibility (2017). https://www.iso.org/iso-26000-social-responsibility.html

Kaplan, R., & Ramanna, K. (2021). How to Fix ESG Reporting. Accounting. https://doi.org/10.2139/ssrn.3900146.

Korableva, O. N., Gorelov, N., & Kalimullina, O. (2020a). Contemporary issues of intellectual capital: Bibliographic analysis doi:10.1007/978-3-030-48021-9_51

Korableva, O. N., Mityakova, V. N., & Kalimullina, O. V. (2020b). Designing a decision support system for predicting innovation activity. Paper presented at the ICEIS 2020 - Proceedings of the 22nd International Conference on Enterprise Information Systems, , 1 619-625.

Kovalenko, S., Prodanova, N., Georgadze, N., & Sergeenkov, A. (2023). The procedure for the participation of small business entities-agricultural producers in the public procurement process. Siberian Journal of Life Sciences and Agriculture, 15(3), 436-457. https://doi.org/10.12731/2658-6649-2023-15-3-436-457

Kuts, V., Abushenkova, M., Zhuravlev, P., & Kurnosov, V. (2023). Improvement of working conditions in rural areas through the formation of infrastructure for agricultural services. Siberian Journal of Life Sciences and Agriculture, 15(3), 387-408. https://doi.org/10.12731/2658-6649-2023-15-3-387-408

Ling, V. V., & Yumashev, A. V. (2018). Estimation of worker encouragement system at industrial enterprise. Espacios, 39(28).

Mielcarz, P., Osiichuk, D. & Puławska, K. Increasing shareholder focus: the repercussions of the 2015 corporate governance reform in Japan. J Manag Gov 27, 1017–1047 (2023). https://doi.org/10.1007/s10997-02

Minich, S. A. (2023). Improving the System of Mandatory Requirements to Business under the Digital Transformation of Economy. Journal of Digital Technologies and Law, 1(3), 775–802. https://doi.org/10.21202/jdtl.2023.34

Muradyan, S. V. (2023). Digital Assets: Legal Regulation and Estimation of Risks. Journal of Digital Technologies and Law, 1(1), 123–151. https://doi.org/10.21202/jdtl.2023.5

Narula, R., Rao, P. & Rao, A.A. Impact of ESG on firm value: a conceptual review of the literature.J. Soc. Econ. Dev. (2023). https://doi.org/10.1007/s40847-023-00267-8

Nascimento, S. N. & Martins, D.G.D. (2022). Smart Contracts: Security Issues and Further Development in Brazil. International Journal of Law in Changing World, 1(2), 26-45. https://doi.org/10.54934/ijlcw.v1i2.22

National Register of Corporate Non-Financial Reports (2023). https://rspp.ru/sustainable_development/registr/

Poghosyan, V. (2018). Philosophies of social behavior research: Meta-analytic review. Wisdom, 11(2), 85-92. doi:10.24234/wisdom.v11i2.212

Proposals for a relevant and dynamic EU sustainability reporting

Report on Sustainable Development Goals 2030 (2015). https://www.un.org/sustainabledevelopment/ru/about/development-agenda/

Saenko, N., Nyanga Gakosso, C., Mezhlumyan, N., Smirnov, A., & Rogulin, R. (2021). Analysis of approaches to the formation of economic mechanisms of supply chain management. Foresight, 23(5), 583-596. doi:10.1108/FS-10-2020-0111

Serafeim, G., Yoon, A. Stock price reactions to ESG news: the role of ESG ratings and disagreement. Rev Account Stud 28, 1500–1530 (2023). https://doi.org/10.1007/s11142-022-09675-3

Standard-setting. FRAG (2021). https://finance.ec.europa.eu/system/files/2021-03/210308-report-efrag-sustainability-reporting-standard-setting_en.pdf

Suttipun, M. The influence of board composition on environmental, social and governance (ESG) disclosure of Thai listed companies. Int J Discl Gov 18, 391–402 (2021). https://doi.org/10.1057/s41310-021-00120-6

The Concept of Development of Public Non-Financial Reporting. Order of the Government of the Russian Federation No 876-r dated 05.05.2017 "On the Concept for the Development of Public Non-Financial Reporting and the Action Plan for its Implementation" (2017). https://base.garant.ru/71673686/?ysclid=l67qwjor1l638715389

The draft federal law "On Public Non-Financial Reporting" (2017). https://www.consultant.ru/cons/cgi/online.cgi?req=doc;base=PRJ;n=167355#JvbSrfTMNalzgcAe

The Global Reporting Initiative Standards (GRI Standards). Sustainability Reporting Guidelines (2006). https://rspp.ru/12/11938.pdf

Time for transparency through ESG reporting (2022). https://www.pwc.nl/en/insights-and-publications/themes/sustainability/time-for-transparency-through-esg-reporting.html

Volkova, P., Luginina, A., Saenko, N., Samusenkov, V. Virtual reality: Pro et contra. Journal of Social Studies Education Research, 2020, 11(4), p. 190–203.

Wang, W., Yu, Y., & Li, X. (2022). ESG performance, auditing quality, and investment efficiency: Empirical evidence from China. Frontiers in Psychology, 13. https://doi.org/10.3389/fpsyg.2022.948674.