Volume **13** / **2025** ISSN 2344-102X
Issue **1** ISSN-L 2344-102X

INTERNAL AUDIT AND ESG: STRATEGIC CONVERGENCE FOR SUSTAINABILITY IN LISTED COMPANIES IN ROMANIA

Marioara HRITCAN
Stefan cel Mare University of Suceava, 720229, Romania
hritcan.maria@usm.ro
ORCID: 0000-0003-00228-6731
Florin BOGHEAN
Stefan cel Mare University of Suceava, 720229, Romania
florinboghean@usm.ro
ORCID:0000-0003-3786-776X
Constantin C. HRITCAN
Alexandru Ioan Cuza University of Iasi, 700506, Romania
hritcan@yahoo.com
ORCID: 0000-0002-1702-846X

Abstract
In a global context dominated by increasingly high sustainability requirements, ESG (Environmental, Social & Governance) criteria have become essential in assessing corporate performance and organisational responsibility. This transformation involves redefining the role of internal audit, which can no longer be limited to financial compliance verification, but must be actively involved in assessing ESG processes, monitoring non-financial risks and supporting sustainable governance. This paper explores the strategic convergence between ESG and internal audit through a conceptual and practical approach. Recent European regulations (CSRD, ESRS), the current Romanian framework (BVB 2024 Corporate Governance Code), and contributions from international literature are analysed. Based on these, the article proposes a framework of good practices for ESG auditing and a set of performance indicators (KPIs) that allow the assessment of the maturity and effectiveness of the audited processes. The conclusions highlight the need to reconfigure internal auditing as a strategic partner in the sustainable transition, suggesting future directions for research and action. In this new organisational landscape, internal audit becomes an essential vector of trust, transparency and long-term accountability.

Keywords: *Internal audit; ESG; sustainability; corporate governance; Bucharest Stock Exchange.*

JEL Classification: *Q56, M49*

INTRODUCTION

Over the past two decades, the idea of sustainability has evolved from an aspirational element to a fundamental strategic requirement in the architecture of corporate governance. Organisations face increasing pressure from investors, regulators and civil society to deliver not only financial performance but also a tangible contribution to environmental protection, social equity and good governance (Eccles, Ioannou & Serafeim, 2014). As a result, Environmental, Social & Governance (ESG) criteria are becoming essential in shaping organisational strategy and managing systemic, reputational and regulatory risks (Kotsantonis & Serafeim, 2019). Against this backdrop, the European regulatory framework has undergone profound changes. The adoption of *the Corporate Sustainability Reporting Directive* (CSRD) in 2022 and the development of *the European Sustainability Reporting Standards* (ESRS) require a new level of rigour and comparability in non-financial reporting (European Commission, 2022). In Romania, these trends are reflected in the initiatives of the Bucharest Stock Exchange (BVB), which published a *Guide on ESG reporting* for issuers in 2022 and, more recently, launched a public consultation (July 2024) on the revised version of the Corporate Governance Code, to be implemented on 1 January 2025. The new Code proposes an integrated approach to sustainability, introducing clear obligations on the integration of ESG risks into governance, strategy, internal control and reporting (BVB, 2024).

In this new ecosystem, internal audit is called upon to expand and reconfigure its traditional role. It is no longer sufficient to provide assurance on financial and compliance processes. The internal auditor becomes a strategic player, responsible for assessing the quality, integrity and maturity of ESG processes, actively contributing to building stakeholder confidence in non-financial reporting (IIA, 2023). According to *the Institute of Internal Auditors* (IIA), internal audit should support the board of directors and executive management in identifying and managing ESG risks, as well as in evaluating governance, ethics and sustainability processes (IIA, 2023). However, the literature shows that internal audit involvement in ESG is, in many organisations, at an early stage. Simnett and Huggins (2015) highlight the lack of a formal methodological framework, while Eccles and Krzus (2018) show that ESG integration in auditing is often superficial, focusing more on compliance with s than

DOI: 10.4316/EJAFB.2025.13105

Volume **13** / **2025** ISSN 2344-102X
Issue **1** ISSN-L 2344-102X

on strategic added value. In Romania, although large companies are beginning to apply good practices, most issuers still encounter difficulties in assessing non-financial risks and defining ESG performance indicators (Ernst & Young Romania, 2022). In this context of transformation, this article aims to contribute to clarifying the role of internal audit in the ESG era by:

- highlighting the role and objectives of internal audit in supporting ESG reporting and sustainable governance;
- formulating a framework of best practices for ESG audit engagements, adapted to new European and local standards;
- proposing a set of performance indicators (KPIs) to assess the maturity of the audited ESG processes.

I. CONCEPTUAL FRAMEWORK AND THEORETICAL FOUNDATIONS FOR INTEGRATING ESG INTO INTERNAL AUDIT

The concept of ESG (Environmental, Social and Governance) has evolved significantly over the last two decades, becoming an essential benchmark for assessing corporate responsibility and organisational sustainability. Initially used in sustainable investment analysis, ESG is now recognised as a cross-cutting dimension that influences strategic decisions, governance, organisational culture and stakeholder relations (Eccles & Klimenko, 2019).

