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THE ROLE OF INTERNAL AUDIT IN THE VERIFICATION OF NON-FINANCIAL (ESG) REPORTING OF ENTERPRISES

The modern global economy is witnessing a fundamental transformation in the philosophy of corporate value creation. The traditional shareholder-centric model, which prioritized short-term financial returns, is rapidly being superseded by stakeholder capitalism. In this new paradigm, an enterprise's long-term viability is inextricably linked to its environmental stewardship, social responsibility, and governance quality (ESG). Consequently, non-financial reporting has ceased to be a voluntary marketing exercise and has become a critical component of the corporate reporting ecosystem, driven by regulatory frameworks such as the EU's Corporate Sustainability Reporting Directive (CSRD) and the standards of the International Sustainability Standards Board (ISSB).

However, the rapid proliferation of ESG disclosures has exposed a significant vulnerability in the corporate reporting chain: the reliability of data. Unlike financial reporting, which has been standardized for nearly a century, non-financial reporting often relies on immature data collection systems, leading to the risk of «greenwashing» – the selective or misleading disclosure of positive environmental impacts. As noted by L. Bohatchyk et al., the accounting and reporting of ESG indicators are essential instruments for increasing business transparency in the context of sustainable development. Yet, transparency without verification is meaningless. Therefore, the integration of ESG metrics into the corporate management system requires a robust, independent verification mechanism to ensure that the disclosed data is accurate,

consistent, and comparable [5]. This necessitates a strategic evolution of the internal audit function.

The role of the internal auditor is undergoing a profound metamorphosis. The historical view of the auditor as a «financial watchdog» primarily focused on compliance and retrospective error detection is insufficient to address the complex, forward-looking risks associated with sustainability. M. Sheta, M. Osman, and A. Elamer characterize modern internal auditors as «sustainability champions», highlighting their transformative role in ESG assurance. Their systematic review suggests that internal auditors are uniquely positioned to bridge the gap between operational management and the board of directors regarding sustainability issues [8].

This transformation implies that the internal audit function must expand its scope beyond financial controls to encompass the entire value chain of ESG data. This involves evaluating the design and operating effectiveness of internal controls over non-financial reporting (ICFR). According to M. Shesterniak, control and audit are integral components of the management system that ensure the alignment of organizational activities with strategic goals [7]. In the context of ESG, this alignment is achieved through:

- governance assessment involves evaluating whether the company's governance structure adequately oversees climate-related risks and opportunities;
- strategy validation includes assessing whether the declared sustainability goals are supported by realistic operational plans and budget allocations;
- process verification entails testing the reliability of the systems used to collect, aggregate, and report non-financial data, from utility bills to carbon emission calculations.

Verifying non-financial information presents unique methodological challenges that differ significantly from traditional financial auditing. ESG data is often qualitative, derived from disparate sources (HR systems, engineering logs, supply chain surveys), and subject to varying measurement standards. R. Bulyga and I. Safonova argue for the development of a specific «business audit in ESG format». They

contend that the methodology for verifying corporate reporting must grow to encompass the specific nature of ESG risks, requiring a holistic approach that integrates financial and non-financial audit procedures [2].

To illustrate the methodological shift required, it is necessary to compare the key characteristics of traditional financial audit with the emerging requirements of ESG verification (Table 1).

Table 1

Comparative analysis of methodologies: financial audit versus ESG audit

Dimension	Traditional Financial Audit	ESG / Non-Financial Audit
Object of Verification	Historical financial transactions, monetary balances.	Future-oriented targets, physical metrics (CO ₂ , waste, water), social impacts.
Materiality Concept	Single materiality (impact on the company's finances).	Double materiality (impact on the company AND the company's impact on the world).
Data Structure	Structured, quantitative, derived from ERP systems.	Unstructured, semi-structured, qualitative, derived from IoT, sensors, and external stakeholders.
Regulatory Framework	Mature (IFRS, GAAP, ISA).	Evolving (GRI, SASB, TCFD, ESRS, ISAE 3000).
Auditor Competencies	Accounting, tax law, financial analysis.	Engineering, environmental science, human rights, data analytics.

Source: author's own work

The multidisciplinary nature of ESG auditing is particularly evident in industries with a high environmental impact. O. Kolosova et al. analyze a model for verifying information in the non-financial reporting of oil and gas companies. In such sectors, the verification process is highly technical, requiring auditors to validate complex engineering data on methane leaks, gas combustion intensity, and water recycling rates. The authors emphasize that accurate verification in the energy sector is not just a matter of compliance, but a prerequisite for maintaining a 2social license to operate» and avoiding catastrophic reputational damage. [1].

The value of internal auditing in the ESG sphere extends far beyond regulatory compliance; it has direct and measurable economic consequences for the enterprise. In

an era when capital allocation is increasingly dependent on sustainability criteria, the reliability of ESG data becomes a financial asset.

Groundbreaking research by S. Yan et al. explores the relationship between ESG performance and the cost of debt, specifically focusing on the role of internal audit. Their findings support the «signaling theory», suggesting that a high-quality internal audit function acts as a credible signal to external lenders. By reducing information asymmetry between the borrower and the lender, internal audit provides assurance that the company's ESG claims are valid. This reduction in perceived risk leads to tangible financial benefits: companies with robust internal audit verification of ESG performance enjoy lower interest rates and better access to debt financing [3]. This demonstrates that the cost of maintaining a specialized ESG audit function is effectively offset by the savings in the cost of capital.

A relatively underexplored but increasingly critical area of ESG verification is its intersection with taxation. Governments worldwide are utilizing tax policy as a primary lever to drive the green transition, introducing "green taxes" and incentives for sustainable behavior. This makes ESG data financially material for tax reporting purposes.

O. Leha et al. identify that ESG factors and their reflection in tax reporting pose significant challenges for audit [4]. The internal auditor must verify compliance in several key areas:

1. Environmental taxation. Verification of the accuracy of carbon tax calculations, plastic packaging taxes, and border carbon adjustment mechanisms. Errors here can result in direct financial penalties.

2. Green incentives and credits. Ensuring that the company meets all the complex criteria for receiving tax credits for investments in renewable energy or energy-efficient modernization. Incorrect applications may be considered tax fraud.

3. Transfer pricing. Analyzing how value creation related to ESG functions is distributed within the group. For example, if a subsidiary develops green technology

that benefits the entire group, the internal auditor must ensure that this contribution is reflected in the transfer pricing policy.

The integration of environmental, social, and governance factors into the core strategy of modern enterprises is a paradigm shift that fundamentally redefines the role of internal audit. Based on a comprehensive analysis of recent scientific research, it can be concluded that the internal auditor is transitioning from the role of a retrospective observer of financial compliance to that of a forward-looking strategic partner necessary for creating long-term value. By creating rigorous controls over non-financial data, internal auditors provide the critical assurance needed to bridge the trust gap between corporations and their stakeholders.

Research confirms that such an expanded role requires significant methodological evolution, a transition to «ESG business auditing» that encompasses dual materiality and combines technical expertise with financial acumen. In addition, the ESG audit function has direct economic benefits. It acts as a mechanism for reducing information asymmetry, thereby lowering the cost of debt and facilitating access to green capital markets. Furthermore, internal auditing of ESG processes serves as an important line of defense against new tax risks associated with environmental regulations and incentive systems. Therefore, the development of specialized ESG competencies in internal audit departments is not only a regulatory requirement but also a strategic necessity for Ukrainian companies seeking to increase their competitiveness and ensure sustainability in the European economic space.

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