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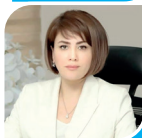
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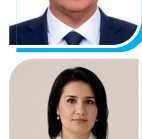
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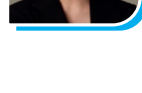
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THE IMPORTANCE OF ORGANIZING ESG AUDITS IN CONSTRUCTION AND CONTRACTING ORGANIZATIONS

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Abstract. This article discusses the importance and specific features of organising and conducting ESG audits in construction and contracting organisations.

Keywords: sustainable development, ESG management, environmental factors, social factors, governance factors.

Аннотация. В статье рассматриваются значение и особенности организации и проведения ESG-аудита в строительных и подрядных организациях.

Ключевые слова: устойчивое развитие, ESG-менеджмент, экологические факторы, социальные факторы, факторы корпоративного управления.

INTRODUCTION

Construction accounting is a specialised area that requires careful financial management from both independent contractors and construction businesses of various sizes. Due to project-based organisational structures, long-term contracts, and variable costs, the financial management of construction projects requires specialised knowledge, appropriate accounting practices, and systematic control. A comprehensive approach to construction and contractor accounting should therefore cover its essential elements, including cost tracking, budgeting, cash-flow management, and compliance with relevant industry requirements.

Construction accounting is a specialised branch of financial management designed to reflect the specific characteristics of the construction industry. It involves tracking and analysing costs, managing project budgets, monitoring cash flows, and ensuring compliance with applicable industry regulations. Unlike conventional accounting approaches, construction accounting places particular emphasis on project-based financial management and commonly addresses long-term contracts, variable costs, and the allocation of financial resources across different stages of project implementation.

LITERATURE REVIEW

According to P. M. Hillebrandt (2000), construction represents a major sector of the national economy, accounting for a significant share of overall economic activity and contributing to the creation of stable employment opportunities.

L. Klee (2015) notes that the construction industry is responsible for creating a substantial proportion of the physical infrastructure and material assets that form the built environment.

H. V. Sadykova (2003) emphasises that construction, as a sphere of material production, is closely connected with the broader process of expanding the economy's fixed assets and directly contributes to their creation and renewal.

According to T. M. Kuzmina (2017), construction is one of the key capital-forming sectors influencing the pace of national economic development and contributing to the achievement of important socio-economic objectives.

RESEARCH METHODOLOGY

The study employed induction, deduction, systematic and comparative analysis, grouping, experimental methods, adaptive approaches, and an integrated research framework. In addition, international experience related to the organisation and implementation of ESG audits in construction and contracting organisations was analysed and systematised in order to identify relevant methodological approaches and practical applications.

Artificial intelligence tools were used as an auxiliary instrument for the preliminary systematisation of research materials, the structuring of selected analytical information, and the improvement of the textual presentation related to the organisation of ESG audits in construction and contracting organisations, accounting for approximately 10% of the overall research process. The selection of research methods, substantive analysis of the collected materials, interpretation of the results, formulation of conclusions, and development of practical recommendations were carried out independently by the author.

ANALYSIS AND RESULTS

The ESG concept essentially reflects a transition from the classical theory of “profit maximisation” towards an approach based on “sustainable value creation”. From this perspective, the value of a company is determined not only by its current financial performance but also by the long-term economic implications of its environmental, social, and governance decisions.

The integration of ESG principles enables businesses to manage risks more effectively, improve operational efficiency, and support long-term value creation. Establishing ESG objectives is therefore important for organisations, as it demonstrates their preparedness to respond to the evolving requirements of the contemporary business environment.

Companies that integrate ESG principles into their activities may benefit from the following opportunities:

- entering new markets;
- attracting substantial investment and expanding financing opportunities;
- strengthening compliance with regulatory and reporting requirements;
- building trust among partners, investors, consumers, and local communities;
- supporting employment growth;
- encouraging innovation.

The economic significance of ESG lies in the fact that it incorporates non-financial factors influencing an enterprise's financial performance into economic analysis. Although these factors may not always be directly reflected in traditional financial statements, they can significantly influence:

- the level of business and investment risks;
- the cost of capital;
- investment attractiveness;
- long-term market stability.

From this perspective, ESG can be regarded, in economic terms, as a mechanism for managing risks and supporting long-term economic efficiency.

The environmental dimension of ESG management reflects the efficiency with which a company uses natural resources and manages its environmental impact. In classical economic theory, environmental impacts are commonly considered externalities. The ESG approach integrates these externalities into internal economic decision-making and encourages enterprises to take environmental considerations into account when assessing their long-term performance.

Environmentally responsible business practices can provide the following advantages:

- optimising energy and raw-material costs;
- strengthening environmental compliance and reducing exposure to related regulatory costs;
- supporting the continuity and stability of production processes.

Accordingly, environmental measures can be viewed not merely as operating costs but as long-term investments in economic sustainability, resource efficiency, and business resilience.

The social dimension of ESG is closely related to human capital theory. Contemporary economic research demonstrates that employees' skills, working conditions, professional development, and social protection are important determinants of enterprise productivity and sustainable growth.

