



Audit: Assessment of Compliance with the Principles of Sustainable Development

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Abstract: This article discusses the factors influencing the occurrence of ESG risks from the perspective of internal audit. The purpose of this research is to develop an internal administrative and administrative document for internal audit aimed at confirming that companies conduct socially responsible business. The study is based on a comparative analysis of metallurgical companies, in terms of compliance with socially responsible principles. It can be stated that the shift in the focus of the sustainable development agenda to the conduct of socially responsible business was a response to the global shocks of 2020-2022. The Covid-19 pandemic and the post-pandemic syndrome, exacerbation of socio-economic contradictions, sanctions pressure and the policy of cancelling the Russian culture and business in all areas. Based on the results of the study, the author proposed a set of internal regulations for the auditor, capable of testing the company's internal control system, as well as minimizing potential ESG risks, which, in the future, will make it possible to declare the introduction of the principles of socially responsible business into the practical activities of companies both in Russia and abroad for various areas of functioning.

Keywords: audit; audit activity; ESG; metallurgical companies; non-financial reporting; risks; sustainable development

1. Introduction

The functioning of modern business is impossible without the emergence of risks in the field of sustainable development. Environmental and social factors underlying the concept of sustainable development, such as: assessment of the competence and working conditions of the organization's personnel, environmental protection, industrial safety, as well as interaction with stakeholders, including in the regions of presence - all this has a significant impact not only on the financial performance, but also directly affects the stability of the company in the market and in the industry as a whole.^[1-10]

However, changes in the geopolitical situation, volatility in oil and gas prices, sanctions pressure on Russian businesses and their owners, freezing of domestic assets, the "cancellation" policy - all this had a key impact on the revision of the ESG agenda not only in Russia, but and all over the world. At the end of 2022, there is a shift in the vector of global priorities: the re-opening of coal-fired and thermal power plants and nuclear power plants, modification of the vector of environmental and climate policies of business, a shift in priorities from ecology and management to the social sphere. Regardless of the change in the world order and sustainable development strategy, ESG risks will still remain relevant and, as a result, will also require analysis and subsequent minimization of possible risks,^[1] which determines the relevance of this article.

Approaches to assessing ESG risks from the standpoint of external and internal audit, with a shift in focus to social responsibility, are considered in the works of Russian authors: (Bulyga & Safonova, 2022),^[2] (Kazakova, 2022),^[6] (Kazakova & Doan Thi Lok, 2021),^[7] (Kogdenko & Kazakova, 2021),^[8] (Melnik & Dvoreckaya, 2022)^[9] and other authors.^[1,3-5,16]

In publications of foreign authors (Wang, Yu & Li, 2022),^[17] (Zahid, Khan, Anwar et al., (2022),^[18] (Zhang & Wong, 2022)^[19] the focus of the study is also shifting in favor of reducing the efficiency and returns from doing business in compliance with ESG principles. (Wang, Yu & Li, 2022),^[17] (Zahid, Khan, Anwar et al., (2022)^[18] state the negative impact of the ESG agenda, which affects the financial results of European business, measured by return on assets. The second factor is the negative impact of conducting other activities other than audits and reviews, especially those audited by the «Big Four» audit companies, whose authority is significantly reduced. In the course of the research, a direct dependence of the volume of investments in ESG and an increase in the revenue of European companies was revealed, due to an increase in business transparency and investment attractiveness, compared with competitors that do not implement the ESG agenda. The considered facts confirm the shift in the role of the ESG agenda towards social responsibility in the activities of Russian and foreign companies and the strengthening of the role of corporate social responsibility of business.

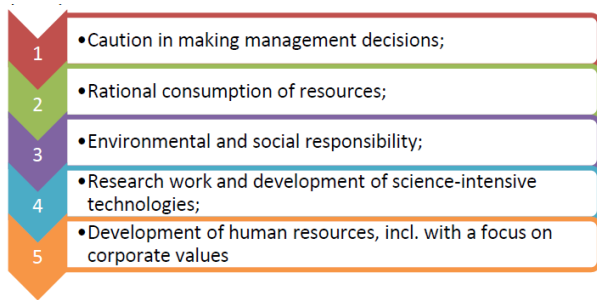


Fig. 1. Key principles of sustainable development assessed in the audit

2. Experimental Section

The audit of compliance with the principles of sustainable development is based on a set of consistent procedures in the field of sustainable development, namely: the development of principles of sustainable development, current and prospective monitoring of their implementation, as well as minimizing potential risks and measures for their timely adjustment. Fig. 1 presents the key sustainability principles assessed in the audit.

