

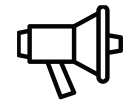
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# SPECIFIC ASPECTS OF GATHERING EVIDENCE IN AN ESG AUDIT

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**Abstract:** This article analyzes the theoretical and practical aspects of audit evidence formation in ESG auditing. The study examines the criteria of sufficiency, appropriateness, and reliability of audit evidence, as well as the main audit procedures used in its collection. The specific features of ESG auditing are highlighted, including the complexity of working with financial and non-financial data and the necessity of involving expert knowledge. The research results provide scientific conclusions aimed at improving the process of audit evidence collection in ESG audits.

**Key words:** ESG audit, audit evidence, reliability, sufficiency, appropriateness, audit procedures, non-financial information, expert judgment, sustainable development.

## INTRODUCTION

In the context of modern economic development, the criteria for evaluating the performance of enterprises have significantly expanded, and along with financial results, environmental, social, and corporate governance (ESG) indicators have also become important factors determining the sustainability and long-term value of organizations. The increased demand for ESG reports has created the need for an independent assessment of the reliability of this information, which has led to the formation of ESG audits in auditing activities.

ESG auditing differs from traditional financial auditing in its content and scope. While financial auditing is primarily based on monetary data, ESG auditing often includes non-financial, qualitative data from a variety of sources. This complicates the process of gathering audit evidence and requires the use of new methodological approaches. In particular, the formation of reliable audit evidence on environmental impact indicators, social responsibility indicators, and corporate governance practices requires multidisciplinary knowledge and skills from auditors.

The process of gathering evidence in an ESG audit involves a comprehensive analysis of various information sources - internal control system data, operational indicators, monitoring results, third-party confirmations and data from digital tracking systems. At the same time, due to the technical and scientific nature of ESG indicators, the auditor may not always have sufficient specialist knowledge in all areas. As a result, the audit process requires the use of independent experts in areas such as ecology, occupational safety, energy efficiency, social impact assessment or corporate governance.

## REVIEW OF LITERATURE ON THE SUBJECT

Alvin A. Arens, Randal J. Elder, Mark S. Beasley (2008) provide the following definition of ethics in auditing: «The reliability of the audit opinion is directly related to the sufficiency and appropriateness of the evidence collected, and it is the evidence that forms the basis of the auditor's decisions.»

According to Roger D. Knechel (2011), «Because modern auditing involves complex business and technical processes, the auditor must rely on the work of specialists with specialized knowledge in some cases.»

According to David Flint, «Auditing is a mechanism for ensuring public confidence, and the evidence gathered by the auditor should be reliable enough to serve the public interest.»

## RESEARCH METHODOLOGY

The research used induction, deduction, systematic and comparative analysis, grouping, experimentation, adaptive methods, integrative approaches, and analysis and approbation of international experiences.

## ANALYSIS AND RESULTS

In ESG audit processes, audit evidence is collected by the Auditor and includes all types of financial information used to express a reasoned opinion and reach a conclusion on the results of the audit, as well as accounting records used in the preparation of financial statements. Evidence is information that supports or refutes claims. Audit evidence is subject to two types of requirements: sufficiency and appropriateness.

The requirement of sufficiency is a quantitative measure of evidence, while the requirement of relevance is a qualitative measure of it. The requirement of relevance, in turn, consists of relevance and reliability.

The requirement of relevance means that audit evidence is relevant to the subject matter of the audit. The reliability requirement depends on the source and nature of the audit evidence (Figure 1).

