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THE ISSUES OF AUDIT DEVELOPMENT IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT

Armen Tshughuryan

Armenian State University of Economics,

Sc.D. in Economics, Professor

Jarmen2005@gmail.com

ORCID ID: <https://orcid.org/0000-0002-9244-9280>

Marco Savastano

Sapienza University of Rome, Ph.D., Management Department

marco.savastano@uniroma1.it

ORCID ID: <https://orcid.org/0000-0001-5713-4139>

Nonna Khachatryan*

Yerevan State University,

Ph.D. in Economics, Associate professor

nonnakhachatryan@yahoo.com

ORCID ID: <https://orcid.org/0009-0000-3916-6735>

Abstract: Auditing as a science has progressed over the centuries, overcoming the demands of the time and constantly expanding its functions. Currently, the audit organization is faced with the challenges of assessing the reliability of sustainable development information.

On the one hand, the sustainable development information published in organizations is not yet clearly regulated, on the other hand, the audit interpretations of ESG developments are still awaiting their regulation.

The article makes recommendations aimed at improving the formation of sustainable development audit opinions, which enable stakeholders to form a reasonable opinion about the sustainable development information published by organizations and make sound decisions.

In particular, it is recommended to enhance information sections, related to the credibility of the reporting of corporate social responsibility of organizations, in addition to the traditional sections in the audit conclusions. In order to increase the reliability of the published reporting, it is recommended to also present an audit opinion on the results of the organization's activities, opportunities and possible risks of sustainable development using ESG approaches.

Keywords: sustainable development, audit opinion, ESG principles, international auditing standards, stakeholders

JEL codes: M41, M48

Research aims: the aim of the research is to identify the specifics of auditing when assessing the reliability of sustainable development results.

Research novelty: the research has proposed directions for improving audit conclusions in the context of sustainable development.

Introduction

As for the word "audit", specialists interpret it in different ways. The expression audit comes from the Latin translated, it means "listening person." Back in the early Middle Ages, when the financial inflows and outflows of the royal treasuries were under the control of the monarchs, authority accountants regularly submitted reports on the reliability of treasury cash flows, and the kings thus formed an idea of the financial situation of their countries.

Surprisingly, in the Middle Ages, "audit" the concept was also attributed to the spiritual school, where teachers instructed the best students to "listen" to the answers of other students and express an unbiased opinion about the progress of the class. Perhaps, to this day, audit is primarily associated with an unbiased opinion, that an experienced specialist voices for this or that client.

Therefore, it is no coincidence, that audit activities are characterized by the characteristics of impartiality, independence and professional quality. Naturally, all this also applies to the audit of sustainable development, but in this case, certain peculiarities are formed in terms of the organization of the audit, especially in terms of the target areas of the audit opinion (Mnatsakanyan H., Gasparyan V. 2023). In particular, questions arise about what to record in an audit opinion related to sustainable development: impartiality of information or progress in sustainable development, implementation of corporate social responsibility, or the organization's consistency with ESG principles? (Magon, Renata Bianchini, 2018).

Literature Review

As a specific professional field, auditing was formed in England, but before that, in different periods and countries, it was mainly related to control operations. Thus, in the 2nd century BC in the Roman Republic, the Senate controlled the treasury receipts and disbursements, entrusting these functions to people with financial literacy, who, although not considered state officials, were obliged to report, especially on tax collection (Tsughuryan A., Grigoryan L., Arabyan G., 2023).

The beginning of the regulation of audit functions is considered to be the beginning of accounting as a science. In Venice, Luca Pacioli, in his work "Treatise on Accounts and Records" (1509), presenting the double-entry system, noted that the highest body of the Senate should severely punish fraudulent intermediaries and accountants, therefore, their activities should be supervised by independent specialists. The use of accounting registers as a basis for audit evidence was regulated in England, when in the counties of Oxford, Upton, and Wales, by virtue of the decree of 1324, accounting registers where study was considered a mandatory condition. And in Edinburgh in 1853, the Institute of Auditors was founded, where the start was given to the regulation of documents related to auditing activities.

In the 19th century, due to the rapid development of railway construction, the formation of joint-stock companies, and the expansion of the activities of insurance companies, the verification of the reliability of the financial statements of organizations by qualified accountants became a mandatory requirement. In this regard, in 1844, a legislative act came into force in England,

according to which joint-stock companies were required not only to publish their financial statements, but also to present independent audit opinions on the reliability of financial indicators. In 1896, the Chamber of Auditors was founded in the state of New York, USA, as a result of which certain requirements were put forward for the formation of the qualitative characteristics of a public auditor and obtaining a license to practice. In fact, from now on, every accountant could not work as an auditor unless they had the appropriate professional experience and had passed an exam to obtain a license.

