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Internal Audit's Role in Supporting Sustainability Reporting

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ABSTRACT

In today's corporate environment, sustainability reporting is becoming increasingly important for companies, as it allows them to disclose their environmental, social and governance (ESG) activities to stakeholders. Due to the growing emphasis on existing business practices and corporate governance, the demand for transparent and reliable sustainability reporting has increased significantly. In light of these changes, the role of internal audit in supporting sustainability reporting is important. The internal audit function plays a special role in providing companies with independent assurances and consulting services, ensuring the effectiveness of risk management, internal control and management processes. Since companies incorporate ESG goals into their strategies and activities, internal auditing is explicitly one of the guarantors of preparing reliable and complete sustainability reporting. By developing and/or using risk assessment, control assessment, and appropriate methodologies, internal audits can help companies improve the quality and accuracy of sustainability reporting. The present article outlines the role, importance and support of internal audit in preparing sustainability reporting. It examines the challenges and opportunities associated with the integration of ESG factors into internal audit practice, the evolution of the regulatory environment governing sustainability reporting, and strategies to improve the effectiveness of internal audit in this context. The purpose of this article is, based on a comprehensive review of the literature and analysis of best practices, to provide a vision of how internal audit can improve sustainability reporting and contribute to the continuous and stable development of the company.

1. INTRODUCTION

In recent years, the concept of sustainability has garnered significant attention from stakeholders across various sectors, driven by growing awareness of environmental, social, and governance (ESG) considerations called: responsible attitude to the environment, high social responsibility, high quality of corporate governance [1]. In recent years, the concept of sustainability has garnered significant attention from stakeholders across various sectors, driven by growing awareness of environmental, social, and governance (ESG) considerations called: responsible attitude to the environment, high social responsibility, high quality of corporate governance.

In contemporary business discourse, the imperative of sustainability has transcended its origins as a niche concern to become a mainstream consideration for organizations worldwide. The burgeoning awareness of environmental degradation, social inequality, and corporate governance failures has propelled sustainability to the forefront of corporate agendas. Consequently, stakeholders increasingly demand transparency, accountability, and tangible action from organizations to address these multifaceted challenges. Sustainability reporting, as a mechanism for disclosing organizations' economic, environmental, and social impacts, has emerged as a pivotal tool for meeting these expectations and fostering stakeholder trust.

Amid this landscape, internal audit—an established function responsible for evaluating and enhancing the effectiveness of an organization's risk management, control, and governance processes—has undergone a notable evolution. Traditionally focused on financial and operational matters, internal audit has adapted its scope to encompass broader considerations, including sustainability-related risks and opportunities. Consequently, internal audit functions are now uniquely positioned to contribute to the advancement of sustainability objectives within organizations.

This introduction sets the stage for a comprehensive exploration of the role of internal audit in supporting sustainability reporting. Drawing upon scholarly literature, industry reports, and practical insights, this article aims to elucidate the multifaceted relationship between internal audit functions and sustainability reporting practices. Specifically, it seeks to delineate the mechanisms through which internal audit can enhance the reliability, credibility, and effectiveness of sustainability reporting processes and disclosures.

The relevance of this topic cannot be overstated. As organizations grapple with the complexities of sustainability challenges, they must navigate a landscape fraught with risks and uncertainties. Effective sustainability reporting not only facilitates stakeholder engagement and fosters trust but also enables organizations to identify and mitigate risks, capitalize on opportunities, and drive long-term value creation. In this context, internal audit emerges as a critical ally, providing independent assurance and insights to management and the board of directors on the robustness of sustainability-related processes, controls, and disclosures.

Through an interdisciplinary lens encompassing auditing, sustainability, and corporate governance, this article aims to advance scholarly understanding and practitioner knowledge of the pivotal role played by internal audit in supporting sustainability reporting. By synthesizing theoretical frameworks, empirical evidence, and practical experiences, it seeks to offer actionable insights and recommendations to organizations seeking to enhance their sustainability performance and reporting practices.