Caution in making managerial decisions implies the reasonable functioning of a business in the face of constant changes in the external and internal environment, as well as the economic and political sphere. Rational use of resources implies the use of a limited number of resources obtained from outside, as well as planning when using renewable resources. Rational use of resources implies an objective assessment of the impact of business on the environment, as well as monitoring efficiency while minimizing the consequences of such impact. Environmental and social responsibility lies in the reasonable consumption of resources at the level of not only an individual company, but also each employee and department. In addition, an important role is played by labor protection and industrial safety. Research and development of knowledge-intensive industries consists in the development of practical tools to improve business efficiency, using modern technologies that reduce potential risks of activity, as well as reduce the level of environmental pollution. Development of human resources - encouraging staff not only to perform current and future tasks, but also bringing the concept of sustainable development to each employee, as well as analyzing the understanding of the company's values by each individual employee. Compliance with and evaluation of all principles of sustainable development implies building a significant economic and analytical process that can compare the principles of sustainable development with the financial performance of the company.

Fig. 2 presents the main objectives of the audit in the field of sustainable development.

In the process of analyzing the key objectives of the audit in the field of sustainable development, internal auditors unify financial processes in terms of sustainable development, as well as synchronize internal business processes with the scale, business model and development phase of the company. Based on the assessment of tasks in the field of sustainable development, the system of relationships with stakeholders is harmonized, and a system of strategic development of the company is formed.



Fig. 2. Key tasks of audit in the field of sustainable development

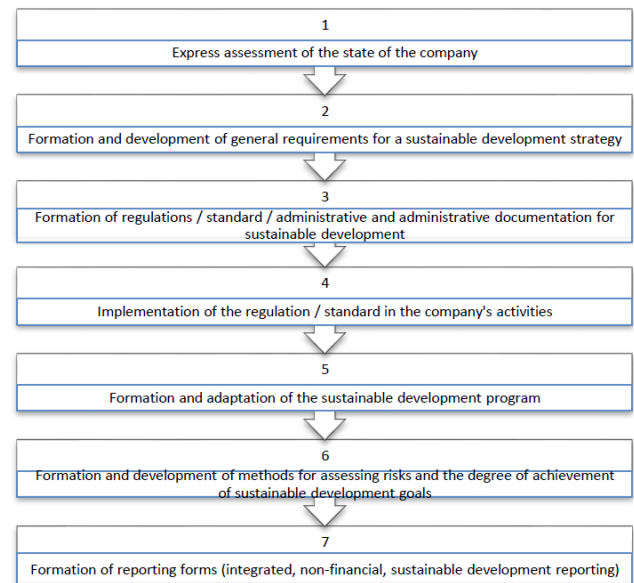


Fig. 3. Key stages of the auditor's work in the formation and evaluation of a sustainable business development strategy.

2.1. Key stages of the auditor's work in the formation and evaluation of a sustainable business development strategy

Based on the stages of the auditor's work, when forming and evaluating a strategy for sustainable business development, strategic planning of the goals and objectives of the business is implemented, using the methods of economic and mathematical modeling and statistical evaluation. Fig. 3 shows the key stages of the auditor's work in the formation and evaluation of a sustainable business development strategy.

The shift of the ESG vector towards the conduct of socially responsible business implies: the introduction of measures for the protection of labor and health of personnel, the development of motivational measures for personnel, the development and implementation of social programs, as well as the development of human resources and training programs for personnel.

2.1.1. Analysis of metallurgical companies for compliance of their ESG strategy with socially responsible principles

To confirm the research hypothesis about the shift of the vector of sustainable business towards social responsibility, it was decided to analyze a sample of 47 largest companies in the metallurgical industry in Russia. In parallel, the author analyzed the existing ESG

Table 1. Performance indicators of metallurgical companies in the field of ESG -rating in 2021.