The first attempts at auditing took place as early as the 18th century. For example, the professional accountant George Watson (1645-1723) advised Scottish entrepreneurs to entrust the audit of their accounting reports to a disinterested and independent third party (another accountant). Such an approach was in many cases quite effective, as it revealed the weaknesses of the business. Welsh Dalot initiated the same process in the railway construction and hotel business, proposing a special system of auditing, which is still used in Great Britain in its main provisions.

History remembers as a scandalous incident the audit conducted in the English "South Sea Company" (1720), which was later called the "South Sea Bubble". The fact is that the company in question, unable to repay its obligations to partners and not paying dividends to shareholders, gave rise to independent audit checks, which were later followed by the publication of a legislative act on the mandatory annual audit of joint-stock companies operating in the country.

In France, a law on mandatory auditing was passed in 1867, in Germany in 1910, and in the USA in 1937. Moreover, auditors were called differently in different countries: In Great Britain, chartered accountants, in the USA, public accountants, in France, commissioners of accounting, etc. (Adams, C. A., Larrinaga, C., 2019).

The requirement for auditing and publishing financial statements in organizations was especially acute during the years of the Great Depression. If until 1929, external and internal stakeholders of the business were mainly interested in the reliability of the formation of profit of organizations, then after the global financial and economic crisis, the importance of information presented on own assets, capital movements, assumed obligations, and cash flows reliability also became important. The Securities and Exchange Commission (SEC) issued a legislative act on mandatory requirements for the presentation of an audit opinion in the same year, specifying the format for drawing up the conclusion. Thus, it became clear for what purpose the audit is carried out, which parts of the financial reporting package of organizations it covers, who is responsible for the reliability of the reports, and what is the role of the auditor in the process of forming the opinion presented.

The creation of transnational companies (TNCs) in the mid-20th century led to a demand for internationalization of auditing activities, and already in the 1970s, the International Federation of Accountants (IFAC), founded in New York, developed international auditing standards and auditor codes of conduct, which, with minor changes, are still in force today (Arbidane, I., Khachatryan, N., Martirosyan, N., 2023).

Auditing activities in the newly independent Republic of Armenia were regulated by a general law adopted in 2003. In the late 90s of the 20th centuries, the Association of Accountants and Auditors of the Republic of Armenia began to actively operate, which aimed to regulate auditing activities in the private sector of the economy (Hakobyan A., Tshughuryan A., Martirosyan G. 2023). And in the public sector, auditing activities were regulated in 2010 with the adoption of the RA Law “On Internal Audit”. In 2012, the “Chamber of Auditors” public organization was founded in the RA as a public association of citizens of the Republic of Armenia, citizens of foreign countries, stateless persons, and legal entities, which began to operate with the status of a non-commercial organization. The Chamber is a member of the Revenue Policy Improvement Council of the RA Ministry of Finance and the Public Council for the Implementation of Revenue Administration of the RA State Revenue Committee. By joining the above-mentioned councils, the latter participates in The Tax Code, tax-related legal acts, and the implementation of amendments and changes to them, as the most important platform for promptly raising issues that threaten or hinder business and seeking possible solutions. In 2013, the Chamber also established the permanent "Commercial Court" arbitration structure, which is a body that assists in the resolution of disputes in civil and other legal relations.

Results

The term “auditor” is also associated with the judicial process. The point is that since the early Middle Ages, when examining legal cases in the financial and economic sphere, reliable independent

experts were invited to the court, whose opinions became “audible” during the trial sessions, influencing the verdicts.

In addition to the financial sector, at the end of the 20th century, auditing also occupied a unique place in other areas of business. In particular, management auditing is currently widely used, which, with its activities, contributes to increasing the level of efficiency of the management system used in organizations. In this case, the audit is already moving from the external field to the internal environment of the organization's business and performs its functions throughout the year, and not just once a year, before the publication of financial statements. The activities are not limited to financial sector audits, but encompass a broader range of business, providing business owners with an independent and impartial opinion on the level of efficiency of the organizations' management.

The corporate governance culture has now led to the requirement for large joint-stock companies to also apply environmental auditing, the purpose of which is to communicate to the public an impartial opinion on the extent to which a given organization, while pursuing the economic interests of its business, pursues the solution of environmental problems (Khachatryan N. 2024). And if the published conclusions state, that an organization is circumventing environmental standards and is only striving for “its own greatness” in terms of profit, then its business reputation is questioned, thereby reducing the attractiveness of acquiring shares (Li, Dayuan. 2018).