The ensuing sections of this article will delve into a comprehensive examination of the evolving role of internal audit in supporting sustainability reporting initiatives. It will analyze the challenges and opportunities faced by internal audit functions in assessing the adequacy and effectiveness of sustainability-related processes, controls, and disclosures. Moreover, it will explore the methodologies, tools, and best practices employed by internal auditors to address sustainability risks, identify opportunities for improvement, and enhance organizational sustainability performance [2].

In conclusion, this article underscores the critical importance of internal audit in the sustainability reporting landscape. It advocates for greater collaboration between internal audit, sustainability, and other organizational functions to foster a culture of accountability, transparency, and continuous improvement in sustainability practices. Ultimately, it is envisaged that this research will contribute to the ongoing discourse on corporate sustainability and governance, offering valuable insights to academics, practitioners, policymakers, and other stakeholders invested in advancing sustainable development agendas.

2. LITERATURE REVIEW

The integration of sustainability considerations into organizational practices has become increasingly paramount in contemporary business discourse, driven by evolving stakeholder expectations, regulatory requirements, and the imperative of sustainable development. Within this context, the role of internal audit in supporting sustainability reporting has garnered significant attention from scholars, practitioners, and policymakers alike. This literature review aims to provide a comprehensive overview of the existing body of research on this topic, highlighting key themes, trends, and insights from academic studies, industry reports, and regulatory frameworks.

2.1 Evolution of internal audit in the context of sustainability reporting

Scholars have underscored the evolution of internal audit functions to encompass sustainability-related considerations. Initially focused primarily on financial and operational matters, internal audit has expanded its scope to include environmental, social, and governance (ESG) factors. This evolution reflects a broader recognition of the interconnectedness between organizational performance, risk management, and sustainability outcomes [3].

2.2 Benefits and opportunities of integrating sustainability into internal audit

Research has highlighted the potential benefits and opportunities associated with integrating sustainability considerations into internal audit methodologies. By incorporating ESG factors into risk assessments and audit processes, internal auditors can identify emerging risks, evaluate the effectiveness of sustainability controls, and provide assurance on the reliability of sustainability disclosures. Moreover, internal audit functions can contribute to enhancing stakeholder trust, driving innovation, and promoting long-term value creation within organizations.

2.3 Challenges and barriers

Despite the potential benefits, scholars have identified several challenges and barriers to effectively supporting sustainability reporting within internal audit practices. These challenges include a lack of standardized methodologies and metrics for assessing sustainability performance, limited awareness and expertise among internal auditors on sustainability-related issues, and organizational silos that hinder collaboration between internal audit and sustainability functions [4]. Overcoming these barriers requires concerted efforts to enhance internal audit's sustainability-related capabilities, foster collaboration across organizational boundaries, and integrate sustainability considerations into audit processes and methodologies.

2.4 Regulatory implications

The literature also highlights the impact of regulatory initiatives on the role of internal audit in sustainability reporting. Regulatory frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD) [5] and the EU Non-financial Reporting Directive (NFRD) have heightened expectations for transparency and disclosure around sustainability-related issues. Internal auditors play a crucial role in ensuring compliance with these regulations and validating the accuracy and reliability of sustainability reporting [6].

2.5 Best practices and recommendations

In response to the evolving landscape of sustainability reporting, scholars and practitioners have proposed several best practices and recommendations for internal audit functions. These include developing specialized knowledge and skills in sustainability-related issues, fostering collaboration and knowledge sharing between internal audit and sustainability functions, and aligning audit methodologies with emerging sustainability standards and frameworks [7].

In summary, the literature on the role of internal audit in supporting sustainability reporting reflects a growing recognition of the importance of integrating sustainability considerations into internal audit practices. While significant progress has been made in this area, challenges remain in terms of enhancing internal audit's sustainability-related capabilities, overcoming organizational barriers, and navigating evolving regulatory requirements. By addressing these challenges and leveraging best practices, internal audit functions can play a pivotal role in advancing sustainability objectives and driving positive social, environmental, and economic outcomes.

3. METHODOLOGY

The Article draws upon a tapestry of guidelines, recommendations, and best practices sourced from a diverse array of authoritative bodies and sources. Foremost among these are the guidelines and recommendation materials provided by the International Sustainability Standards Board (ISSB), a preeminent organization dedicated to developing globally recognized sustainability reporting standards. The ISSB's framework serves as a cornerstone for understanding and implementing sustainability reporting practices, providing a robust foundation upon which organizations can build their reporting frameworks.