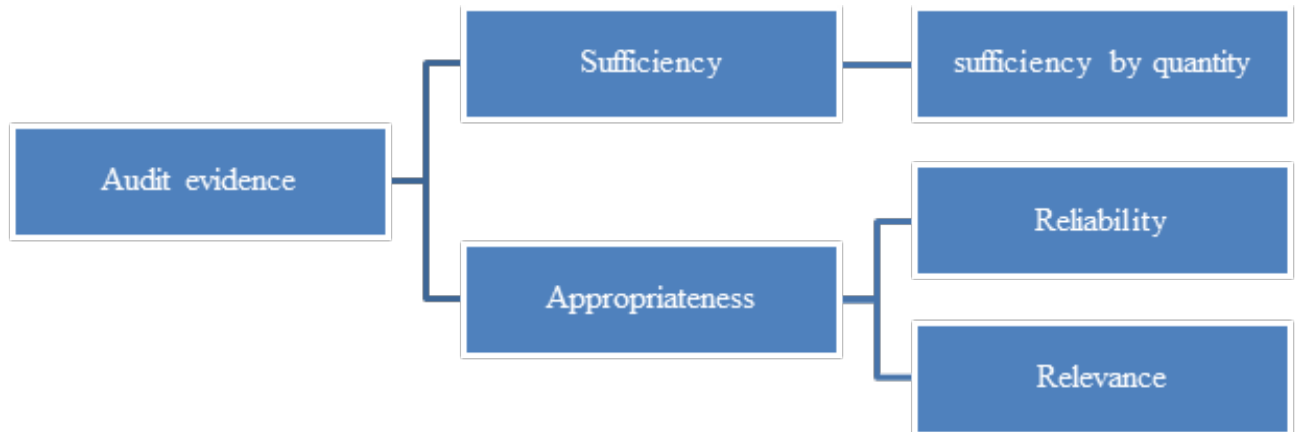


Figure 1. Audit evidence and requirements for it<sup>1</sup>

If we focus on the essence of the requirement for the appropriateness of audit evidence, then audit evidence is considered to be interrelated with forming a reasoned opinion about the financial statement indicators and drawing conclusions based on this.

The criteria that determine the reliability of audit evidence are:

- Evidence from external independent sources is classified as high-confidence evidence;
- Evidence gathered through the auditor’s direct involvement is considered more reliable than evidence gathered indirectly;
- The evidence provided by the client (the least reliable source) will depend on how well the client’s internal control system operates;
- Written evidence is considered more reliable than oral evidence.

The purpose of gathering audit evidence is to collect sufficient and appropriate evidence as a result of properly organizing audit procedures, and to form a reasoned opinion and draw a conclusion based on this (Figure 2).

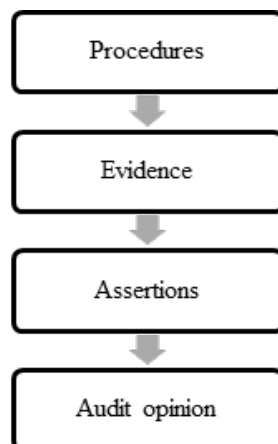


Figure 2. Stages in forming an audit opinion<sup>2</sup>

1 Systematized by the author  
 2 Systematized by the author

The presentation of the opinion expressed in the auditor's report in this manner primarily reflects the objective, transparent, and free from any influence of the opinion, and in turn serves to guarantee the quality of the reasonable assurance that can be provided by the audit report.

The stage of forming an audit opinion begins with establishing appropriate procedures and obtaining reliable evidence through them. Procedures are audit activities that directly assist auditors in gathering evidence.

The auditor's objective in gathering audit evidence is to design and perform audit procedures to obtain sufficient and appropriate evidence to form reasonable conclusions on which to base the auditor's opinion.

**Inspection.**An audit includes the following: examination of accounting records, whether in paper or electronic form, examination of records or documents on fixed assets, or physical examination of the asset. When examining accounting records and documents, it is important to distinguish between internal and external documents, depending on the nature and source of their origin, and to distinguish them from reliable evidence, depending on how the controls over production operate. It is appropriate to examine the extent to which controls are operating, for example, the procedures for authorizing documents.

**Observation.**Observation refers to the auditor observing processes or procedures performed by others, such as the auditor observing the process of counting inventory or the performance of control activities by the auditee's employees. Observation helps to gather audit evidence about the procedures performed by the auditee, but is limited in terms of the time at which the observation occurs and how the action or procedure being observed is performed.

**External confirmation.**External confirmation is a written communication from an external reliable source, either in paper form or by electronic or other means, directly to the auditor, confirming the occurrence of events. External confirmation procedures are used to gather audit evidence about the occurrence of events or the existence of additional arrangements related to them, for example, to verify the existence of a "side arrangement" that directly affects the recognition of revenue by the auditee.

**Analytical operations.**Analytical procedures are used to conclude whether financial information is accurate or inaccurate by analyzing the relationships between information. Analytical procedures include examining changes in accounting records that are inconsistent with the information or that differ significantly from the values.

**Survey.**This procedure refers to obtaining evidence by requesting information from persons who have sufficient and reliable information about the client, whether inside or outside the subject of the investigation. Inquiries can be of two types, namely formal written inquiries and informal oral inquiries (Figure 3).