Name	Social performance rating	Social Responsibility Rating	ESG Reporting Rating	Carbon footprint rating	Analysis of indicators based on the sustainability report
Metalloinvest	+	+	-	+	+
NLMK	+	+	+	+	+
OMK	+	+	+	+	+
Severstal	+	+	-	+	+
TMK	+	+	-	-	+

Table 2. Metallurgical companies that apply the principles of corporate social responsibility in their activities.

Name	Social performance rating	Social Responsibility Rating
Metalloinvest	+	+
NLMK	+	+
OMK	+	+
Severstal	+	+
TMK	+	+

ratings in Russia, as a result of which 5 largest metallurgical companies present in all ESG ratings (AKRA, Expert, Kommersant, RBC, etc.) were selected. Table 1 presents the 5 largest companies - representatives of the metallurgical industry,^[11-15] that are significant from the point of view of implementation according to the ESG policy.

The sample of companies confirms the commitment to adherence to the principles of sustainable development and, especially, the principles of corporate social responsibility. Next, we analyze the selected companies in terms of the use of socially responsible practices in their activities, Table 2.

The key to using socially responsible principles is to involve stakeholders in the social and environmental activities of companies, as well as to analyze their effectiveness in terms of their impact on the social environment and ecosystem of companies in the region of presence.

2.1.2. Analysis of reports on the sustainable development of metallurgical companies in 2021, in terms of conducting socially responsible business

It should be noted that environmental and industrial safety plays a key role in shaping the performance. Reducing emissions, reducing the carbon footprint and reducing injuries at enterprises, as well as stimulating human resources, as elements of running a socially responsible business, directly affect the increase in the degree of trust not only in the non-financial reporting of the analyzed companies, but also in the metallurgical industry, generally (Table 3).

3. Results and Discussions

Based on the results of the analysis of the use of the principles of socially responsible business among metallurgical companies, it was decided to develop an administrative document for internal auditors capable of conducting an express assessment of the company's implementation of the socially responsible business policy, Table 4.

Table 3. Analysis of reports on the sustainable development of metallurgical companies in 2021, in terms of conducting socially responsible business.

Name	Sustainable development	Corporate governance and industrial safety
Metalloinvest	Increasing the economic effect of social events by 400 million rubles.	Conducting social responsibility audits at the request of key customers at the company's enterprises.
	100% involvement of personnel in the conduct of environmental information and training activities.	Start of automation of the system for collecting data on ESG indicators for public non-financial reporting.
	A system for questioning and accrediting suppliers in terms of sustainable development has been introduced, operating on the b2b platform.	Updating the anti-corruption policy.
NLMK	Pilot launch of the risk hunting program in three workshops at each plant.	Adoption of an updated stakeholder engagement policy.
		Conducting an audit of professional risks at all enterprises of the company.
OMK	Reducing the magnitude of industrial injuries and improving labor safety.	Improving the organization of labor, effective management of the working time fund.
		Application of tools for optimizing the organizational structure, small-scale mechanization and automation of processes, optimizing the organizational structure.
Severstal	Reducing the rate of industrial injuries.	Improving the organization of labor, effective management of the working time fund.
		Development of organizational capacity - customer focus, innovation, investment activity, digitalization
TMK	Reducing the magnitude of industrial injuries and improving labor safety.	Conducting an audit of professional risks at all enterprises of the company.

The working document of the internal auditor "Test-assessment of compliance with the principles of sustainable development in terms of conducting socially responsible business" will allow for an express assessment of the company in terms of implementing the policy of socially responsible business. The analyzed principles will help identify potential risks and "problem areas" of sustainable business development. Based on the data obtained during testing, the internal auditor forms a process for monitoring and evaluating the effectiveness of activities in a sustainable development environment, and the company's management will be able to develop such regulations and a development strategy that will be aimed at complying with all socially responsible requirements adopted at the global level.

ESG aspects have no boundaries, such as states or continents, and the violation of the ecological and social balance can lead to even more serious consequences for society and world economies.