The E (Environmental) dimension includes issues such as climate change, energy efficiency, resource management and impact on biodiversity. *The S (Social) component* reflects relationships with employees, the community, respect for human rights and social equity, while *the G (Governance) dimension* covers decision-making transparency, business ethics, board composition and internal control mechanisms (Kotsantonis & Serafeim, 2019). Within this framework, the role of internal audit has begun to expand beyond traditional compliance and financial control missions to include the assessment of ESG processes, the integrity of non-financial data and the quality of governance systems. The Institute of Internal Auditors (IIA) emphasises that *"the internal audit function is responsible for providing objective assurance on the effectiveness of governance systems, risk management and control processes, including those related to sustainability"* (IIA, 2023).

ESG integration brings with it a fundamental shift in the perception of organisational risks. According to IIA standards and IFAC (International Federation of Accountants) recommendations, climate change risks, reputational risks, regulatory risks, and social risks (such as inequality and employee safety) must be included in risk appetite and internal control matrices (IFAC, 2022). Therefore, internal audit should become an active player in understanding and managing ESG risks, taking on a strategic support role in defining organisational resilience. Firstly, its involvement is essential in the process of identifying and mapping ESG risks, not only from the perspective of potential impact, but also in terms of the systemic interdependencies between environmental, social and governance factors. These risks can no longer be treated in isolation, but must be understood as an integral part of the company's overall exposure. In addition to this anticipatory function, internal audit must critically assess the quality of the policies and procedures governing corporate responsibility, ensuring that they reflect not only legal requirements but also international best practices. Its role also extends to verifying the transparency and reliability of publicly disclosed ESG information, contributing to the credibility of reporting and, implicitly, to stakeholder confidence. Last but not least, the internal auditor is called upon to provide the board of directors with objective and well-founded perspectives, supporting decision-making based on clear principles of sustainability and organisational ethics (IIA, 2023; PwC, 2022).

International literature highlights various methodological approaches to integrating ESG into audit work (Figure 1), gradually shaping a conceptual framework that reflects the maturing of the field. In a landmark study, Simnett and Huggins (2015) analyse three main types of ESG auditing, each reflecting a different degree of integration and depth of sustainability assessment in auditing processes.

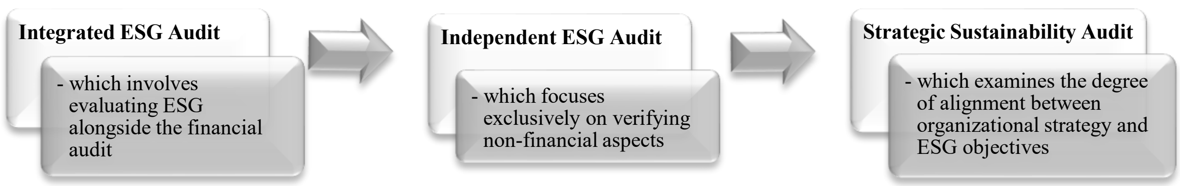

Figure 1. Approaches to ESG in auditing
Source: Author processing, 2025

The first form is integrated ESG auditing, which is carried out in parallel with financial auditing and aims to correlate financial and non-financial information. This model allows for a holistic assessment of organisational performance, but requires a high degree of coordination between audit teams and a thorough understanding of the impact of ESG on financial statements. The second approach is independent ESG auditing, which focuses

DOI: 10.4316/EJAFB.2025.13105

Volume **13** / **2025** ISSN 2344-102X
Issue **1** ISSN-L 2344-102X

exclusively on verifying non-financial aspects such as environmental impact, social policies or governance practices (Macovei et al., 2024). Although this model ensures a clear separation of processes, it can lead to fragmentation of the assessment and a lack of an integrated view of risks. The last form, strategic sustainability auditing, is the most advanced form, as it directly analyses the degree of alignment between the organisational strategy and the ESG objectives undertaken. This type of audit goes beyond procedural control and positions itself as a strategic governance tool capable of influencing the long-term direction of the company.

In the European context, this diversity of approaches is being progressively harmonised through the regulations imposed by the Corporate Sustainability Reporting Directive (CSRD) and the related European Sustainability Reporting Standards (ESRS) developed by EFRAG. The new provisions require companies not only to report on relevant ESG issues, but also to integrate them into their internal control systems and ensure an adequate level of assurance for the reported data (European Commission, 2022). In this context, internal audit becomes a critical link in ensuring the reliability of reporting and supporting the maturation of ESG processes, requiring the definition of standardised procedures, the use of relevant performance indicators and the creation of a robust mechanism for validating non-financial information. At national level, the transition to a sustainable governance model is supported by recent initiatives of the Bucharest Stock Exchange, which reflect the local market's adaptation to European trends. The publication in August 2024 of the revised version of the Corporate Governance Code marks an essential step towards aligning listed companies with the new ESG standards imposed by the CSRD and ESRS. The new Code, which is currently under public consultation and will apply from 1 January 2025, introduces an integrated approach to sustainability, in which internal audit is recognised as a key player in ESG risk management, ensuring transparency and strengthening stakeholder confidence (BVB, 2024). The document is structured into five thematic sections, with the ESG dimension present across all sections and explicitly articulated in the sections dedicated to risk management and internal control (Section B) and sustainability and stakeholder relations (Section E). According to these provisions, boards of directors are responsible for integrating environmental and social considerations into the organisational strategy, monitoring performance in these areas and ensuring that the policies and procedures adopted reflect the company's sustainability objectives. The Code also requires the existence of mechanisms for reporting and assessing ESG risks, including through the audit committee, which is called upon to oversee not only financial reporting but also non-financial reporting, including in the area of sustainability (BVB, 2024).