Greater attention to social aspects within the ESG framework may provide the following advantages:

- increasing labour productivity;
- optimising costs associated with employee turnover;
- strengthening corporate reputation and stakeholder confidence.

From an economic perspective, these processes contribute to the creation of a stable and sustainable revenue base for enterprises. Thus, within the ESG framework, social responsibility may be interpreted as a strategic investment in human capital.

The governance dimension reflects the quality of corporate governance and the institutional stability of a company. Differences between the interests of managers and owners may influence the process of value creation. ESG governance mechanisms are designed to improve the alignment of stakeholder interests, enhance transparency, and strengthen accountability within corporate decision-making.

A transparent and effective governance system can provide the following advantages:

- reducing information asymmetry;
- increasing the reliability and transparency of financial reporting;
- strengthening investor confidence.

Consequently, governance factors can be regarded in economic terms as important mechanisms for preserving and increasing the value of capital.

A central principle of the ESG concept is that sustainable economic value is created through a balanced combination of current financial performance and long-term development considerations. Companies with strong ESG performance may:

- demonstrate greater resilience to changes in market conditions;
- be perceived as having a more favourable investment risk profile;
- strengthen their ability to attract long-term capital.

Therefore, ESG can be viewed as an integrated model of enterprise value management within the modern economy.

ESG is a comprehensive concept that integrates environmental impact, social responsibility, and governance quality with financial performance when evaluating a company's economic activities, with the objective of supporting long-term economic sustainability and value creation.

ESG considerations are relevant across virtually all industries because environmental, social, and governance factors are not limited to any single sector. Nevertheless, their relative importance and forms of application may differ depending on the characteristics of a particular industry. Several sectors in which ESG considerations may have a particularly significant role are discussed below.

Aerospace and defence. Aviation contributes to global carbon emissions, creating opportunities for further technological innovation in areas such as fuel efficiency, alternative energy sources, and advanced aircraft design. In the defence sector, the sourcing of rare-earth minerals and other strategically important materials may involve jurisdictions with differing human-rights standards, governance frameworks, and supply-chain conditions. ESG provides a useful framework for systematically assessing and managing these environmental, social, and governance considerations.

Automotive industry. ESG considerations in the automotive sector include technological innovation, the development of electric vehicles, responsible sourcing of raw materials, appropriate working conditions for employees, and compliance with regulatory requirements. Integrating these considerations can support the sector's transition towards more sustainable and technologically advanced production models.

Construction. The materials, technologies, and production methods used in the construction of residential, commercial, and industrial facilities have a direct influence on the environmental footprint of the construction sector. The sourcing and transportation of construction materials also contribute to its overall environmental impact. At the same time, the sector has growing opportunities to strengthen workforce development by attracting, retaining, and continuously improving the skills of qualified specialists. These characteristics make ESG principles particularly relevant to construction and contracting organisations.

Retail. Changes in consumer preferences are encouraging retail companies to give greater consideration to social and environmental factors. ESG-related priorities in the retail sector include responsible practices throughout manufacturing and supply chains, appropriate labour and human-rights standards, substantiated environmental marketing claims, and the reduction of emissions associated with the transportation and distribution of goods.

The Ministry of Economy and Finance of the Republic of Uzbekistan, together with the Ministry of Investments, Industry and Trade, the Ministry of Poverty Reduction and Employment, the National Committee for Ecology and Climate Change, and other relevant ministries and agencies, is tasked with developing and approving sustainable development indicators applicable to business entities, as well as standardised forms for reporting non-financial data in accordance with the established Rules.

In addition, the responsible authorities are required to develop and implement targeted measures aimed at addressing areas for further improvement in economic, environmental, and social sustainability identified through the analysis of the collected data. The indicators included in non-financial reporting forms should comply with the sustainability-related disclosure requirements of the International Financial Reporting Standards Sustainability Disclosure Standards (IFRS SDS), as well as with the requirements established by this Resolution and Appendix 1 thereto¹.

¹ Resolution No. 221 of the Cabinet of Ministers of the Republic of Uzbekistan "On Measures to Implement the Principles of Sustainable Development and Environmental, Social and Corporate Governance (ESG)", adopted on 4 May 2026.

Starting in 2028, the practice of collecting, analysing, and publishing data based on non-financial reporting forms will be introduced gradually among business entities. These reports will be prepared and submitted by business entities on a voluntary basis².

Chapter 4 of the Regulation “On the Introduction of International Financial Reporting Standards and Sustainability Disclosure Standards Based on Environmental, Social and Corporate Governance (ESG) Principles and the Preparation of Reports in Accordance with These Standards”, approved by this Resolution, is entitled “Procedure for the Independent External Verification of Sustainability and ESG Reports”. It establishes the following requirements:

“Enterprises are required to ensure the independent external verification and assurance of sustainability and ESG reports in accordance with the following requirements: the independent assurance process shall be introduced from the first reporting year within the timeframes established by the Programme of Measures for the Introduction of Sustainability and ESG Reporting Standards for State-Owned Enterprises Undergoing Transformation (hereinafter referred to as the Programme). Depending on the complexity and volume of sustainability-related information, the following forms of assurance shall be applied: reasonable assurance and limited assurance”³.

