

## CSR AUDIT IN THE CONTEXT OF IMPROVING THE FINANCIAL STABILITY OF ORGANIZATIONS

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**Abstract:** The study explores the significance of Corporate Social Responsibility (CSR) audits in enhancing the financial stability and sustainability of organizations. CSR audits help assess the effectiveness of a company's social, environmental, and ethical initiatives, ensuring that they align with both organizational goals and societal expectations. The research examines how CSR audits contribute to improved transparency, reduced financial risks, and better long-term financial performance. By analyzing CSR practices in various organizations, the study highlights the direct correlation between comprehensive CSR auditing and organizational stability. The findings indicate that organizations with effective CSR audits tend to have stronger brand reputations, improved employee morale, and better financial outcomes. The study concludes with recommendations for integrating CSR auditing into corporate strategies, enhancing transparency, and mitigating risks to strengthen overall financial health.

**Keywords:** CSR audit, social responsibility, environmental impact, economic sustainability, company ratings, external audit, public reporting

**JEL codes:** M41, M42

**Research aims:** The goal of this study is to conduct an analysis of CSR auditing, examine its impact on improving the financial stability of organizations, and present the process and importance of CSR auditing in enhancing organizational practices.

**Research novelty:** the study introduces new approaches to CSR audit procedures, contributing to improving the effectiveness of companies' social responsibility processes and realistic social risk assessments.

### **Introduction**

Corporate Social Responsibility (CSR) is considered one of the key components of business practices today. It is a critical factor that focuses on a company's ability to contribute positively to the community and the environment, while also achieving its economic objectives. The process of CSR auditing has gained significant attention in the last few decades, due to its importance in assessing the sustainability and ethical practices of organizations. CSR audits help evaluate the company's social, environmental, and ethical initiatives, ensuring alignment with both internal goals and societal expectations. In the modern business environment, CSR audit plays an essential role in improving organizational practices, assessing the effectiveness of social programs, and enhancing the financial stability of companies. These audits provide transparency, accountability, and a structured approach to evaluating the outcomes of CSR activities. It also helps reduce financial and social risks, ensuring that companies remain responsible corporate citizens.

## **Literature Review**

The concept of CSR auditing has been developed and analyzed from different perspectives. Numerous scholars and practitioners have discussed CSR audits in various contexts. A few notable trends and opinions based on studies in recent years include the following:

- ✓ CSR audit refers to assessing a company's corporate social responsibility efforts, evaluating the economic, social, and environmental impact of their activities. It helps understand how effectively an organization integrates social responsibility within its operational processes (Sullivan & Miller, 2023).

- ✓ A CSR audit includes the review of a company's policies, financial statements, public reports, and its social initiatives to assess its commitment to ethical practices (Martin, 2022).

- ✓ Furthermore, the audit evaluates how companies contribute to social well-being and environmental sustainability, including examining how they address community welfare, employee rights, and environmental conservation (Jenkins & Brown, 2024).

The significance of CSR audits is gaining increasing attention as companies realize the direct correlation between ethical business practices and long-term financial success.

## **The methodology**

The research uses a combination of analytical and comparative methods to assess CSR auditing practices. The study employs the following approaches:

### **1. Comparative Analysis**

This method compares CSR practices across various periods or between budgeted and actual CSR-related expenditures, helping to identify unexpected changes.

## **2. Financial and Social Impact Analysis**

This method assesses the financial statements of organizations, examining how CSR initiatives influence both financial and social metrics. Specific focus is placed on the environmental impact and the alignment of CSR practices with the organization's financial goals.

## **3. External CSR Reporting**

The audit process involves analyzing external CSR reports and how transparent companies are regarding their sustainability practices and social responsibility initiatives.

### **Research results**

The CSR audit is an essential element of financial and operational analysis. It helps organizations track their social responsibility initiatives, measure the risks involved, and ensure that their operations align with both societal values and business goals.

Based on the analysis of CSR practices from various companies, it becomes evident that CSR audits contribute significantly to financial stability. Organizations with effective CSR practices experience lower levels of risk, better employee morale, and improved brand reputation, all of which enhance financial performance.

**Table 1. Key areas of CSR audit and their impact on financial performance<sup>7</sup>**

<b>CSR Audit Area</b>	<b>Impact on Financial Performance</b>	<b>Description</b>
Environmental Sustainability	Positive	Companies with strong environmental initiatives tend to reduce costs in the long term through energy efficiency and waste reduction.
Employee Welfare Programs	Positive	Improved employee satisfaction and retention result in reduced turnover costs and increased productivity.
Ethical Business Practices	Positive	Ethical practices enhance brand reputation and foster customer loyalty, contributing to higher revenue.
Compliance with Regulations	Positive	Ensures the company meets local and international legal requirements, avoiding fines and legal costs.

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<sup>7</sup> Composed by author

*Impact of CSR Auditing on Financial Stability:* Organizations that carry out comprehensive CSR audits demonstrate improved financial sustainability. These organizations are more likely to establish a strong corporate reputation, attract long-term investors, and reduce operational risks.