In this new governance architecture, internal audit becomes an essential bridge between strategy, risk and accountability. Its mission is not only to provide assurance on the functioning of control mechanisms, but also to assess the degree of integration of ESG criteria into governance and organisational culture. This paradigm shift requires internal auditors to have not only extensive technical skills, but also a deep understanding of sustainability objectives and how they influence long-term performance.

Romania is thus gradually aligning itself with European trends, and the new regulatory framework creates the conditions for strategic convergence between the internal audit function and the sustainability imperative. This is a defining moment for strengthening the role of internal audit not only as a control tool, but also as a strategic partner in building a responsible, ethical and resilient business model.

II. METHODOLOGICAL APPROACH

This approach is part of an exploratory and applied research framework with a theoretical and practical orientation, aimed at substantiating and proposing a set of good practices and relevant indicators for integrating ESG principles into internal audit activities. As the literature on ESG auditing is still emerging, especially in the Romanian context, the methodological approach adopted aims to identify the points of convergence between regulatory requirements, stakeholder expectations and the strategic role of the internal audit function.

The research was conducted in two main stages. In the first stage, an in-depth documentary analysis was carried out, based on primary and secondary sources, including European and national regulations (such as CSRD, ESRS and the BVB 2024 Corporate Governance Code), reports from professional institutions (IIA, IFAC, EFRAG), as well as academic reference works (Simnett & Huggins, 2015; Kotsantonis & Serafeim, 2019; Eccles & Krzus, 2018). This stage was meant to build the conceptual framework for the research and pull out international best practices that can be used in ESG auditing. The second stage was a comparative and interpretive analysis of ESG auditing practices in Romanian listed companies, with a focus on those in the Premium segment of the Bucharest Stock Exchange. This included consulting public documents (annual reports, governance statements, sustainability reports) and analysing how the internal audit function is reflected in relation to ESG principles. Elements such as the presence of ESG risk assessment frameworks, the existence of non-financial performance indicators integrated into audit engagements, and the degree of involvement of the audit committee in monitoring non-financial reporting were examined.

The method used was predominantly qualitative, with an emphasis on content analysis and triangulation of

DOI: 10.4316/EJAFB.2025.13105

sources, with the aim of formulating a conceptual model and a framework of good practices for ESG auditing. In the absence of a standardised set of ESG audited performance indicators in Romania, the research proposes an initial set of KPIs (Key Performance Indicators), correlated with the CSRD/ESRS objectives and adapted to the role of the internal audit function.

The limitations of the research stem mainly from the incipient nature of the field in the Romanian corporate environment and the lack of comparable public data for some companies. Nevertheless, the results provide a solid starting point for future developments and for better integration of sustainability into internal audit work.

III. HIGHLIGHTING THE ROLE AND OBJECTIVES OF INTERNAL AUDIT IN SUPPORT OF ESG REPORTING AND SUSTAINABLE GOVERNANCE

According to the literature (IIA, 2023; Simnett & Huggins, 2015), internal audit is seen as a key provider of independent assurance on the quality of ESG processes and data, but also as a strategic advisor in defining and implementing sustainable governance (Figure 2).

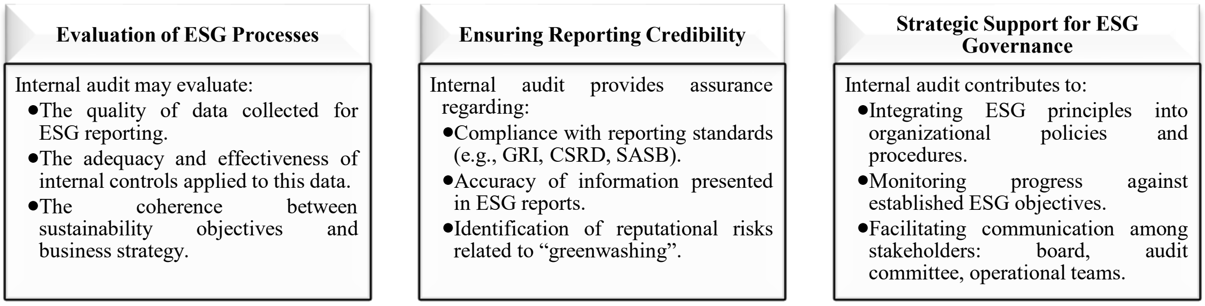

Figure 2. The role of internal audit in relation to the ESG reporting process
Source: Author processing, 2025

1. ESG process assessment – the role of internal audit in substantiating organisational sustainability

In an ever-changing economic and social climate, the process of assessing ESG (Environmental, Social, Governance) components is becoming increasingly relevant to the long-term success of organisations. Internal audit has the critical responsibility of evaluating these processes to support transparency, alignment with corporate strategy and compliance with sustainability regulations. Assessing ESG processes involves analysing how the organisation collects, manages and reports data related to environmental, social and governance issues. This is not just a technical exercise, but reflects a paradigm shift in understanding organisational value. According to Eccles and Krzus (2018), "the organisation and presentation of ESG information is not just a matter of compliance, but a condition of strategic responsibility to investors and society."