In addition to the ISSB, the Article also leverages the expertise and insights of international audit firms commonly referred to as the "Big Four" (Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY), and KPMG). These firms possess unparalleled experience and knowledge in auditing and assurance services, including the auditing of sustainability reports. Their methodologies, frameworks, and guidance materials offer invaluable perspectives on how internal audit functions can effectively support sustainability reporting initiatives within organizations.

Moreover, the Article synthesizes findings and insights gleaned from a comprehensive review of scholarly articles and research studies in the fields of auditing, sustainability, and corporate governance. By drawing upon the latest academic literature, the Article ensures that its analysis is informed by cutting-edge research and theoretical frameworks, thereby enhancing the rigor and credibility of its conclusions.

Methodologically, the Article employs a variety of analytical techniques, including methods of analysis, systematization, and comparison. Through systematic analysis, the Article dissects and evaluates the key components of sustainability reporting frameworks, identifying strengths, weaknesses, and areas for improvement. Systematization allows for the organization and categorization of vast amounts of information, enabling readers to grasp complex concepts and relationships more easily. Additionally, comparison techniques facilitate benchmarking against industry peers and best practices, offering valuable insights into leading approaches and strategies.

By synthesizing insights from ISSB guidelines, the expertise of the "Big Four" audit firms, scholarly research, and methodological approaches, the Article endeavors to provide a comprehensive and nuanced understanding of the role of internal audit in supporting sustainability reporting. Through this multifaceted approach, the Article aims to offer practical recommendations and actionable insights that can empower organizations to enhance their sustainability reporting practices and drive meaningful progress toward sustainable development goals.

4. DISCUSSION

ESG is a global trend and not just a US-European initiative, as evidenced by the State of Play in Sustainability Assurance/ Benchmarking Global Practice survey [8]: 79% of the largest companies in China (excluding Hong Kong) publish ESG reporting, of which 54% are reporting based on GRI (Global Reporting Initiative) standards [9], 100% (62%) in Hong Kong, 98% (47%) in India, 72% (72%) in Turkey [10]. Thus, the disclosure of ESG in these countries is based on the same international standards that are common in the world, and in some cases additionally takes into account the specifics of the country.

In addition, despite the standards and initiatives in the non-financial disclosure part, their use is not mandatory in a number of countries. The reliability of information submitted in the direction of sustainable development is important. Confirmation of the accuracy of reporting by an external audit is not a mandatory regulatory requirement and often depends on the choice of companies. All these factors lead to the phenomenon of “greenwashing”, which poses serious risks to all groups of stakeholders.

In order to reduce the risk of the impact of unreliable nonfinancial reporting on the decisions of investors, shareholders, and financial institutions, regulatory bodies began to move closer to existing ESG standards and tighten the requirements for submitting non-financial reporting [1].

Taking into account the European Commission directive in Georgia, the ESRS prepared by EFRAG based on the PTF-NFRS recommendations, published in March 2023 as the last working paper of the PTF-ESRS cluster, will be used as a basis for sustainability reporting, while in July 2023, the European Commission issued the directive on the mandatory use of ESRS, the implementation of which began in four phases from 2024 through 2028.

Regulators pay special attention to the reliability of ESG reporting, which leads to an increase in the role of internal audit in creating guarantees of objectivity, accuracy and compliance with ESG reporting of large companies. ESG reporting is the final stage in the implementation of the company's ESG program, which is integrated into the overall corporate governance scheme with a built-in control system. That is why the internal audit, which, in comparison with external audit, has a deeper knowledge of the company's business processes, can verify the reliability of the information at the stage of its submission, which allows timely identification of expected risks and informing management, as well as assist in external audit when checking/verifying ESG reports.

4.1 Function of internal audit in ESG: Current situation

The conducted researches show that the consideration of ESG issues by internal audit is insignificant during the audit.

