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Auditors and Sustainability Reporting: Ensuring Accuracy and Transparency in ESG Disclosure

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ABSTRACT



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Keywords:

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Objective: To examine the role of auditors in enhancing accuracy, transparency, and quality of ESG disclosures in Indonesia.

Methods: Quantitative research using surveys, regression analysis, and SEM to assess auditor impact on ESG reporting.

Results: It believes that the presence of an auditor raises the accuracy of ESG disclosures, especially when the auditor is an external body as opposed to an internal auditor and that they increase the transparency and credibility of ESG reports. It was found that the absence of homogeneous sustainability reporting protocols is posing a big problem for auditors which impacts the audit process. The study also revealed that when companies incorporated audits into their ESG reporting, it dramatically enhanced the quality of the information disclosed, especially among organizations that prioritized sustainability initiatives.

Novelty: Furthermore, this study adds to existing literature specifically focusing on the Indonesian context where sustainability reporting practices are not yet in full force. This offers a fresh perspective on how solving accuracy and transparency in ESG disclosures through auditor involvement, specifically external audits. Further, publicly-financed/controlled enterprises are a specific focus of the analysis that has not been well addressed in the literature, but has unique challenges for auditors in developing markets like different reporting standards as well other civil service policy issues.

Research Implications: The findings provide valuable implications for both practitioners and policymakers to consider. Auditors have a critical role to play in the improvement of the accuracy and transparency of ESG disclosures and the enhancement of stakeholder confidence. Policymakers are encouraged to develop standardised ESG reporting frameworks to assist auditors in ensuring consistent, reliable and credible sustainability reports. This is particularly important in emerging markets such as Indonesia.

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1. Introduction

Over the last few years, corporate accountability on environmental, social and governance (ESG) reporting has markedly increased. And both consumers and regulators are putting increasing pressure on companies to disclose sustainability-related information. Auditors now have a vital role in ensuring credibility and accuracy of these reports who play an essential role in this process. A significant amount of academic literature indicates that independent audits are critical for addressing concerns about the reliability of ESG disclosures and their transparency. The work of Yuen et al. (2020), Wang et al. (2021), and Lee et al. (2022), upon external auditors' role in legitimizing sustainability reports. In addition to this, a

new wave of regulatory reforms, including the European Union Corporate Sustainability Reporting Directive and the Global Reporting Initiative, have also urged for the independent verification of ESG information (Arvidsson & Dumay, 2022; Sulkowski & Jebe, 2022). Auditors are expected to assume a central role in sustainability reporting as this field matures, ensuring not just that disclosures would be accurate, but that they would be aligned with global sustainability reporting standards (Aliyu, 2024; Juusola & Srouji, 2023).

While the role of auditors in a sustainability report is increasingly heightened, multiple challenges remain in the audit process, especially in terms of ESG disclosure reliability and transparency. There is no single standard of sustainability reporting in the world and this lack of



consistency and comparability makes it difficult for auditors to assess and verify ESG information (Krivogorsky, 2024; Tsang et al., 2023). Boiral et al. (2019), Han et al. (2023), auditors face challenges in providing a reliable and transparent evaluation of the presented data as existing standardized reporting procedures are usually not in place, and companies might differ significantly in the information they report. Moreover, there is a significant concern that conflicts of interest would be created if internal auditors are required to conduct audits of sustainability reports, hampering the integrity of the auditing process. Maroun (2019), Pitrakos & Maroun (2020), that external auditors generally have a greater ability to improve the transparency of ESG disclosures than their internal counterparts. Moreover, the breadth of ESG reporting, covering a range of topics from climate change and labor practices to corporate governance, creates a myriad of challenges for auditors regarding their expertise and how to efficiently allocate resources (Chen & Cheng, 2021; McDonnell et al., 2022). Such issues shed light on the critical need for strong auditing practices capable of addressing the subtleties of sustainability information (Samha, 2024; Yang et al., 2024).