**Table 2. CSR audit impact on financial stability**

<b>Frequency of CSR Audit</b>	<b>Financial Stability Impact</b>	<b>Key Findings</b>
High Frequency (Quarterly)	Significant Improvement	Companies with quarterly CSR audits show a marked improvement in financial stability due to better risk management and proactive issue resolution.
Medium Frequency (Bi-Annually)	Moderate Improvement	Bi-annual CSR audits result in moderate financial stability improvement, mainly in risk identification and compliance adherence.
Low Frequency (Annually)	Minimal Improvement	Annual CSR audits provide limited insight, leading to slower responses to potential financial risks and less proactive financial management.

Moreover, CSR audits allow businesses to assess their environmental and social risks, which might have been previously overlooked. Understanding these factors enables companies to

make more informed financial decisions, ultimately leading to more stable and predictable financial performance.

*CSR Audit Indicators:*

1. **Social Responsibility Reporting:** Companies' transparency regarding their CSR activities and public reports.
2. **Environmental Impact:** Assessment of the company's environmental sustainability efforts, including resource usage, waste management, and carbon footprint reduction initiatives.
3. **Community Impact:** An evaluation of the company's contribution to community welfare, such as charitable donations, social projects, and employee volunteer programs.
4. **Financial Performance Relative to CSR Investments:** The financial outcomes associated with CSR initiatives, including cost savings from efficient resource use, improved customer loyalty, and better employee retention.

### **Conclusion**

Based on the findings of this research, CSR audits are integral in enhancing the financial stability and operational efficiency of organizations. The following recommendations are suggested:

- ✓ Integrating CSR in Core Strategies

Organizations should integrate CSR auditing into their core business strategies. This will ensure that they remain aligned with their social responsibility goals while simultaneously improving their financial stability.

**Table 3. Financial risk mitigation via CSR audits**

<b>CSR Audit Frequency</b>	<b>Identified Financial Risks</b>	<b>Mitigation Effectiveness</b>	<b>Comments</b>
High Frequency (Quarterly)	Legal Compliance Risks, Reputational Damage, Supply Chain Disruptions	High	Frequent audits help companies promptly address risks and comply with regulations, mitigating significant financial threats.
Medium Frequency (Bi-Annually)	Operational Risks, Tax Compliance Risks	Moderate	Bi-annual audits reduce risk, but issues may not be identified as quickly as with quarterly audits.
Low Frequency (Annually)	Financial Mismanagement, Regulatory Fines	Low	Annual audits often miss early warning signs of financial risks and may only address issues reactively, leading to potential financial complications.

## **Improving Transparency**



✓ Companies should enhance the transparency of their CSR activities. By doing so, they can increase public trust and attract investors who prioritize social and environmental impacts.

### **Enhancing Risk Management**

✓ Organizations should use CSR audits to better access and manage social, environmental, and operational risks. Early identification of risks can help in mitigating their impact on the company's financial standing.

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# ԿՈՐՊՈՐԱՏԻՎ ՍՈՑԻԱԼԱԿԱՆ ՊԱՏԱՍԽԱՆԱՏՎՈՒԹՅԱՆ ԱՌԻԴԻՏԸ ԿԱԶՄԱԿԵՐՊՈՒԹՅՈՒՆՆԵՐԻ ՖԻՆԱՆՍԱԿԱՆ ԿԱՅՈՒՆՈՒԹՅԱՆ ԲԱՐԵԼԱՎՄԱՆ ՀԱՄԱՏԵՔՍՏՈՒՄ

## Անի Մկրտչյան

Հյուսիսային համալսարան, ասպիրանտ

**Բանալի բառեր** – ԿՍՊ աուդիտ, սոցիալական պատասխանատվություն, շրջակա միջավայրի ազդեցություն, տնտեսական կայունություն, ընկերության վարկանիշներ, արտաքին աուդիտ, հրապարակային հաշվետվություն

Հետազոտությունում մեկնաբանվում է, թե ինչպե՞ս ԿՍՊ (Կորպորատիվ սոցիալական պատասխանատվություն) աուդիտը կարող է օգնել կազմակերպություններին ունենալ ավելի կայուն ֆինանսական վիճակ: ԿՍՊ աուդիտը գնահատում է կազմակերպությունների սոցիալական, էթիկայի ու շրջակա միջավայրի նախաձեռնությունները՝ համոզվելու, որ դրանք համապատասխանում են ինչպես կազմակերպության նպատակներին, այնպես էլ հասարակության սպասելիքներին: Արդյունքները ցույց են տալիս, որ ԿՍՊ աուդիտ իրականացնող կազմակերպությունները ունեն ավելի լավ համբավ, որակավորված աշխատակիցներ ու մրցակցային ֆինանսական արդյունքներ:

ԿՍՊ աուդիտը օգնում է կազմակերպություններին ավելի լավ կառավարել իրենց ֆինանսները՝ նվազեցնելով ռիսկերն ու բարելավելով աշխատակիցների հարաբերությունները:

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