North American Pulse of Internal Audit study conducted by the International Institute of Internal Auditors (IIA) in 2021 [11], issues related to ESG and sustainability accounted for about 1% of internal audit plans. According to the report by the IIA and the Auditing Firm EY [12], 35% of respondents noted that internal audits in their companies are not related to ESG issues at all.

Despite the above, the situation still changes dynamically. In May 2021, IIA released the Role of Internal Audit in ESG Reporting [13], stating that Effective ESG governance, like effective corporate governance in general, requires mutual agreement between key stakeholders as described in the Three Line Model. In case of any risk, the internal audit should have all kinds of resources to support governance and management by providing objective opinions and advice on ESG-related issues.

According to the above document, the minimum functions of the internal audit in terms of providing authentic assurance should include:

1. Analysis of reporting indicators/indicators in terms of relevance, accuracy, timeliness and consistency;
2. Consideration of applications on compliance with official requirements for disclosure of financial information;
3. Measurement of the materiality or risks of ESG reporting;
4. Inclusion of ESG in regular audit plans.

In terms of advices / recommendations

1. Creation of ESG control environment;
2. Recommendation on reporting indicators/performance;
3. Consulting on corporate ESG governance

It should be noted that the quality of participation of the internal audit in auditing the ESG reporting is affected by such important factors as: a comprehensive system of internal control and risk management, the content and volume of internal audit services provided to the board of directors and executive bodies in accordance with the corporate governance practices of a particular company [14].

However, it is also clear that the current situation requires internal auditing to go beyond the narrow audit tasks defined by it for annual non-financial reporting and to include/take into account these tasks more broadly in the sustainability programs implemented by companies.

The professional competencies of the internal auditor, including knowledge of modern standards for the organization of internal control and risk management systems, corporate governance standards, preparation of financial and non-financial reporting, together with understanding the specifics of the company's activities, give the internal (and not external) audit the right to become the main provider of assurances and perform the role of a business advisor in introducing certain ESG practice in the company [15].

The implementation of such a task is related to the selection of priority directions for research and the implementation of specific action programs.

4.2 Possible areas of activity/directions of the internal audit on ESG issues

At the initial stage of internal audit, procedures can be used to check the effectiveness of the existing control of the company's ESG model using standard criteria and compliance audit tools: checking the presence of ESG goals and development strategies, assessing the dynamics of goal achievement by quantitative indicators, the degree of integration of goals into management decisions, etc.

Meanwhile, the internal auditor's actions can be extended to new areas and aspects such as:

1. Thematic audit of individual aspects of ESG (E – environmental, S – social, G – governance);
2. Analysis of the effectiveness of operational activities in achieving the objectives of ESG
3. Measurement of the company's completeness (including benchmarking), including levels of risk management and integration into corporate governance systems;
4. Initiating and supporting situational studies on ESG topics (primarily climate risks and opportunities);

In order to improve the strategy and tactics of ESG programs, internal auditors should demonstrate readiness to support their company's ESG and facilitate cross-functional research. Depending on the specifics of the company, the internal audit may also include other roles that, by unconditional compliance with its independence and objectivity, can strengthen the ESG processes for the company.

4.3 Problems of internal audit of the ESG system

When conducting an internal audit of an ESG system, an internal auditor may encounter a number of problems, and the choice of solution depends on many factors. These factors must be taken into account by the internal auditor at all stages of his activity.

4.3.1 Lack of uniform standard for disclosure of non-financial information

According to the report of State of Play in Sustainability Assurance/Benchmarking Global Practice, 69% of organizations in the world use standards created by the Global Reporting Initiative (GRI) and 62% – concepts that reflect the UN Sustainable Development Goals (SDG) 24% and 15% use also the Recommendations of the Task Force on Climate Related Financial Disclosures, TCFD) and the S1 and S2 Standards of sustainability reporting, prepared by Sustainability Accounting Standards Board (SASB). As we have already mentioned above the International Accounting Standards Board (IASB) has developed for the company in the context of its activities IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information [16] and IFRS S2 Climate-related Disclosures [17]. Therefore, it is expected that sustainability reporting will be equivalent to financial reporting and, therefore, companies that make definitions according to IFRS must carry out appropriate processes and controls to ensure that sustainability information is provided at the same level, quality and period of time as it is done on financial information [18]. However, despite the above, a unified approach has not yet been formed regarding what kind of mandatory non-financial information and in what form should be presented in the Sustainable Development Reporting.