Much of the theoretical basis was constructed around agency theory, stakeholder theory, and legitimacy theory, focused on the role auditors will play in sustainability reporting. Jensen & Meckling (2019), conceptualized agency theory where stakeholders and managers sign a contract in the presence which theoretically makes their interest aligned with external ones, so the need arises for third-party verification (auditors) as a mechanism to mitigate the agency problem. Stakeholder theory (Freeman, 1984), for example, states that businesses should consider the interests of its multiple stakeholders (investors, regulators, public) and that stakeholder interests today are more focused on ESG. Auditors help to ensure that sustainability reports accurately reflect these stakeholders' interests and concerns. In addition, legitimacy theory Suchman (1995), posits that companies respond to the pressure to act sustainably by reporting on their activities, thus enhancing their legitimacy with respect to stakeholders. The role of auditors is to increase the credibility of the ESG disclosures of companies so that the sustainability initiatives of companies can be recognized and trusted by external stakeholders. Emma et al. (2024), Wang & Zeng, (2024), Zahid et al. (2022), which investigate the role of auditors in enhancing the reliability of ESG disclosures via independent validation and verification processes.

Although a few studies discussed the role for auditors in sustainability reporting, there are still a lack of research on this topic in Indonesia. There is limited research regarding the role of auditors in determining the quality of ESG disclosures in emerging economies. Earlier works like Boiral et al. (2019), Boiral & Heras (2020), have indicated a positive relationship between audit involvement and the faithful representation of sustainability reports, whereas other studies, such as those of Elbardan et al. (2023), Gerwanski et al. (2022), Zahid et al. (2023), may yield inconsistent or even negative returns. Johnson (2023) most obviously, when auditors lack sufficient clear reporting standards. This incomplete picture warrants further research into what factors affect papers when it comes to winning the audit game in the realm of ESG disclosures (Elkins & Entwistle, 2018; Meredith et al., 2020). Additionally, the dynamic nature of global regulatory frameworks and the growing demand for transparency in environmental, social, and governance performance highlight the critical need for this research (Adams & Abhayawansa, 2022; Wang & Zeng, 2024). Therefore, this research can fill the gap in existing research by examining the extent and nature of the influence of both internal and external auditors on the quality of ESG disclosure in Indonesia, which can provide practical guidance for enhancing the integrity of corporate sustainability disclosure.

Therefore, the first aim of this study is to explore the involvement of auditors in the accurate, transparent, and high-quality ESG disclosures in sustainability reporting. Impacts of internal vs external auditors, how auditor action associated with sustainability audits build stakeholders trust to that type of reports, what auditors face to provide reasonable assurance for sustainability audits In particular, the study seeks to spur the improvement of ESG audit practices to ensure better integrity of ESG reporting in a country like Indonesia. It is anticipated that this paper will add to the literature of the relationship between audits and sustainability disclosures with theoretical and practical implications.

2. Theory and development literature

2.1 Research Theory

The third step of the proposed theoretical framework is: theoretical basis which is established based on the agency theory and legitimacy theory, and is combined with the stakeholder theory. Agency theory posits an agency relationship that is inherent at odds between managers (*agents*) and stakeholders (*principals*), which causes

information asymmetry. This deviation is especially important for sustainability reporting, since quality ESG (Environmental, Social, and Governance) disclosures are critical to decision-making processes. As independent third parties, the role of auditors is to decrease this asymmetry by providing a stamp to the reliability of the issued information (Jensen & Meckling, 1976). Also, legitimacy theory suggests that firms are more likely to participate in sustainability reporting to secure or bolster their legitimacy among stakeholders, such as regulators, investors, and the public (Suchman, 1995). Auditors help upholding this legitimacy by providing assurance about the reliability of the disclosed information, thereby avoiding the risk of reputational damage caused by misleading or incorrect reports. Stakeholder theory does the opposite and shows that firms have to deliver to a wide range of stakeholders, and auditors have a special role in making sure that ESG disclosures meet these expectations (Freeman, 1984). This theorem also provides the basis for understanding the actual contribution of auditors to enhance credibility, transparency, and accuracy of sustainability disclosures.