Currently, business quality auditing is also widely used in practice, when the non-financial results of organizations' activities

are continuously monitored. This is especially evident in the service sector, when independent assessment institutions publish expert opinions on the activities and quality of services provided by a particular organization (universities, tourism, financial intermediaries and other companies). The development of auditing is currently facing the challenges of assessing the sustainable development of organizations. The requirement for organizing sustainable entrepreneurship is considered relevant in organizations, whether they are large or small. Traditionally, when carrying out economic activities, organizations set themselves the task of generating profit, increasing capital, and improving financial capabilities, and in achieving this, they often bypass preventive solutions to the negative environmental, environmental, and social consequences of their own activities.

Today, the good reputation of organizations largely depends on the level of organizing sustainable entrepreneurship. Society demands that green entrepreneurship be organized in parallel with traditional business, setting a task for organizations to publish reports on sustainable development. Moreover, the circle of beneficiaries of green entrepreneurship is increasing year by year, including investors, lenders, suppliers of value-added business participants, buyers, shareholders, etc. As a result, a green entrepreneurship ecosystem is formed around organizations, the accountability of whose activities plays an important role in decision-making among beneficiaries (Tshughuryan, A., Khachatryan, N., 2023).

In this regard, the organization of green entrepreneurship audit is considered relevant, which, on the one hand, assesses the

reliability of the sustainable development results report published by organizations, and on the other hand, reveals the opportunities and risks of green entrepreneurship development. However, it should also be noted, that currently the sustainable entrepreneurship audit system has not yet received its final form, which cannot be said about the audit of financial statements of organizations. In this regard, the disclosure of approaches to the organization of sustainable development results audit in the current international auditing standards is important, which is still lacking (Tshughuryan A., Grigoryan L., Hakobyan A., Bayadyan A. 2022). In particular, specific attention is paid to the specifics of the financial audit of green entrepreneurship, taking as an information basis the Global Reporting Initiative (GRI), sustainable development (SASB), as well as international financial reporting standards (IFRS-S), the application of which creates an opportunity to organize a sustainable activity audit and present audit conclusions (IFRS-S1, IFRS-2, 2023).

It is remarkable, that the authors do not agree on what should be the main target of a sustainable development audit. In particular, some of them believe, that the cornerstone of the audit opinion on sustainable development should be the assessment of the reliability of the information presented (Magon, Renata Bianchini, 2018). The other part contradicts this thesis, arguing that expressing an opinion on the reliability of sustainable development information is difficult for financial auditors, since such information is multi-layered and relates not only to economic, but also to environmental, social and governance aspects. Therefore, it is proposed to target

sustainable development audit opinions to the performance of corporate social responsibility undertaken by organizations.

The international “Audit of Financial Statements Prepared in Accordance with a Special Purpose Basis” standard No. 800 indirectly addresses this issue. The auditor’s report on special purpose financial statements includes an “Emphasis of Matter” paragraph to notify users of the auditor’s report, that the financial statements have been prepared in accordance with a special purpose basis and therefore may not be applicable for another commitment (IAS 800, 2016). However, this also does not fully satisfy the requirement for forming an opinion on the reliability of reports published by sustainable development organizations (Arustamyan, L. 2024).

The scope of organizing an internal audit of sustainable entrepreneurship is also important, when the tools of operational and management audit reveal the opportunities for sustainable development of organizations, ways to improve the efficiency of green entrepreneurship management, and the potential for green growth of business (Mkrtchyan, A. 2024).

Thus, from the analysis of the history of the development of auditing, a number of conclusions can be drawn. First of all, audit, due to its independence and professional potential, primarily creates an atmosphere of trust in the business and public community. In addition, nowadays it is no longer considered a mere control tool, since it provides more expert assessments than performs control functions. And, finally, as a result of the regulation of auditing activities according to current international standards, uniform procedures will be introduced everywhere, thus making

each audit conclusion acceptable to both internal and external stakeholders.

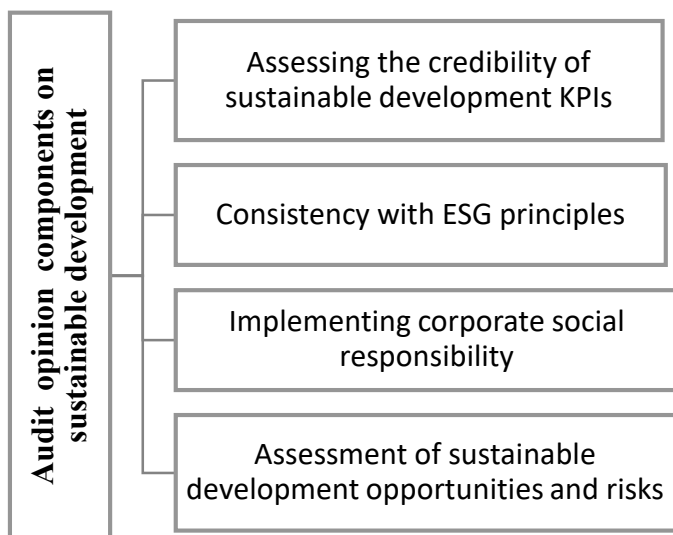


Figure 1. Target areas of the organization's sustainable development audit opinion⁶