4.3.2 Voluntary nature of non-financial disclosure

Until 2024, the disclosure of non-financial information under current ESG standards was voluntary, and from 01 January 2024, it began to be implemented in four phases until January 2028.

4.3.3 Lack of necessary knowledge and experience when conducting the audit of ESG system

The International Internal Audit Standard “2030 – Resource Management” requires that “The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan”.

Therefore, before conducting an ESG audit, the internal auditor must assess his own qualifications and available resources to conduct such an audit. If the necessary competencies are not available, third-party resources can be used to conduct an audit of the ESG system, including hiring the ESG specialists for consultation.

An urgent task for internal audit specialists is to acquire specialized competencies on the most pressing ESG issues for a particular company, which are provided by various educational institutes and business schools.

In order to carry out the IT control testing or reporting check /verification tasks, the internal auditor can involve certain specialists from his own organization as part of cross-functional programs.

4.3.4 Difficulties with obtaining data necessary for auditing, non-standardized data

The information required for ESG audits may be prepared by different departments in the company, which may not be functionally related to each other, so the information prepared by them is not supplied to the centralized data system and may contain information prepared by various sources, including data from the company's accounting systems, management reporting, spreadsheets and presentation materials. Moreover, when collecting data, the reliability of the information provided must be taken into account. Internal audits must be involved in testing the collection of non-financial information to ensure their proper functioning.

4.3.5 Low level/degree of regulation of implemented ESG processes

In some cases, companies that claim/pursue different ESG goals have not developed clear plans for their achievement and monitoring systems for intermediate stages, which can make it difficult to measure the current status of the implementation of these goals and the degree of their integration into the operational and strategic plans of companies.

Additional problems arise in the case when some ESG issues go beyond the boundaries of the organization. Shareholders' 'expectation is to receive information about contractors' social responsibility requirements (e.g., absence of schemes for hiring/involvement of personnel, non-use of adolescent labor).

4.3.6 In supelative level of coordination between structural units of the company to achieve ESG goals

As a rule, in large companies, several units/departments/structural subdivisions are involved in achieving ESG goals. The absence of an established system of internal communications is the reason for the lack of a unified view of general processes in the field of ESG, which most often leads to distortion of ESG communities. As mentioned above, the result of misinterpretation and perception is the phenomenon of "Greenwashing". One of the ways out of this is to train employees about the company's sustainability strategy, climate, risks and opportunities, and the impact of their results on the company.

4.4 Practical steps when conducting internal ESG audits

Regardless of the level and specifics of the development of the company's activities, the initial stage of the activity of an internal auditor in the ESG sphere can be an assessment of the level of development (maturity) of the internal control system of the ESG management sphere [19].

A step forward in this direction will be the development of a methodology/algorithm, which includes the following steps:

1. Preliminary study of internal control state for each ESG aspect. Depending on the specifics of the company's activities, the weight and contribution of each of these 3 aspects to the ESG system may differ both due to objective reasons and due to insufficient attention on the part of the organization to these aspects.
2. Development of a system of indicators that objectively reflect the state of the internal control system for each aspect of the ESG.
3. Development of a rating scale for each indicator and the formation of the basis for an audit report on the level of internal control in the field of the company's ESG system.

The result of such activities can be ESG Controls Maturity Assessment Matrix, the approach to the formation of which is presented below.

As an example, the elements that can be measured according to each ESG aspect are given. The company can also develop elements for its own purposes. The example uses a 1 to 3 points system for each indicator based on an expert assessment from an internal audit, with justification for each rating (Tables 1-4).