2.2 The Effect of Auditor Presence on Information Accuracy in ESG Reports

The third step of the proposed theoretical framework is: theoretical basis — which is established based on the agency theory and legitimacy theory, and is combined with the stakeholder theory. Agency theory posits an agency relationship that is inherent at odds between managers (agents) and stakeholders (principals), which causes information asymmetry. This deviation is especially important for sustainability reporting, since quality ESG (Environmental, Social, and Governance) disclosures are critical to decision-making processes. As independent third parties, the role of auditors is to decrease this asymmetry by providing a stamp to the reliability of the issued information (Jensen & Meckling, 1976). Also, legitimacy theory suggests that firms are more likely to participate in sustainability reporting to secure or bolster their legitimacy among stakeholders, such as regulators, investors, and the public (Suchman, 1995). Auditors help upholding this legitimacy by providing assurance about the reliability of the disclosed information, thereby avoiding the risk of reputational damage caused by misleading or incorrect reports. Stakeholder theory does the opposite and shows that firms have to deliver to a wide range of stakeholders, and auditors have a special role in making sure that ESG disclosures meet these expectations (Freeman, 1984). This theorem also provides the basis for

understanding the actual contribution of auditors to enhance credibility, transparency, and accuracy of sustainability disclosures.

H1: The presence of auditors in sustainability reporting significantly improves the accuracy of information disclosed in ESG (Environmental, Social, and Governance) reports.

2.3 The Effect of External Auditors on the Transparency of Sustainability Reporting Compared to Internal Auditors

The Internal Vs External Auditors relation is essential to the transparency of sustainability reporting. H2: External auditors support more transparent sustainability reporting than internal auditors is a hypothesis that has been supported by considerable empirical evidence. External auditors are, however, independent from the organization, and are therefore perceived to be more objective and less influenced by management (Wang et al., 2021). This independence allows external auditors to give a better and more transparent evaluation of ESG disclosures, and is essential for facilitating stakeholder confidence. For instance, research conducted by Simnett et al. (2020) and Cheng et al. (2023) External auditors have greater tendency to signal ESG filings inaccuracies and fraud which indicates that external auditors may enhance information transparency. However, while necessary in terms of internal controls and risk management, internal auditors may have conflicts of interest since they belong to the same organization which creates the sustainability report (Brown & Lee, 2022). External auditors are usually perceived to be more effective in improving sustainability reporting transparency as they could be less subject to pressures that may be leveraged by the organization internally compared to an internal auditor.

H2: External auditor involvement has a greater impact on sustainability reporting transparency than internal auditors.

2.4 The Effect of Audit on Stakeholder Trust in Sustainability Reporting

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H3: Audited sustainability reporting tends to be more trusted by stakeholders, such as investors, regulators, and the general public.

2.5 The Effect of Reporting Standard Challenges on Sustainability Audit Effectiveness

The absence of standardization on ESG reporting standards is one of the greatest difficulties faced by sustainability auditor, and it can have a serious effect on the audit. H4: Challenges faced by auditors such as lack of unification of sustainability reporting standards negatively affect the audit process being effective is a theory that is reinforced by research in the field. And the absence of standard requirements for disclosure of ESG information makes the auditing process more complex, given that auditors must evaluate information that might be in various formats and have differing levels of detail (Bebbington et al., 2022). This inconsistency makes it difficult to compare sustainability data between companies, industries, and audit processes. A study by Kotsantonis et al. in the current context, meaning it is not universally accepted reporting standards which creates ambiguity of which an audit assessment is at risk. (2022) and Velte (2023) Furthermore, auditors may not have adequate standards on specific ESG factors, such as climate risk or social impact, making the assessment of disclosures a complex issue (Singh et al., 2023). Hence, the success of sustainability audits is mainly dependent on the progress and implementation of standardized reporting frameworks.

H4: Challenges faced by auditors, such as the lack of uniform sustainability reporting standards, affect the effectiveness of the audit process.

2.6 The Effect of Audit Implementation on the Quality of ESG Disclosures in Sustainability-Oriented Companies

Studies indicate that ESG disclosures, preceded by value-add audits on sustainability reports, are of a better overall quality as versus those companies which are sustainability focused. Numerous studies support H5: Audit implementation on sustainability reports contributes to improving the quality of ESG disclosures in sustainability-oriented companies. According to research conducted by Simnett and Hodge (2021), well-audited companies are likely to provide a higher level of detail, comprehensive and verified ESG report. Audits are quality control, confirming that what is presented and by definition, what is measured — is credible and conforming to a fundamental reporting strategy, which can be through a framework like the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB). Furthermore, Ziegler et al. (2022) and Krishnan et al. (2023) note that audit presence motivates firms to upgrade their internal reporting system, which produces better disclosures. Transparency in the integration of sustainability practices is critical for a sustainability-oriented company (accountability to stakeholders) and can make or break the entire reputation of such organizations (it is true). Hence, integrating audits into sustainability reports will lead to the quality enhancement of ESG disclosures through making information contained within more accurate, consistent, and transparent.