Internal audit plays an important role in this equation by assessing whether ESG processes are robust enough to provide reliable, complete and relevant information. For example, with regard to the environmental component, auditors must analyse whether CO_2 measurement systems are accurate, whether resource consumption data is traceable and whether environmental policies are effectively implemented at the operational level. The social component involves an assessment of processes related to diversity and inclusion, working conditions, community relations and respect for human rights. As Gray (2010) states, "the social dimension is often the most neglected in reporting, precisely because it is difficult to quantify, and this is where internal audit has a role to play in providing rigour and objectivity". In terms of governance, internal audit examines whether decision-making structures are transparent, whether risks are managed appropriately and whether there are clear internal control mechanisms in place. The ESG structure must be integrated into the overall governance framework, and the lack of formal processes can lead to major reputational risks, including accusations of greenwashing.

A useful framework for assessing ESG processes is the adaptation of the COSO-ERM model, which allows auditors to approach these processes from a risk and internal control perspective. Arjaliès and Mundy (2013) argue that "only through a holistic approach to ESG risks can internal audit contribute to creating sustainable value for all stakeholders". Furthermore, the involvement of internal audit in the assessment of ESG processes promotes organisational maturity. The assessment is not limited to identifying non-compliance, but also provides recommendations for improving ESG performance and supports management's strategic decisions.

In conclusion, internal audit has the opportunity to become an essential partner in integrating sustainability into the organisational DNA. Through rigorous assessment of ESG processes, it not only validates compliance but also actively contributes to building a responsible and resilient future.

2. Ensuring reporting credibility – the contribution of internal audit to stakeholder confidence in ESG performance

Volume 13 / 2025 ISSN 2344-102X
Issue 1 ISSN-L 2344-102X

In a climate where sustainability is becoming a strategic requirement and pressure from investors, authorities and civil society is constantly increasing, the credibility of ESG reporting is becoming a defining factor in an organisation's reputation and viability. In this context, internal audit plays a fundamental role: to provide objective and independent assurance on the accuracy, integrity and transparency of the ESG information presented by the organisation.

ESG reporting has evolved significantly in recent years, moving from simple voluntary statements to documents integrated into business strategies and carefully analysed by investors and regulators. According to KPMG (2020), over 80% of large companies globally already include ESG indicators in their annual reports, but only some of this information is subject to a rigorous validation process. In this regard, internal audit is uniquely positioned to enhance stakeholder confidence by assessing the processes and systems underlying these reports. The role of internal audit is not limited to simply checking data, but includes a comprehensive analysis of the ESG reporting process, from initial data collection to the dissemination of information to stakeholders. More specifically, internal auditors can:

- verify the traceability and accuracy of reported ESG data;
- assess the consistency of ESG information across different communication channels (annual reports, website, public communications);
- confirm the correct application of reporting standards (e.g. GRI, SASB, CSRD);
- identify and reduce the risks of "greenwashing" – a major issue in the current ESG landscape, defined as the distorted or exaggerated presentation of sustainable performance.

As Simnett, Vanstraelen and Chua (2009) point out, "the credibility of non-financial information is essential for investor decision-making, and the assurance provided by an independent party (including internal audit) can significantly improve the perceived quality of this information." At the same time, internal audit can work with compliance, sustainability and financial reporting functions to ensure that ESG statements are integrated into governance systems and reflect the operational reality of the organisation. In this way, it helps to eliminate discrepancies between what is communicated externally and what is practised internally. In addition, within a strong corporate governance framework, the audit committee and board of directors rely on internal audit to obtain a clear and unfiltered view of the quality of ESG reporting. This link between the audit function and senior management not only strengthens internal processes but also enhances the organisation's public image.

Therefore, ESG (Environmental, Social, Governance) governance is no longer perceived as a set of external requirements or as a practice parallel to economic activities, but as an integral part of organisational strategy and decision-making. In this context, internal audit plays a dominant role in supporting sustainable governance and facilitating the integration of ESG principles into the organisation's management and control structure. ESG governance is more than formal compliance: it involves transparency, accountability, balanced decision-making and a constant focus on long-term impact. Here, internal audit becomes a strategic partner to management in understanding and managing ESG-related risks and opportunities. As stated by the IIA (2022), "the role of internal audit has expanded beyond traditional checks and balances to become an advisor in the process of creating value through ESG." The strategic support provided by internal audit in the area of ESG governance manifests itself on several levels:

a) Integration of ESG into organisational culture and strategy

Internal audit can assess the extent to which ESG objectives are integrated into the company's overall strategy, internal policies and decision-making processes. Through thematic audits or governance assessments, auditors can identify whether ESG initiatives are purely declarative or whether they are backed by concrete and measurable actions.

b) Monitoring ESG leadership and responsibilities

Good governance requires clarity in the allocation of responsibilities. Internal audit assesses whether governance structures – the board of directors, audit committee, sustainability team – are effectively fulfilling their roles in monitoring ESG performance. It also supports the definition of performance indicators (KPIs) that reflect strategic ESG commitments.

c) Facilitating dialogue between stakeholders

Internal audit, by its objective and cross-functional nature, can act as a mediator between different functions and hierarchical levels within the organisation. It thus contributes to a genuine dialogue on sustainability, with a focus on transparency, consistency and data-driven decision-making.

