International Journal of Latest Research in Humanities and Social Science (IJLRHSS)
Volume 06 - Issue 11, 2023
www.ijlrhss.com || PP. 199-201

Internal Audit practices in the Sustainable Development Goals Achieving

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Abstract: In recent years, there has been a growing recognition of the importance of Sustainable Development Goals achieving in assessing a company's performance and its long-term sustainability. Stakeholders such as investors, regulatory bodies, and consumers demand greater transparency and accountability from organizations regarding their sustainable practices. As a result, companies are seeking effective methods to measure and evaluate their performance in the field of sustainable development. This study aims to systematize data on the use of an internal audit tool, such as Data Envelopment Analysis (DEA), as well as to explore the potential positive effects of its application.

Keywords: sustainable development, sustainable development goals (SDG), internal audit, environment, society

1. Introduction

In recent years, there has been an increasing recognition of the significance of Sustainable Development Goals (SDG) achieving in assessing a company's activities and overall value [6,7]. Stakeholders such as investors, regulatory bodies, and consumers demand greater transparency and accountability from organizations regarding their SDG achieving practices. Consequently, companies are seeking effective ways to measure and evaluate their performance in the field of SDG achieving [5]. Internal audit plays a crucial role in providing organizations with independent assurance and advisory services. Traditionally, internal audits have focused on financial control and risk management. However, with the growing importance of SDG achieving issues, there is a need to incorporate these indicators into the internal audit process [1, 8].

The aim of this study is to explore the potential use of Data Envelopment Analysis (DEA) as an internal audit method based on SDG indicators. DEA is a non-parametric method widely used in efficiency analysis, enabling the comparison of multiple sets of input and output data to determine the relative efficiency of decision-making units [3]. By adapting DEA to assess SDG achieving indicators within an organization, it can provide valuable information about areas for improvement.

2. Drivers for SDG analysis

2.1 Market Drivers for SDG implementation: several market factors contribute to the increased focus on SDG indicators in corporate decision-making processes:

- Strengthening regulatory oversight: regulatory bodies worldwide continue to take measures aimed at promoting sustainable business practices. For example, the European Union's Non-Financial Reporting Directive (NFRD) requires companies to disclose non-financial information, including their commitment to sustainability principles [4];
- Stakeholder expectations: stakeholders, including investors, customers, and employees, increasingly demand that enterprises demonstrate their commitment to ethical, sustainable, and responsible business operations. Implementing reliable SDG achieving practices can enhance trust, protect reputation, and foster long-term relationships with stakeholders;
- Financial performance enhancement: Studies show a positive correlation between high SDG scores and improved financial performance. Companies with reliable SDG achieving practices have more opportunities to reduce risks, leverage new market opportunities, and contribute to more sustainable business growth.

2.2 Investor demand for SDG data discussing the importance of SDG metrics for businesses, it's crucial to emphasize investors' perspective on these indicators. Attracting investments stands as a pivotal high-level criterion for advocating the integration of SDG indicators into a company's internal audit.

- Risk management: SDG metrics provide valuable insights into a company's potential vulnerabilities, enabling investors to make more informed risk management decisions [6];

- Long-term value creation: Companies prioritizing SDG indicators are better equipped to navigate changing market conditions, adopt innovations, and create long-term value for shareholders.
- Alignment with societal values: Investors aim for their investments to have a positive impact on society and the environment. SDG metrics enable investors to align their investments with their values.

2.3 Benefits of SDG metrics for company efficiency implementing reliable SDG efficiency metrics allows companies to:

- Leverage competitive advantages: demonstrating commitment to SDG principles can set a company apart from competitors, enhancing brand recognition and customer loyalty.
- Attract top talent: talented employees are more likely to seek opportunities in companies positively impacting society and the environment, having advanced internal management practices, and investing in their human capital;
- Improve operational efficiency: integrating sustainable business practices may lead to cost reduction, waste minimization, and more efficient resource utilization.

Thus, SDG metrics play a decisive role in contemporary business decisions driven by regulatory requirements, stakeholder expectations, and investor demands. Organizations adhering to sustainable development principles stand to gain improved reputation, risk mitigation, and the creation of more significant long-term value. Accurate and thorough assessment and auditing of SDG efficiency are crucial for fully realizing these benefits, requiring the exploration of innovative evaluation methods such as DEA.

3. The Role of Internal Audit in SDG achieving monitoring

As SDG indicators increasingly permeate business structures and decision-making processes, the role of internal audit becomes more critical than ever. Internal auditors provide an impartial and objective assessment of a company's SDG indicators, evaluating the quality and effectiveness of its reporting, risk management, and compliance with relevant regulatory requirements. By integrating SDG indicators into the internal audit process, auditors can help their organizations identify areas for improvement and promote responsible business conduct.

3.1 Objectives of SDG Internal Audit

- Compliance with reporting standards: internal auditors can assess the accuracy and consistency of a company's SDG disclosure and reporting practices. By comparing the organization's practices with industry recommendations, international standards, and regulatory requirements, auditors help ensure ongoing compliance.
- Validation of metric statements: internal auditors can verify the accuracy and reliability of a company's SDG reporting by cross-checking reported data with internal documentation and external sources. This verification process builds trust, enables stakeholders to make informed decisions, and demonstrates the company's commitment to transparency.
- Managing internal risks: internal audit can identify SDG-related risks and provide organizations with a better understanding of how these risks impact their operations, reputation, and finances. This knowledge empowers companies to proactively address potential vulnerabilities, minimize risks, and mitigate their impact.
- Continuous improvement: By meticulously evaluating a company's SDG metrics, internal audit can identify opportunities for organizations to enhance their environmental, social, and governance practices. Continuous improvement fosters innovation, ensures sustainable growth, and aligns the company's practices with guiding SDG principles and stakeholder expectations.

3.2 Challenges of SDG Internal Audit: internal auditors face several challenges in integrating SDG effectiveness assessments into their audits:

- Divergent expectations: Stakeholders may hold different definitions and interpretations of SDG metrics, necessitating comprehensive and transparent information disclosure to meet varying expectations;
- Evolving SDG landscape: The dynamic nature of SDG metrics, rules, and guidelines requires internal auditors to stay abreast of the latest developments and best practices to effectively evaluate their company's SDG indicators.

To address these issues and enhance the effectiveness of SDG audits, internal auditors require innovative and reliable assessment tools capable of analyzing complex data and providing accurate information. DEA, as a method for measuring efficiency and assessing progress, potentially meets this need.

4. Data Envelopment Analysis: an overview

(DEA) is a linear programming-based method for measuring the relative efficiency of decision-making units, which can be any objects sharing a common set of input and output data [3]. DEA is widely used for analyzing various industries and sectors, including healthcare, education, finance, and government services. It provides reliable and flexible means for assessing performance when multiple inputs and outputs are present. In addition to the basic DEA, there are variations of the method, such as QDEA and Stochastic DEA. QDEA involves the potential replacement of linear components in DEA with quadratic curves, which, in some cases, allows for greater accuracy. Stochastic DEA, on the other hand, combines the capabilities of DEA and SFA (Stochastic Frontier Analysis), enabling the consideration of noise and random factors when calculating the efficiency frontier of decision-making units.

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