H5: Audit implementation on sustainability reports contributes to improving the quality of ESG disclosures in sustainability-oriented companies.

3. Innovation methodology

3.1 Research Design

A quantitative research design is employed in this study to explore the role of an auditor in enhancing the accuracy, transparency, and the overall quality of ESG disclosures in sustainability reporting. This research will be using a cross-sectional approach, by looking up secondary data from Indonesian company which publish sustainability report based on ESG criteria. This design encompasses both the primary and secondary collection of data, whereas the primary data being drawn from surveys conducted with auditors, corporate sustainability officers, and stakeholders within relevant industries. The secondary data will comprise publicly-available sustainability and audit reports which will help us in assessing how audit involvement shapes the quality of ESG

disclosures. The research additionally focuses on hypothesis testing to investigate the relationships between auditor presence with information accuracy, transparency, stakeholder trust, and audit effectiveness.

3.2 Sample

This research uses 100 publicly listed companies in Indonesia that are well-known with sustainability reporting as the sample. It chooses companies based on: (1) the company must have had a sustainability report for at least two consecutive years; (2) must disclose ESG-related information publicly; and (3) must submit to an independent external audit of the annual sustainability report. They stratify the sample by sectors such as manufacturing, finance, energy and consumer goods. 200 respondents will be surveyed which include auditors (both internal and external), sustainability officers, and stakeholders involved in sustainability decision making in the selected companies. This helps to ensure an inclusive survey, capturing views from both auditing and those affected by sustainability reporting.

3.3 Instruments

A structured survey questionnaire and review of secondary data were the instruments used to collect data. The survey will have two sections one for auditors and one for corporate sustainability officers and stakeholders. The audit office part will deal with their perceptions of ESG audit correctness, openness, and issues. It will include questions about Likert scale from 1 (strongly disagree) to 5 (strongly agree) to measure how important they feel about their role in ensuring high-quality ESG disclosures. The part of sustainability officers and stakeholders will explore their experience and perceptions of audited sustainability reports, their trust in disclosed ESG data, and the effectiveness of reporting standards. It will collect secondary data in forms of audit reports and sustainability disclosure to examine audit implementation and quality for the companies in the sample.

3.4 Data Analysis

This study will utilize data analysis through the application of descriptive and inferential statistics. Demographic characteristics of the survey respondents (e.g., professional background and professional experience), and the main characteristics of the companies in the sample (e.g., size, sector, and sustainability practices) will be summarized through descriptive statistics. This first perspective provides context for the data and helps to set the stage for the general trends and distributions in the data through the sample (Field, 2018).

The multiple regression analysis will allow us to analyze the relationship between independent variables (auditor presence, type of auditor, accounting standards, etc.) and dependent variables (accuracy, transparency, stakeholder trust, audit efficacy in ESG disclosures). Regression analysis helps you understand how each independent variable affects the dependent variables, while controlling for the effects of other independent variables which might affect the dependent variables as well. The prevalent use of this approach in examining corporate governance and financial reporting (Hair et al., 2021) makes it especially relevant for investigating how auditors affect ESG disclosures. Hypothesis testing through multiple independent sample t-tests / ANOVA (analysis of variance) will allow us to examine whether differences between groups exist (e.g., the respective efficacy of internal vs external auditors in improving the accuracy and transparency of ESG disclosures). These statistical tests are common practices to assess the probability with which group differences related to hypotheses are true (Pallant, 2020). Cronbach's alpha will be used to evaluate the internal consistency of all survey instruments, ensuring the reliability of the data (Tavakol & Dennick, 2011). A Cronbach's alpha coefficient above 0.7 suggests that the items in the survey result are measuring the same thing consistently, thus validating the results.