Table 1. The example shows the weight of individual aspects of ESG, which is determined by the degree of their importance to the company

Rating Scale		%	
3 points	Yes (fully compatible)	Ecological/ environmental aspect (E)	40 %
2 points	Partially (partially compatible)	Corporate governance (G)	30 %
1 point	No (essential deviations)	Social aspect (S)	30 %

Table 2. Example of assessment of the control system

Risk Zone		Parameter Target Value	Assessment
		Ecological/Environmental Aspect (E)	
Lack of a long-term environmental strategy	1	The environmental strategy is approved by the board of directors and includes goals and deadlines for achieving these goals	3 points - The strategy is approved, goals and deadlines are defined 2 points - The strategy is approved, including goals and objectives, but there are no specific deadlines for implementation 1 point - The strategy is approved

Table 3. An example of a control matrix considering three aspects of ESG

Risk Zone		Parameter Target Value	Assessment of Control	%
Ecological/Environmental Aspect (E)				40%
Lack of a long-term environmental strategy	1	The environmental strategy is approved by the board of directors and includes goals and deadlines for achieving these goals		
Lack of a plan to achieve an integrated environmental strategy in business activities	2	The guide is developed / Strategic goals are envisaged in company's business plan. The tasks set meet the SMART criterion		
The supervision system is not sufficiently developed or implemented	3	A separate governing body has been created to address climate-related issues (e.g., Committee for Sustainable Development) or additionally, there is an environmental supervision service		
Lack of an objective assessment of the effectiveness of business activities due to the lack of a methodological base	4	A methodology for calculating emissions has been developed		
	5	Periodic analysis of the implementation of emission reduction plans is carried out		
Risk of violation of regulatory requirements	6	The company meets the requirements of the regulator regarding emissions, to which the indicators - the number and amount of fines can apply		
Environmental management (risks in the following areas: land resources, biodiversity, ecosystems, etc.)	7	To reduce the impact of the company on the environment, an environmental impact assessment is carried out, action plans are developed to prevent and reduce negative impacts		
Risk of violating the requirements of the regulatory authority: new restrictive legislation **Risk of operating activities:** environmental and/or safety risk, leakage, suspension of production, repair costs, negative impacts on biodiversity	8	In case of incidents, results and corrective measures are recorded that are necessary to eliminate, minimize or compensate negative consequences of implementation of programs, projects, etc.		
Reputational risk: Due to the possible negative impact on the company's activities	9	Failure to carry out corrective measures in a timely manner		
Climate risks are not taken into account when setting goals or making decisions, that is potentially threatening for business continuity.	10	The impact of climate on the business model is measured by different timeframes and financial indicators		
Risk of creating a false image of environmental friendliness (greenwashing)	11	Short, medium and long-term strategies for energy transition and decarbonization have been developed		
Corporate Governance (G)				30%
ESG strategy and objectives are not defined	1	The board of Directors established the common principles, purpose and task of work in the field of ESG. In addition, it includes key performance indicators (KPI)		
Lack of sufficient communication and information both within the company and with external contractors	2	The ESG information dissemination plan is approved, which includes channels and sources of information dissemination		
	3	Monitoring of key performance indicators (KPI) is introduced and implemented		
The supervision system is not sufficiently developed or implemented	4	The board of directors and sustainability and audit committees properly monitor ESG issues in accordance with defined responsibilities		
Lack of appropriate support to achieve ESG goals	5	Remuneration of responsible persons (achievement of KPIs by responsible persons) is especially related to the fulfillment of ESG goals		
Violation of laws and obligations to combat corruption and bribery	6	Employees are constantly trained on business ethics and anti-corruption topics, frequency of trainings during the reporting period is established		
	7	Anti-corruption policies apply to business partners (e.g. anti-corruption clauses in contracts)		
	8	The presence of mechanisms for monitoring and supervising violations of anti-corruption policies, for example, a hotline		
When developing a company strategy, sustainable development risks are not taken into account	9	When identifying risks, new sustainability trends are taken into account		
	10	The impact of new and emerging ESG communities is assessed and incorporated into the company's long-term forecasts		
Inefficient management of supply chain and lack of responsibility	11	The company has a supplier code of ethics or similar document that applies to achieving the sustainable development goals throughout the supply chain. In addition, the company has mechanisms to monitor the fulfillment of social responsibility of suppliers		