As Friede, Busch and Bassen (2015) point out, "companies that integrate sustainability into their governance achieve clearer competitive benefits, but this requires a robust control and evaluation structure". Internal audit contributes to this robustness by providing an independent view of the effectiveness of ESG governance mechanisms and making recommendations for improvement.

d) Supporting ethical conduct and social responsibility

The S and G components of ESG involve profound ethical issues: the fight against corruption, respect for employee rights, and fairness in decision-making. Internal audit, by its objective and cross-functional nature, can act as a mediator between the different functions and hierarchical levels of the organisation. Internal audit plays an

DOI: 10.4316/EJAFB.2025.13105

Volume 13 / 2025 ISSN 2344-102X
Issue 1 ISSN-L 2344-102X

essential role in transforming sustainability from theoretical discourse into a real strategic governance mechanism. By providing assurance, advice and objective analysis, it supports management in making decisions aligned with ESG values and in developing an organisational culture based on responsibility, transparency and sustainability.

3. Strategic support for ESG governance – the role of internal audit in strengthening corporate sustainability

In the era of corporate sustainability, ESG (Environmental, Social, Governance) governance has become a priority for organisations seeking to withstand market pressures and the ethical and legal requirements of a changing society. In this context, internal audit is increasingly seen as a strategic player, capable of supporting the organisation's governance structures in the process of integrating ESG principles into strategies and decision-making processes. ESG governance is more than just having policies and procedures in place – it involves leadership accountability, transparency in communication with stakeholders, and a genuine commitment to the long-term impact of organisational decisions. According to The Institute of Internal Auditors (IIA, 2021), "internal audit should support the board of directors and management by providing objective perspectives on ESG-related risks and opportunities, as well as on the organisation's ability to manage them effectively."

A first element through which internal audit provides strategic support in ESG governance is the integration of ESG risks into the overall risk management framework. This process involves not only identifying environmental, social or governance risks, but also linking them to financial, reputational or operational risks. Thus, ESG is not treated as a separate area, but is embedded in the organisation's decision-making DNA. A second aspect is the assessment of ESG governance maturity. Internal audit can use analysis models (e.g. maturity models) to assess whether ESG policies are applied consistently across the organisation, whether they are monitored through specific performance indicators and whether there is genuine dialogue with stakeholders. As Eccles and Klimenko (2019) point out, "integrating ESG into governance is not just a moral obligation, but a condition for financial sustainability in an interdependent economy."

Internal audit also contributes to verifying the effectiveness of sustainability committees or ESG-responsible structures. Through thematic audits, it can examine whether the responsibilities of these structures are clearly defined, whether there is accountability, and whether the decisions taken are aligned with the organisation's overall strategy. In addition, internal audit can identify gaps in collaboration between departments – sustainability, compliance, legal or financial – and propose solutions to improve coordination. At the operational level, internal audit supports ESG governance by strengthening organisational ethics and social responsibility. This can be achieved by assessing whistleblowing mechanisms, anti-corruption policies or the implementation of codes of conduct. In this way, internal audit becomes a guardian of integrity, providing management with confidence that ESG values are reflected in the organisation's actual behaviour. The strategic support provided by internal audit in the area of ESG governance is essential to transforming sustainability into a lasting competitive advantage. Through expertise, independence and a cross-functional view of the organisation, internal audit facilitates informed decision-making, supports transparency and strengthens accountability at the management level. ESG is no longer just an acronym, but a paradigm, and internal audit is one of its key architects.

With the integration of ESG principles into organisational strategies, non-financial reporting has become a central component in measuring the overall performance of companies. In this new ecosystem of transparency and accountability, internal audit is called upon to redefine its objectives to support not only compliance but also the creation of sustainable value.

Figure 3. Internal audit objectives in support of ESG reporting
Source: Author processing, 2025

As we can see in Figure 3, the internal audit function is essential in providing independent assurance on the quality of ESG data, the maturity of reporting processes and the adequacy of specific internal controls. These objectives are strategically important, as stakeholders – from investors and customers to regulators – demand credible, comparable and relevant information. According to Simnett and Huggins (2015), 'internal audit provides a foundation of trust without which ESG reporting risks becoming a formal exercise devoid of substance'.

A key objective of internal audit is to verify the accuracy, completeness and traceability of ESG data. The information reported – for example, on carbon emissions, gender equality, workplace safety or governance

DOI: 10.4316/EJAFB.2025.13105

Volume 13 / 2025 ISSN 2344-102X
Issue 1 ISSN-L 2344-102X

structures – must reflect operational reality and be supported by verifiable documentary evidence. According to the Global Reporting Initiative (GRI, 2021), the validity of ESG data is "an essential condition for strategic decision-making and for the external credibility of the organisation". Internal audit contributes by identifying data sources, assessing the integrity of collection systems and proposing improvements to the control of the information aggregation process. Another objective is to analyse the effectiveness of internal controls governing ESG processes. In particular, in reporting in accordance with the requirements of the Corporate Sustainability Reporting Directive (CSRD), as noted by Arjaliès and Mundy (2013), "internal controls applied to sustainable performance require a fundamental adaptation of traditional audit tools, as ESG variables are often complex, qualitative and interdependent".