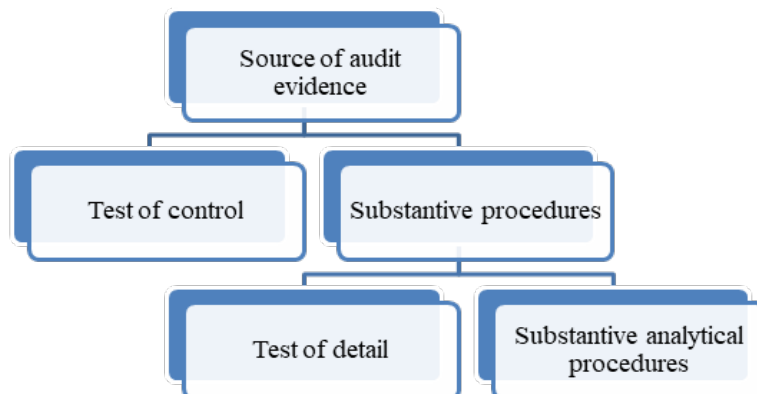


Figure 3. Sources of audit evidence<sup>3</sup>

Audit evidence collection is accomplished through the following procedures:

- Through the examination of accounting records and tangible assets;
- By observing the procedures;
- Through written responses from third parties as external confirmation;
- By recalculating the accounting entries to ensure they are correct;
- By reviewing the procedures implemented by the auditee;
- By analyzing indicators;
- By conducting a survey.

Information intended to be used as evidence may come from internal sources or external sources and may affect the availability, accessibility, and understandability of the information intended to be used as evidence. For example, information may come from:

<sup>3</sup> International Standard on Auditing No. 500

- The organization's records, management, or other sources within the organization.
- Other organizations under the control of the organization.
- Value chain entities. The basis criteria for value chain information may recognize that management may have limited access to information directly from value chain entities not under the organization's control and may therefore include provisions that take into account the impact of such limitations on management's responsibilities. For example, the basis criteria may allow management to use reasonable and supportable information (e.g., publicly available industry averages) if management is unable to obtain information from the value chain entity after reasonable efforts.
  - Management expert.
  - Practitioner's expert.
  - In addition to management or a practitioner's expert, independent sources outside the organization provide information, such as the organization's legal counsel, customers, suppliers, government agencies, banks, or general data providers (e.g., organizations providing macroeconomic, industry, or social data).
  - Service organization.
  - Another practitioner may include a practitioner hired by the organization to provide a report to more than one entity.

One of the important aspects of evidence gathering is that it is advisable to collect evidence from reliable sources. Therefore, when collecting evidence, the auditor must assess the reliability of the source of evidence.

In the figure below, we can consider these sources and the qualitative aspects of their recognition as audit evidence (Figure 4).



Figure 4. Sources of audit evidence related to ESG audits<sup>4</sup>

The category of audit evidence directly determined by the auditor includes evidence that the auditor determines as a result of the use of inspection, observation, recalculation, re-implementation, and analytical procedures during the audit. This audit evidence is considered to be the most reliable because it is directly determined by the auditor.

The category of audit evidence provided by a third party can include evidence provided by parties involved in the activities of the audited entity, namely, suppliers, buyers and customers of the audited entity, business partners, service banks, and tax and other government agencies. In collecting this evidence, the auditor uses audit evidence collection procedures such as external confirmation and formal inquiries, and is considered reliable evidence.

We can include evidence provided by the auditee in the category of evidence provided by the auditee, such as primary accounting documents, contracts, invoices, reports, financial statements, etc., directly provided by the auditee. Since this evidence is provided by the auditee, we can include it in the category of evidence with a low level of reliability.

Based on the evidence gathered, it is appropriate for the auditor to form substantive conclusions that can support the auditor's opinion. Substantive conclusions are those conclusions that the auditor forms about the financial statements and additional disclosures that affect the client's sustainable development.

<sup>4</sup> Developed by the author

The following are the types of conclusions that can be drawn from the information required to be disclosed (Figure 5).



Figure 5. Types of conclusions drawn from the review of information required to be disclosed on sustainable development<sup>5</sup>

It is noted that sustainability responsibilities may be performed on a wide range of sustainability issues, which may require the use of expert work from a practitioner, in addition to those possessed by the unit leader and other members of the engagement team, requiring specialized skills and knowledge.

## CONCLUSION AND SUGGESTIONS

The results of the study show that the widespread implementation of sustainable development principles in the modern economy has significantly expanded the scope of auditing activities, leading to the formation of ESG auditing as an independent audit direction. The effectiveness of ESG auditing largely depends on the sufficiency, relevance and reliability of the evidence collected by the auditor, as well as the rational use of expert knowledge when necessary.

It turns out that the audit evidence in ESG audits is more complex than in traditional financial audits, covering not only financial data, but also non-financial information related to environmental indicators, social impact results and corporate governance practices. This creates the need to use multi-source information, expand analytical processes and use digital monitoring tools in the process of collecting evidence.

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<sup>5</sup> Systematized by the author

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