Conclusion

In our opinion, the audit conclusion related to the sustainable development of organizations should be formed in the following main directions:

✓ Assessment of the credibility of KPIs on sustainable development, if organizations present indicators that characterize sustainable development developed by them in published reports. Currently, sustainable development stakeholders require organizations to publish key indicators related to green business,

⁶ Composed by authors

which have measurability and comparison capabilities with previous periods to assess the process of sustainable development. Here, the audit should present how well-founded and credible these KPIs are.

✓ Confirmation of the organization's consistency with ESG principles, in our view, is also a key direction when preparing an audit opinion on sustainable development (see Figure 1). Stakeholders are interested in how much the organization demonstrates a comprehensive approach to environmental, social and effective management improvement issues. In this regard, the auditor expresses an opinion on the firmness of following the ESG policy adopted by the organization.

✓ We also consider the presentation of an outlook on the degree of implementation of corporate social responsibility as a matter of concern to the organization's sustainable development component of the audit opinion. The auditor must present a credible position on the extent to which the organization has been consistent in fulfilling its social obligations, which is of particular interest to public stakeholders.

✓ The interpretations of the realization of the opportunities for sustainable development of organizations and the associated risks, which are also included in the currently published reports, also need audit assessments, and therefore will be subject to audit assurances in the conclusions.

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ԱՌԴԻՏԻ ԶԱՐԳԱՑՄԱՆ ԽՆԴԻՐՆԵՐԸ ԿԱՅՈՒՆ ԶԱՐԳԱՑՄԱՆ ՀԱՄԱՏԵՔՍՈՒՄ

Արմեն Ճուղուրյան

Հայաստանի պետական տնտեսագիտական համալսարան,
Հյուսիսային համալսարան
տնտեսագիտության դոկտոր, պրոֆեսոր

Մարկո Սավաստանո

Հռոմի Սափիենզիայի համալսարան, տնտեսագիտության
թեկնածու, կառավարման ֆակուլտետ

Նոնա Խաչատրյան

Երևանի պետական համալսարան, տ.գ.թ., դոցենտ

Բանալի բառեր - կայուն զարգացում, աուդիտորական կարծիք, ESG սկզբունքներ, աուդիտի միջազգային ստանդարտներ, շահառուներ

Աուդիտը որպես գիտություն, զարգացել է դարերի ընթացքում՝ հաղթահարելով ժամանակի պահանջները, անընդհատ ընդլայնելով իր գործառույթները: Ներկայումս աուդիտորական

կազմակերպությունները կանգնած են կայուն զարգացման տեղեկատվության արժանահավատության գնահատման մարտահրավերների առջև: Մի կողմից՝ կազմակերպություններում հրապարակված կայուն զարգացման տեղեկատվությունը դեռ հստակ կանոնակարգված չէ, մյուս կողմից՝ ESG-ի զարգացումների աուդիտորական մեկնաբանությունները դեռ սպասում են իրենց կարգավորմանը:

Հոգվածում տրվում են առաջարկություններ՝ ուղղված կայուն զարգացման աուդիտորական կարծիքների ձևավորման բարելավմանը, որոնք շահագրգիռ կողմերին հնարավորություն են տալիս հիմնավոր կարծիք կազմել կազմակերպությունների կողմից հրապարակված կայուն զարգացման տեղեկատվության վերաբերյալ և կայացնել հիմնավոր որոշումներ:

Մասնավորապես, առաջարկվում է ընդլայնել կազմակերպությունների կորպորատիվ սոցիալական պատասխանատվության հաշվետվության արժանահավատությանը վերաբերող տեղեկատվական բաժինները՝ ի լրումն աուդիտի եզրակացությունների ավանդական բաժինների: Հրապարակված հաշվետվության հավաստիությունը բարձրացնելու նպատակով առաջարկվում է նաև աուդիտորական եզրակացություն ներկայացնել կազմակերպության գործունեության արդյունքների, հնարավորությունների և կայուն զարգացման ռիսկերի վերաբերյալ՝ օգտագործելով ESG մոտեցումները:

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Conflicts of Interest:

The authors declare no ethical issues or conflicts of interest in this research.