Internal audit aims to verify the consistency between publicly stated ESG objectives and the organisation's actual strategic directions. The aim is to ensure that ESG commitments are not only communicated externally (e.g. climate neutrality by 2030), but also integrated into KPIs, investment decisions and risk management. This correlation is crucial for building stakeholder trust. Eccles and Serafeim (2020) emphasise that "the difference between sustainability statements and actual capital allocations is often the main source of mistrust in ESG reporting". Internal audit, by reviewing policies and strategic documentation, can identify such inconsistencies and propose adjustments. Another key objective of internal audit is to provide constructive advice based on analysis of current performance and focused on future optimisation. This may include creating or improving relevant ESG indicators, developing organisational capabilities for ESG reporting, and proposing technological tools to automate data collection.

The advisory role is all the more important as organisations are at different stages of ESG maturity. According to Deloitte (2022), "in many companies, internal audit is still the only function with the ability to assess ESG risks across the board and effectively support their alignment with business strategy." Through its specific objectives – verifying data, assessing controls, ensuring strategic alignment and making recommendations – internal audit is becoming a vital tool in transforming ESG reporting from a compliance requirement into a governance and value creation mechanism. In an economy focused on transparency and accountability, internal audit must evolve from a reactive role to a proactive partner to management, capable of guiding the organisation through the complexity of the sustainable transition.

IV.PROPOSED FRAMEWORK OF GOOD PRACTICES AND PERFORMANCE INDICATORS FOR ESG AUDITING

Integrating ESG principles into internal audit requires a profound transformation of how this function is designed and applied in modern organisations. From a traditional approach focused on compliance and procedural control, internal audit is called upon to become a strategic partner in supporting sustainable governance and strengthening stakeholder trust. To support this transition, it is necessary to develop a coherent framework of best practices (see Table 1) and a set of performance indicators (see Table 2) that enable the assessment of the effectiveness and maturity of the ESG processes being audited.

- *Framework of best practices for ESG auditing*

The proposed framework is based on the methodological premises of the standards issued by The Institute of Internal Auditors (IIA), combined with the reporting requirements set out by the CSRD and ESRS. Internal audit, in this broad view, must act simultaneously in three directions: assurance, advisory and foresight, all applied in the context of ESG risks and opportunities (IIA, 2023; IFAC, 2022).

Table 1. Framework of good practices for ESG audit engagements in accordance with new European and national regulations

Stage	Recommended best practices	Sources
1. Integrating ESG into planning	Include ESG risks in the annual audit plan. Consult the ESG materiality map. Cross-functional dialogue (sustainability, compliance)	IIA (2023); CSRD Art. 19a; ESRS 2-GOV
2. ESG governance and structure	Verification of the existence of ESG policies. Assessment of board involvement. Existence of a designated ESG function.	BVB Code 2024 Section E; ESRS 2-GOV
3. Risk assessment and controls	Auditing controls associated with ESG risks. Assessing ESG integration into the risk management system. Reputational risk analysis.	ESRS 2-RSK; Deloitte (2022); IIA (2023)
4. ESG data and reporting systems	Verification of the traceability, completeness and reliability of ESG data. Auditing IT systems for collection and aggregation. Verification of methodologies.	ESRS 1; GRI Standards; KPMG (2023)
5. Assurance and recommendations	Issuing clear reports to the board of directors. Formulating recommendations for process improvement.	CSRD Art. 19a(5); IFAC (2022);

DOI: 10.4316/EJAFB.2025.13105

	Involvement in external ESG audits	PwC (2020)
6. ESG monitoring and maturation	Follow-up on corrective measures. Periodic assessment of ESG maturity. Creation of a specific set of indicators (KPIs).	IIA (2023); EY Romania (2022); Tiron-Tudor & Șerban-Oprescu (2021)

Source: Author processing, 2025

A fundamental best practice is to integrate ESG aspects into the annual internal audit programme, starting with the planning phase. This involves an ESG materiality analysis linked to the organisational risk map and an adaptation of audit engagements to sustainability priorities. The internal audit function should collaborate with other key functions (compliance, sustainability, finance) to identify significant risks and incorporate them into the annual audit plan. Once the strategic framework is established, internal auditors must assess ESG governance: the existence of formal policies, the clarity of responsibilities, the involvement of the board of directors and the functioning of the relevant committees. This institutional diagnosis is essential to understand the extent to which ESG is integrated into the organisational culture and decision-making processes. The third component of the framework consists of auditing ESG risks and related controls. It is important for auditors to assess whether environmental, social and governance risks are identified, measured and addressed appropriately (Molociniuc et al., 2022). In addition, internal controls related to these risks need to be tested for effectiveness and timeliness, especially in the face of reputational or compliance risks.

A crucial aspect relates to ESG data and reporting. In this regard, it is advisable for the auditor to verify that the information published is complete, accurate and traceable. The IT systems used to collect and aggregate ESG data, as well as the methodology for calculating indicators, must be verified to ensure compliance with the ESRS and GRI standards. The auditor also contributes to ensuring and formulating recommendations. The reports issued by the auditor must provide the board of directors with a clear picture of the strengths and weaknesses of ESG processes, accompanied by specific recommendations for improvement. Where applicable, the internal audit may collaborate with the external auditor to obtain a level of assurance on ESG reporting.

The final stage of the framework is monitoring ESG progress and maturity. In its mission, internal audit is required to follow up on the implementation of recommendations, periodically assess the maturity of the ESG function and propose a set of performance indicators (KPIs) to support the systematic and comparable assessment of the organisation's progress in this area. Beyond operational auditing, the ESG audit function should promote a culture of responsibility and ethics. Assessing the tone at the top, analysing the integration of ESG principles into management remuneration objectives and monitoring internal whistleblowing channels are essential components of a holistic assessment of organisational sustainability maturity.