“It is stipulated that limited assurance should be applied to the assurance of sustainability and ESG information and that this requirement should be incorporated as a mandatory condition in assurance engagements. Assurance procedures should be conducted in accordance with the applicable standards of the International Auditing and Assurance Standards Board (IAASB).

Accordingly, the following standards are to be applied to the assurance of sustainability and ESG information: ISAE 3000 for reports relating to 2025 and ISSA 5000, which comes into effect on 1 January 2026, for reports relating to 2026. In the course of transitioning to ISSA 5000, particular attention should be given to the appropriate preparation and further development of management systems, business processes, and internal control systems”⁴.

“Sustainability and ESG reports should be subject to assurance only by qualified organisations authorised to provide relevant services in accordance with IAASB standards. Such organisations may include branches or affiliated entities of foreign audit organisations, as well as audit organisations duly included in the relevant register in accordance with the established procedure.

Particular attention should be paid to ensuring the independence of organisations providing assurance services. This includes compliance with the IFAC Code of Ethics and applicable international ethical standards; avoiding services that may give rise to conflicts of interest in connection with assurance engagements; ensuring full professional autonomy in the planning and performance of assurance procedures; providing assurance service providers with access to all information necessary for the engagement and appropriate opportunities to interact with relevant employees; and maintaining quality control over the assurance process in accordance with the requirements of ISQM 1”⁵.

“It is established that, in engaging assurance service providers, the relevant service provider should be replaced upon expiry of the prescribed term; consecutive renewal of the engagement for a second term should be avoided; rotation of service providers should be carried out in accordance with applicable regulatory legal acts and the requirements of the IFAC Code of Ethics; and the professional independence of assurance service providers should be protected from external threats and undue pressure”⁶.

It is also stipulated that appropriate safeguards should be introduced against threats and pressure that may arise during external assurance processes. Such safeguards include preventing unjustified delays in, or non-payment of, service fees, avoiding unjustified threats of legal proceedings, and protecting assurance providers from other forms of undue adverse influence”⁷.

Based on the above, it can be concluded that ESG audit and assurance processes are of particular importance for construction and contracting organisations and should be organised in accordance with the requirements of the relevant regulatory legal framework.

2 Resolution No. 221 of the Cabinet of Ministers of the Republic of Uzbekistan “On Measures to Implement the Principles of Sustainable Development and Environmental, Social and Corporate Governance (ESG)”, adopted on 4 May 2026

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The effective conduct of any audit engagement and the formation of a fair and objective audit opinion depend, to a considerable extent, on the appropriate and systematic planning of audit procedures.

Audit planning is one of the initial stages of the audit process and includes such procedures as client acceptance, decisions regarding the continuation of professional relationships with the client, and the development of an overall audit strategy and detailed audit plan to ensure the effective conduct of the engagement.

The introduction of ESG audits in construction and contracting organisations can contribute to more effective management of environmental, social, and governance risks, improved resource efficiency, and the optimisation of potential financial losses. This approach makes it possible to assess environmental, social, and governance factors arising from the activities of construction and contracting organisations not only as non-financial considerations but also in terms of their potential impact on costs, revenues, profitability, and the financial stability of the enterprise.

The environmental component of an ESG audit assesses the efficiency of the use of construction materials, energy, water, and fuel; waste-management practices; emissions into the environment; and compliance with applicable environmental requirements. The development and implementation of appropriate corrective and improvement measures in areas where opportunities for more efficient resource use or stronger compliance are identified can contribute to reducing unnecessary resource consumption, environmental compliance costs, and additional operating expenses.

The social component of an ESG audit focuses on occupational health and safety, employee working conditions, compliance with labour rights, subcontractor activities, and relationships with relevant stakeholders. The proactive identification and assessment of social factors within construction processes can contribute to reducing the likelihood and financial consequences of workplace incidents, labour-related disputes, compensation costs, and construction-quality issues.

The governance component of an ESG audit assesses contractual discipline, internal control systems, procurement transparency, anti-corruption controls, conflicts of interest, the allocation of authority and responsibility, and the reliability of ESG-related information. As a result, areas requiring further improvement in governance and internal control can be identified at an early stage, creating opportunities to strengthen management effectiveness and limit their potential impact on financial performance.

CONCLUSION AND RECOMMENDATIONS

In conclusion, ESG audits make it possible to assess the efficiency of material, energy, water, and fuel consumption by comparing planned and actual resource-use indicators. This approach supports the optimisation of resource consumption in construction projects, helps identify opportunities for more efficient cost management, and contributes to improved operational efficiency.

Overall, the implementation of ESG auditing in construction and contracting organisations provides a comprehensive framework for identifying and assessing environmental, social, and governance factors, determining their financial implications, developing appropriate improvement measures, and monitoring their implementation. Ultimately, ESG auditing serves as an integrated control mechanism that contributes to mitigating the potential adverse effects of environmental, social, and governance risks, improving resource efficiency, and optimising financial performance.

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