As it is suggested by DeVellis (2017), the expert reviews and pilot testing of instruments shall establish the validity of the instruments to capture what is intended in the survey questions. It will also be done by use of structural equation modeling (SEM), to examine the interrelationships between multiple variables at the same time. SEM is capable of handling complex relationships and has been widely used in corporate governance and sustainability research (Kline, 2016). SEM enables the study to consider various dependent and independent variables in modeling both their direct and indirect associations. This is particularly useful in empirically testing theoretical models that involve many interrelated factors, such as the impact of audit quality on ESG disclosures (Hair et al., 2021). On the one hand, the methodological framework developed in this study supports a nuanced, rigorous theoretical lens for understanding how the agentic choice of auditors influences ESG disclosure quality, thereby advancing theory and concepts that can have practical implications for other stakeholders in countries like Indonesia.

4. Results



4.1 Descriptive Statistics

The first step in the descriptive statistical analysis was to look at the demographic characteristics of the respondents involved in this study. The first half of Table 2 shows the detailed types of respondents, where 35% were external auditors and 25% were internal auditors. three-quarters of respondents were sustainability officers, while 10% were stakeholders. This distribution reflects a variety of professionals involved in both audit and sustainability, and provides a broader view of how information technology is involved in the audit process. Table 3 shows the sample companies by industry sector. The consumer goods sector accounted for the largest sample with 35% of the companies analysed, followed by the manufacturing sector with 30%, the financial sector with 20% and the energy sector with 15%. The high level of overall gold in the ESG data looked at the average ESG scores across the sectors analysed, with finance at 80 and the oldest score, 78 for consumer goods, 75 for manufacturing and 70 for energy. This variability in ESG scores reflects sectoral differences in sustainability practices, which may further influence the use and impact of IT tools in audits. Overall, all sectors recorded an average ESG score of 76, reflecting the moderate sustainability reporting of the sample companies.

4.2 Effect of Auditor Presence on Information Accuracy

The regression analysis conducted to assess the effect of auditor presence on information accuracy revealed significant findings. Table 4 summarizes the results, showing that auditor presence has a positive and statistically significant impact on the accuracy of information (coefficient = 0.42, p-value = 0.000). This suggests that the presence of auditors, whether internal or external, significantly improves the reliability of the information provided. The analysis also highlights the influence of other factors. Type of auditor (internal or external) also has a positive and significant effect on information accuracy (coefficient = 0.33, p-value = 0.001), indicating that different auditor types contribute variably to the accuracy of information, with external auditors likely having a more rigorous impact. Reporting standards have a smaller but still significant effect on information accuracy (coefficient = 0.25, p-value = 0.013), suggesting that adherence to recognized reporting standards enhances the quality of the information. The R^2 value of 0.56 indicates that 56% of the variability in information accuracy can be explained by the presence of auditors, their type, and reporting standards. The adjusted R^2 value of 0.54 adjusts for the number of predictors and still

indicates a relatively strong explanatory power of the model. In conclusion, the regression analysis confirms that auditor presence, along with the type of auditor and adherence to reporting standards, plays a crucial role in enhancing the accuracy of information.

4.3 External vs. Internal Auditors and Transparency of Sustainability Reporting

In considering the relationship between auditor type and transparency in sustainability reporting, an ANOVA was conducted, the results of which are reported in Table 9, and indicated a significant difference between groups. The results of the ANOVA are presented in Table 5. The mean transparency score was 4.25 (sa= 0.72) for external auditors, suggesting that engaged external auditors are perceived to make sustainability reporting more transparent. On the other hand, the mean transparency score of internal auditors was 3.85 and standard deviation of 0.89, which revealed that the transparency of sustainability reporting is somewhat lower and above average in case of the involvement of internal auditors. Overall, firms without auditors recorded the lowest mean transparency score at 3.40, standard deviation was 1.02 indicating a wider variation in the transparency of their sustainability reports. Given an F-statistic of 15.68 and p-value of 0.000, it can be concluded that there are statistically significant differences in the transparency of sustainability reporting among the three groups of auditors (external auditors, internal auditors, and no auditors). The outcome implies that the presence of external auditors is much more empowering than the existence of a non-audit from internal auditors. Overall, the study finds evidence that external auditors lead to increased transparency in sustainability issuance, supporting the argument that third-party verification is key to the comprehensibility and reliability of sustainability information.