- *Proposed set of performance indicators (KPIs) for ESG auditing*

To assess the effectiveness of ESG-oriented internal audit engagements and the maturity of the processes audited, we propose a structured set of qualitative and quantitative performance indicators, grouped into four dimensions:

Table 2. Set of performance indicators (KPIs) for assessing the maturity of audited ESG processes

ESG dimension	Performance indicator (KPI)	Purpose	Source
ESG governance and strategy	Existence of a formal ESG governance framework (committee, responsible person, approved policies)	Assesses the formalisation and involvement of management in ESG	ESRS 2-GOV; BVB code 2024
	Degree of alignment between the company's strategy and its ESG objectives	Measures the integration of ESG into strategic planning	IIA (2023); Eccles & Klimenko (2019)
	Number of ESG audit engagements included in the annual internal audit plan	Indicates the prioritisation of ESG issues in audit work	IFAC (2022); PwC (2020)
Risks and internal control	Percentage of ESG risks identified and included in the main risk register	Reflects the integration of ESG into the risk management system	ESRS 2-RSK; Deloitte (2022)
	Degree of coverage of ESG risks through tested key controls	Assesses the robustness of the ESG control framework	IIA (2023); EY (2022)
	Number of significant findings from ESG audit engagements and remediation rate (%)	Measures the organisation's effectiveness and responsiveness to identified ESG issues	PwC (2020); Tiron-Tudor & Șerban-Oprescu (2021)

Volume **13** / **2025** ISSN 2344-102X
Issue **1** ISSN-L 2344-102X

ESG reporting and data	Percentage of ESG data verified by internal audit prior to publication	Measures the level of pre-publication control and quality assurance of reporting	KPMG (2023); CSRD Art. 19a
	Quality of ESG data traceability documentation (existence of sources, verifiability)	Reflects the reliability and transparency of reported data	ESRS 1; GRI (2021)
	Number of non-compliances or deviations identified in ESG reporting	Assesses the maturity of the reporting and data collection process	IFAC (2022); IIA (2023)
Organisational culture and ethics	Employee participation in ESG and ethics training (%)	Measures internal awareness and ability to support ESG culture	GRI (2021); BVB Code 2024
	Number of relevant reports through internal whistleblowing mechanisms	Reflects the existence of a culture of responsibility and transparency	Deloitte (2022); IIA (2021)
	Involvement of internal audit in assessing the ESG impact of strategic decisions	Assesses the strategic role of internal audit in governance and planning	IIA (2023); IFAC (2022)

Source: Author processing, 2025

Assessing the maturity of ESG processes in internal audit engagements requires not only a qualitative analysis of systems and policies, but also the use of relevant Key Performance Indicators (KPIs) that reflect the level of integration, control and strategic alignment of sustainability in the organisation's activities. The first dimension targeted is *ESG governance,* which aims to ensure that an active ESG committee and approved ESG policies are in place as clear benchmarks of the organisation's commitment to sustainability (ESRS 2-GOV; BVB Code 2024). Another key indicator is the weight of ESG objectives in executive remuneration criteria, which is a sign of strategic alignment between performance and responsibility (Eccles & Klimenko, 2019). With regard to risks and internal control, a mature audit should verify the extent to which ESG risks are included in the main risk register and whether they are subject to effective operational control. The number of internal audit engagements that include ESG objectives or the percentage of identified non-compliance issues that are remedied can serve as proxies for the organisation's commitment in this area (IIA, 2023; IFAC, 2022).

In terms of ESG reporting and data, it is essential to measure the proportion of indicators verified internally prior to publication, as well as the degree of compliance with ESRS requirements. This enables the audit function to provide a higher degree of assurance on the integrity of externally reported information (CSRD, Art. 19a; KPMG, 2023). Another important category of KPIs relates to organisational culture and employee engagement. The number of people trained annually in ESG or the frequency with which the board of directors receives ESG reports are indicators that reflect the organisation's level of awareness and commitment to sustainability (GRI, 2021; BVB Code, 2024). Therefore, proposing a set of KPIs structured around four dimensions – governance, risk and control, data and reporting, and ESG culture – allows internal auditors to objectively and comparably assess the maturity of ESG processes, while providing clear directions for intervention and improvement.

These indicators should not be seen as a rigid model, but as a flexible tool that can be adapted to the specific sector of the organisation, the degree of ESG maturity and the resources of the internal audit function. Their importance lies in their ability to provide an objective basis for assessment and continuous improvement, as well as a common language for dialogue between internal auditors, management and boards of directors.

V. CONCLUSIONS AND FUTURE RESEARCH DIRECTIONS

The transformation of the internal audit function into a strategic partner for sustainability reflects a profound shift in the paradigm of modern corporate governance. In the context of new European regulatory requirements – particularly through the CSRD and ESRS – and intensifying pressure from investors and society, it is becoming clear that ESG cannot be treated as a parallel or optional exercise, but must be fully integrated into the internal control architecture and decision-making processes of organisations.