	Social Aspect (S)		30%
Violation of human rights and employees ' rights, resulting in damage to reputation (including within the supply chain)	1	The company approved the human rights protection policy document	
	2	There is a mechanism for complaints about human rights violations that is available to all stakeholders	
	3	Human rights violations are being investigated and appropriate measures taken	
Lack of qualified personnel, staff turnover	4	The remuneration and compensation package corresponds to the requirements of the existing market, in this direction the company conducts an appropriate analysis	
	5	The company provides opportunities for career advancement (individual plans for employee development, annual assessments, personnel reserve programs)	
	6	The company provides opportunities for professional development of employees and finances the training of employees on educational programs	
Non-compliance with regulatory requirements in the field of Health and safety, industrial injuries, accidents	7	Goals, program and strategy in the field of health and safety are developed	
	8	The causes of health and safety incidents are investigated and appropriate measures are taken	
Decreased employee engagement/loyalty levels due to lack/insufficient scope of healthcare programs	9	Employees are provided with health services (i.e., voluntary health insurance) with treatment and wellness programs	
Unauthorized access to information by leaking personal data of employees and confidential information of the organization	10	Control mechanisms have been developed to prevent unauthorized access to employees' personal data	
Total points			

The shortcomings identified during the assessment are recorded by the internal auditor and indicated improvement of the control system.

The results can be used as part of an internal audit report on the effectiveness of the company's internal controls, risk management and corporate governance systems.

The above algorithm uses a risk-based approach, where control is measured in areas of sustainable development associated with significant risks (for example, according to the company's risk map).

For evaluation purposes, it is possible to use an adapted variant of the COSO standard "Internal Control-Integrated Framework" [20], where the ESG aspects are divided into five components of the internal environment - control environment, risk assessment, control procedures, information and communication, monitoring procedures, and based on the results, an assessment of each component is given.

Table 4. Comparison of the achieved points with the rating scale

High	Good	Satisfactory	Low
Higher than 30	23-30	14-22	Below 14
All key elements are represented by a high level of development/indicators, small improvements are required	Most of the basic elements exist and are at a sufficient level of development; there is a need to improve the efficiency of the ESG system	Some elements are missing or poorly developed; significant improvements to the ESG system are needed	A significant number of key elements are missing, the concept and formulation of the ESG system is required

5. CONCLUSION

Given the growing importance of sustainability issues around the world, the preparation of reliable and reliable non-financial reporting will become increasingly important for companies. The risks of "Greenwashing" or involuntary data distortion have a serious impact not only on investment and financial institutions, but also on all interested groups. The involvement of internal auditors in the company's business processes, as well as specialized/profiled competencies in the field of internal control, risk and corporate governance, gives internal audits a unique chance to expand the scope of their companies' activities taking into account ESG best practices. Sharing best practices gives management the opportunity to make an objective assessment of the current level of completeness of the ESG system, improves the quality of data reliability guarantees.

In conclusion, the role of internal auditing to support sustainability reporting is multifaceted and key for organizations seeking to improve the transparency, accountability and credibility of their environmental, social and governance reporting. The internal audit has the competence and authority to provide independent assurances and to consult with the management of the company, which will contribute to the reliability and integrity of sustainable development reporting practices.

Through this article, we have explored the challenges and opportunities associated with integrating environmental, social and governance factors into internal audit practice, developing sustainable reporting regulations, and increasing the effectiveness of internal audits in supporting sustainable development initiatives. It is clear that internal auditing can contribute significantly in this direction to the assessment of risk and control of sustainable reporting and the development of an appropriate methodology. With a holistic approach to integrating environmental, social, and governance factors and using internal audit expertise, organizations can increase stakeholder confidence, reduce risk, and enhance business sustainability.

Undoubtedly, the changes made since 2024 are an important factor that determines the vector for the development of ESG systems in each specific country and company. However, despite the pace of change, perfecting ESG systems is a challenge for the company's sustainable development in the long run. Internal audit in this direction has every chance to contribute to the achievement of the company's overall ESG goals.

In summary, internal audit plays a vital role in advancing organizational sustainability efforts and contributing to the achievement of long-term value creation goals. By recognizing the importance of internal audit in supporting sustainability reporting and investing in its capabilities, organizations can strengthen their resilience, competitiveness, and reputation in an increasingly complex and interconnected global environment.

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