4.4 Stakeholder Trust in Audited Sustainability Reporting

The findings from the analysis reveal a distinct difference between audited and unaudited ESG reports in as far as stakeholder trust is concerned. Stakeholders had much greater trust in audited ESG reports (mean score 4.23, standard deviation 0.64) than unaudited reports (mean score 3.51, standard deviation 1.02). As evidence of the statistically significant nature of this difference we see the t-statistic of 8.49 and the very low p-value of 0.000 which indicates the importance of auditors in adding credibility to sustainability reports. Independent auditing may play an important role in ensuring that stakeholders view ESG reports as reliable and trustworthy and may

inform decisions on investments, partnerships and business practices. The higher trust in audited reports reflects the significance of transparency and independent validation of claims in environmental sustainability reporting, elevating the need for thorough auditing practices to assure credibility of practices thereof in corporate social responsibility.

4.5 Reporting Standard Challenges and Audit Effectiveness

Auditor challenges with reporting standards are a substantial influence on audit efficacy, primary to ESG (Environmental, Social, and Governance) reporting. A lack of uniform standards (rating 2.89) is viewed by 68% of respondents as the most significant barrier since inconsistent reporting frameworks lead to ineffective audits. Likewise, poor ESG data quality (score: 3.15) hampers 60% of auditors who cannot conduct accurate and extensive audits due to low-quality data. It was also a challenge for 55% of respondents that there is a lack of standard guidelines for ESG (rating 3.05), and therefore, it is difficult to obtain uniform and reliable ESG reporting. These challenges justifying the necessity of standardized frameworks and the promotion of data quality and integrity that can improve audit functionality and provide reliability to sustainability disclosures.

4.6 Audit Implementation and Quality of ESG Disclosures

The effect of audit implementation on ESG disclosure quality is significant from the audit analysis, indicated in the table 8. The result with respect to audit implementation yields a regression coefficient of 0.38, a standard error of 0.10, a t-statistic of 3.80, and a p-value of 0.000, suggesting a highly significant and positive association regarding the implementation of audits and the quality of the ESG disclosures; in short, when audits are implemented effectively ESG disclosures are of higher quality. This implies that by having audits done properly, the quality of sustainability disclosures is likely to become better, as it forces companies to disclose their ESG credentials more meaningfully. The same goes for the sustainability focus, which indicates a positive relationship with quality of ESG disclosure (regression coefficient = 0.31, std error = 0.09, t-statistic = 3.44, p-value = 0.001). This is very much in line with the theory that firms with advanced sustainability practices are more likely to release high-quality ESG disclosures. The regression coefficient of 0.29 and a p of 0.016 indicate that the compliance of the report to reporting standards also contributes to the comparability and clarity by improving

the insight provided by ESG disclosures. To sum up, the results show that whether an audit is effectively conducted or not, having a deep-rooted focus on sustainability, and complying with reporting standards, all of these dimensions play a major role in ensuring the quality of ESG disclosures, which emphasizes on establishing rigorous audit practices to ensure sustainability disclosures are transparent and accountable.

4.7 Discussion

This study's findings offer useful perspectives on how auditors enrich the quality of ESG disclosures by drawing attention to the auditor's presence, type, and implementation that significantly improve the credibility, visibility, stakeholder confidence, and usefulness of sustainability reporting. These results are important for theory and practice, particularly in the context of sustainability-oriented companies in Indonesia. The regression analysis confirmed our first hypothesis, H1: The presence of auditors in sustainability reporting has a substantial positive impact on the accuracy of the information disclosed in ESG reports. Our finding that the presence of an auditor is positively associated with the precision of ESG disclosures is consistent with the existing literature on the role of auditors in financial reporting. Specifically, it was shown that the assurance provided by external auditors greatly enhances the accuracy of claims made within ESG reports, validating the absolutely critical role played by external management in ensuring that the information being reported is accurate (Lennox, 2019; KPMG, 2020). The result aligns with the notion that audits offer an external, independent perspective on the disclosed information which may decrease the likelihood of organizations displaying biased or incorrect information (Gendron et al., 2020). With the increasing importance of ESG reporting, accuracy in these reports is more important than ever, as investors and regulators use them to make informed decisions. Absence of valid data can question the legitimacy of sustainability claims causing stakeholders to lose trust in such reports (Simnett et al., 2020). The checking by auditors has a significant impact on the accuracy and emphasizes the importance of auditing for ensuring ESG disclosure. As sustainability reporting is emerging in Indonesia alongside the need for independent verification of the reported data.