This article has sought to contribute to the understanding of the convergence between internal audit and ESG principles through a conceptual approach supported by examples of good practice, current regulations and applicable proposals. The analysis revealed that, despite progress at international and European level, the role of internal audit in this area is still in its infancy in many organisations, particularly in Central and Eastern Europe. In Romania, although recent initiatives – such as the new Corporate Governance Code of the Bucharest Stock Exchange (2024) – create the necessary framework for better ESG integration, challenges related to resources, expertise and strategic alignment remain. By proposing a framework of good practices and a set of performance

Volume **13** / **2025**
Issue **1**
ISSN 2344-102X
ISSN-L 2344-102X

indicators relevant to ESG auditing, the research provides a concrete starting point for audit professionals, but also for boards of directors seeking to strengthen their oversight in the area of sustainability. The proposed indicators allow not only for an objective assessment of the maturity of ESG processes, but also for monitoring progress over time and better alignment between the internal audit function and the company's strategic objectives.

However, given the emerging nature of the field, further research is needed to deepen and validate these proposals:

- firstly, empirical studies need to be developed among listed companies to investigate the extent to which the internal audit function is involved in the assessment and verification of ESG processes, as well as the impact of this involvement on the credibility of reporting and overall performance;
- Secondly, the perception of internal auditors and audit committee members regarding the skills required in the ESG field, the barriers encountered in practice and the existing or necessary support tools could be explored.

It is also appropriate to develop a mature ESG audit model, differentiated by level (beginner, intermediate, advanced), which can guide organisations in the process of transforming and professionalising non-financial auditing. In an economic and social landscape deeply marked by uncertainty, the green transition and the need for resilience, internal audit has a rare opportunity to redefine its value within the organisation. It is no longer just about control and compliance, but about trust, transparency and real contribution to long-term sustainability. Therefore, future efforts must focus not only on the technical integration of ESG into audit, but on strengthening an organisational culture in which internal audit is perceived as a catalyst for accountability and sustainable performance.

REFERENCES

1. Arjaliès, D. L., & Mundy, J. (2013). The use of management control systems to manage CSR strategy: A levers of control perspective. *Management Accounting Research*.
1. Bucharest Stock Exchange. (2022a). *ESG reporting guide for issuers*. Bucharest: BVB. https://www.bvb.ro
2. Bucharest Stock Exchange. (2022b). *Corporate Governance Code*. Bucharest: BVB.
3. Bucharest Stock Exchange. (2024). *Corporate Governance Code – Revised version for public consultation (August 2024)*. Bucharest: BVB.
4. Deloitte. (2022). *Internal audit and ESG: Bridging risk and strategy*.
5. Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organisational processes and performance. *Management Science, 60*(11), 2835–2857. https://doi.org/10.1287/mnsc.2014.1984
6. Eccles, R. G., & Klimenko, S. (2019). The investor revolution. *Harvard Business Review*.
7. Eccles, R. G., & Krzus, M. P. (2018). The Nordic model: An analysis of leading practices in ESG disclosure. *Nordic Journal of Business, 67*(2), 4–26.
8. Ernst & Young Romania. (2022). *Sustainability Barometer in Romania*. Bucharest: EY Romania. https://www.ey.com/ro_ro/sustainability
9. European Commission. (2022). *Corporate Sustainability Reporting Directive (CSRD)*. https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en
10. Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment*.
11. Gray, R. (2010). Is accounting for sustainability actually accounting for sustainability… and how would we know? *Accounting, Organizations and Society*.
12. GRI. (2021). *Sustainability Reporting Standards*.
13. Institute of Internal Auditors (IIA). (2021). *Internal Audit's Role in ESG: Insights and Guidance for the Profession*.
14. Institute of Internal Auditors (IIA). (2022). *Internal Audit's Role in ESG Reporting and Risk Management*.
15. Institute of Internal Auditors (IIA). (2023). *Internal Audit's Role in ESG Reporting: Building Trust and Value*. https://www.theiia.org
16. King, M. E. (2016). *Chief Value Officer: Accountants Can Save the Planet*. Greenleaf Publishing.
17. Kotsantonis, S., & Serafeim, G. (2019). Four things no one will tell you about ESG data. *Journal of Applied Corporate Finance, 31*(2), 50–58.
18. KPMG. (2023). *The KPMG Survey of Sustainability Reporting*.
19. Macovei, A. G., Ionescu-Feleagă, L., Grosu, V., Tulvinschi, M., & Cosmulese, C. G. (2024). New Solutions for Assessing Corporate Social Responsibility in Pharmaceutical Companies: A Mathematical Modelling Approach. *Economic Computation & Economic Cybernetics Studies & Research, 58(*2). DOI: 10.24818/18423264/58.2.24.16.
20. Molociniuc, M., Melega, A., Grosu, M., Tulvinschi, M., & Macovei, A. G. (2022). Evolution of scientific research on audit quality reporting in the global economic context. *Entrepreneurship and Sustainability Issues*, *10*(2), 333-350. https://doi.org/10.9770/jesi.2022.10.2(20).
21. PwC. (2020). *ESG – A Strategic Imperative for Boards*.
22. Simnett, R., & Huggins, A. L. (2015). Integrated reporting and assurance: Where can research add value? *Sustainability Accounting, Management and Policy Journal, 6*(1), 29–53. https://doi.org/10.1108/SAMPJ-09-2014-0053
23. Tiron-Tudor, A., & Şerban-Oprescu, G. (2021). Corporate governance and ESG reporting in Romanian listed companies.
24. World Economic Forum. (2020). *Measuring Stakeholder Capitalism*.