Table 4. Working paper of the internal auditor - Test-assessment of compliance with the principles of sustainable development in terms of conducting socially responsible business.

The principle of social responsibility	Target setting	Auditor Recommendation
Compliance	Absence of violations of the law and the regulatory framework	Testing the internal control system in the field of compliance with the law. Study of resolution documents on doing business, including penalties for their violation.
Compliance with ethical and corporate requirements	Compliance with the code of corporate conduct / ethics.	Comparison of results with best business practices.
Compliance with socially significant principles and avoidance of conflicts on the part of the company and stakeholders	Avoidance of green washing. Evaluation of the marketing and PR-strategy of the business in terms of compliance not only with the company's goals, but also with socially significant principles.	Testing the marketing and PR strategy of the company, in order to avoid superficial declaration of values and "green laundering of brands", without actual work.
Availability of developments in the field of education and health	Assessing the reliability and quality of existing studies.	Testing internal regulations and developments in terms of reliability and avoiding a formal approach.
Development of solutions for the use of natural resources	Assessing the reliability and quality of existing research on nature and resource conservation	Testing internal regulations and developments in terms of reliability and avoiding a formal approach.
Development of solutions to minimize social inequality, including the availability of insurance, socially important and medical services	Development of programs and solutions that minimize the elements of social inequality in the team and in society.	Testing internal regulations and developments in terms of reliability and avoiding a formal approach.
Creation of a comfortable environment for life and conditions for self-development of personnel in the regions of presence	Implementation of policies and procedures for training, development and building the human resources potential of employees.	Testing policies and procedures for training, development and building staff capacity in terms of credibility and avoidance of a formal approach.
Implementation of charitable programs and support programs for those in need	Formation of charitable programs and assessment of the degree of their implementation.	Assessing the reliability and degree of responsibility of on-going charitable programs and avoiding a formal approach.
Development and implementation of innovations	Creation of regulations on innovative developments and new technologies.	Testing regulations on innovation and assessing their reliability. Checking for borrowings and copying newly created and previously created developments.
Information openness	Creating an atmosphere of transparency and openness of business for stakeholders and investors. Public declaration of financial and non-financial results and preparation of non-financial reporting.	Testing the internal control system for reliability in relation to stakeholders and society. Reconciliation of the reliability of non-financial reporting data with the data of auditors and independent appraisers

Despite the inconsistency of economic processes, the geopolitical situation and the prerequisites for global crises in various sectors, the strategy of "sustainability" in one form or another will be observed in the future. A vivid confirmation of this thesis is the formation of a socially oriented budget of the Russian Federation for 2023-2025, which globally guarantees the fulfilment of social obligations at all levels of regulation and control.

3.1. Practical use of research results

The results and working paper of internal auditor developed in the course of this study are used in the teaching of academic disciplines at the Higher School of Finance of the Plekhanov Russian University of Economics in the disciplines "Intra-company financial controlling" and "Financial analysis of business according to Russian and international standards" for the level of master's degree, as well as in the course of the implementation of research work at the Plekhanov Russian University of Economics "Monitoring of sectoral risks of financial security in the digital environment using the Harvard paradigm of industry analysis".

4. Conclusions

Despite the existing contradictions in the economic and political situation, economic shocks and prerequisites for global crises, the sustainable development agenda will continue to exist and develop. Based on the results of the research, it was revealed that the ESG agenda is gradually shifting towards compliance with the principles of socially responsible business.

The analysis of the largest metallurgical companies and their independent rating by influential sources made it possible to confirm the conclusion about the key influence of social factors and increase the investment attractiveness of a business that complies with these principles.

The key result of the research was the development of an internal auditor's procedure for express assessment of the company, from the point of view of implementing the policy of socially responsible business. The proposed developments have the prospect of being used in procedures for monitoring the effectiveness of compliance with the ESG policy by internal auditors of companies and mega-regulators at various levels around the world, which can not only integrate the Russian experience of doing socially responsible business into foreign practices, but also increase the transparency and attractiveness of the Russian economy for investors.

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Conflicts of Interest

The authors declare no conflict of interest.

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