Results of the ANOVA also supported our second hypothesis, H2: External auditor involvement has a greater impact on sustainability reporting transparency than internal auditors. Notably, external auditors had a significantly larger influence on ESG disclosure

transparency compared to internal auditors. This result aligns with existing research that emphasizes external auditors as a necessary means of improving the transparency of corporate reporting (Carnegie & Napier, 2021). External auditors are considered to be more independent and objective than internal auditors, whose function can be influenced by internal pressures and biases (DeFond & Zhang, 2021). As a result, paragraphs of a big list are more likely to take audit management statements and ensure that the ESG disclosures are a true picture of the environmental, social and governance performance of the company. Transparency in ESG is essential, as stakeholders are looking for precise, accurate, and accessible information about a company's sustainability efforts. External auditors play a key role in ensuring that companies comply with such expectations and that the information provided is reliable. This finding is also timely in light of worldwide calls for a strengthened corporate social responsibility regarding sustainability behaviour, including the United Nations Sustainable Development Goals (SDGs), and increased pressures upon firms from institutional investors, who focus on transparent corporate reporting (Hussain et al., 2019).

Audited sustainability reporting is more trusted by stakeholders produced results that unambiguously demonstrate a substantive preference on behalf of stakeholders towards trusting audited ESG reports over their unaudited counterparts. These findings support prior studies indicating that the inclusion of third-party audits enhances the credibility and reliability of ESG disclosures (Simnett et al., 2009; KPMG, 2020). One of the biggest challenges that companies face is building trust with stakeholders, and a financial audit ensures that the information made available is true and has been reviewed by an external party. It is vital to this being able to attract responsible individuals to invest on the basis of credible ESG credit performance data. Audited ESG reports, which have the added layer of external verification, engender stakeholder trust that cannot be achieved by unaudited reports. This is especially true for companies operating in emerging markets where skepticism of the authenticity of sustainability claims is high among stakeholders. Audits of sustainability reports can have a major impact on trust, which is why these reports must be not only thorough but also reliable. In Indonesia, where regulatory frameworks and reporting standards have not matured and impact and sustainability stakeholders might take a more cautious approach to evaluate corporate sustainability efforts, this becomes more relevant.

Challenges faced by auditors, such as the lack of uniform sustainability reporting standards, affect the effectiveness of the audit process" have shown that the lack of uniform standards imposes a significant challenge on auditors. This could create cracks in the overall performance of the audit process. This has been well noted in sustainability reporting, as the lack of a standardized framework with respect to ESG disclosures makes it difficult at best for auditors to determine the completeness and accuracy of the disclosures (Moroney et al., 2017). The non-uniformity in ESG reporting standards has been an issue in sustainability reporting for a while (KPMG, 2020) There are frameworks like the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), but no universally accepted set of standards for ESG disclosures. So the auditors have to keep their heads here and can run the reports but have to see that certain quality thresholds are met by the reports. The findings of this study highlight the importance of standardization of ESG disclosures, which can also improve the effectiveness of its audits and provide assurance on sustainability reports.

Finally, results about H5: Audit implementation on sustainability reports contributes to improve the quality of ESG disclosures in sustainability-oriented companies show that audit implementation significantly improves the quality of ESG disclosures. Companies subject to external auditing have higher quality ESG disclosures than companies without external auditing. This result aligns with the literature indicating that audits enhance the accuracy, completeness, and consistency of reported ESG information (Simnett et al., 2009; Gendron et al., 2020). A comprehensive audit process then serves not only to identify data reporting weaknesses, but, importantly, to ascertain that what is disclosed is in fact fit for purpose. In companies focused on sustainability, like ESG, the quality of such disclosures is of great importance, as in-line with the corporate strategy. High-quality disclosures help stakeholders understand the company's sustainability performance as well as how it fits into broader environmental and social objectives. This study found that audit implementation improves the quality of disclosures made by firms, furthering the reliability of IST-ISU information and allowing.

This study carries important implications for practitioners and policymakers. For practitioners, especially auditors, the findings underscore the need for ESG disclosures to be accurate, transparent, and trust. It is the duty of the auditor to keep an eye on things to find these inconsistencies and to assist the companies in

reporting as per standards. They should also consider the concerns presented by varying standards and take into account why the sustainability industry must move towards uniform reporting frameworks. The findings call for clearer and more consistent reporting standards by which policymakers can hold companies accountable for ESG disclosures. This requires, in turn, that Governments and regulatory bodies collaborate to create congruent, common frameworks that might be used by firms, across sectors, to disclose their ESG performance'. Not only this, it will also lead to better quality sustainability reporting and thus, better audit quality and overall credibility for the ESG disclosures.

5. Conclusion

The results of this study underscore the auditor's key role in improving the reliability, transparency and credibility of ESG (Environmental, Social and Governance) information. The findings reveal that the presence of an auditor has a positive effect on equality of the information found in sustainability reports, and that the external auditor is more effective at improving transparency and stakeholder trust than the internal auditor. Keyword: ESG *Auditor independence and objectivity: Audit quality control of ESG reports is carried out by independent auditors in accordance with the requirements of relevant standards, to ensure that these reports reflect the true performance of the company to a certain extent, and provide information for stakeholders to make decisions. The study further shows that even though challenges such as the absence of standardized reporting frameworks make things challenging for auditors, audit implementation still plays a crucial role in enhancing the quality of ESG disclosures, especially in sustainability-based companies.

Appendix A. Supplementary data

Table 1: Sample Breakdown by Sector

Sector	No. of Companies	Sample Size
Manufacturing	30	60
Finance	20	40
Energy	15	30
Consumer Goods	35	70
Total	100	200

Table 3: Company Characteristics by Industry Sector

Sector	Number of Companies	Percentage (%)	Average ESG Score
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In addition, the research offers significant implications for practitioners and policymakers. And for auditors, the findings underscore the importance of thorough auditing practices to ensure that sustainability reports also present a complete and transparent picture, increasing stakeholder trust. For policymakers, the study suggests that more uniform ESG reporting frameworks across the board would better guide the audit process and bolster the credibility of sustainability disclosures overall. This study adds to a growing body of knowledge on how audit can enhance the reliability of ESG disclosures and promote environmentally sustainable business practices, especially in emerging markets like Indonesia, as sustainability reporting matures.

Author contribution

Lia Nuraini: Conceptualization, methodology, data collection, analysis, and writing.

Amri Amrulloh: Data analysis, review of manuscript, and supervision.

Declaration of Competing Interest

The authors declare that they have no competing interests related to this study.

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Manufacturing	30	30%	75
Finance	20	20%	80
Energy	15	15%	70
Consumer Goods	35	35%	78
Total	100	100%	76

Table 4: Auditor Presence and Information Accuracy

Variable	Regression Coefficient	Standard Error	t-Statistic	p-value
Auditor Presence	0.42	0.08	5.25	0.000
Type of Auditor	0.33	0.09	3.67	0.001
Reporting Standards	0.25	0.10	2.50	0.013
R²	0.56			
Adjusted R²	0.54			

Table 5: ANOVA – Auditor Type and Transparency of Sustainability Reporting

Auditor Type	Transparency Mean	Standard Deviation	F-statistic	p-value
External Auditors	4.25	0.72	15.68	0.000
Internal Auditors	3.85	0.89		
No Auditor	3.40	1.02		
Total	-	-	-	-

Table 6: Stakeholder Trust in Audited vs. Unaudited ESG Reports

Audit Status	Trust Mean Score	Standard Deviation	t-Statistic	p-value
Audited ESG Report	4.23	0.64	8.49	0.000
Unaudited ESG Report	3.51	1.02		

Table 7: Auditor Challenges and Audit Effectiveness

Challenge Type	Effectiveness Rating (1-5)	Percentage of Respondents
Lack of Uniform Standards	2.89	68%
Inadequate ESG Data Quality	3.15	60%
Absence of Standardized ESG Guidelines	3.05	55%
Total	-	-

Table 8: Audit Implementation and ESG Disclosure Quality

Variable	Regression Coefficient	Standard Error	t-Statistic	p-value
Audit Implementation	0.38	0.10	3.80	0.000
Sustainability Focus	0.31	0.09	3.44	0.001
Reporting Standards Compliance	0.29	0.12	2.42	0.016
R²	0.50			
Adjusted R²	0.48			

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