

# The Impact of ESG Information Disclosure on Audit Quality (Review)

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## Abstract:

The proposal of the new development concept has further deepened the high-quality development of China's economy, and at the same time, the ESG concept has become an important criterion for judging the development ability of enterprises, affecting the investment efficiency of investors. However, due to the imperfect regulatory environment in our country, external supervision is needed to improve the quality of ESG information disclosure, and external supervision is the best way. This article summarizes the relationship between ESG, external audit, and investment efficiency by collecting and analyzing numerous literature, and puts forward useful suggestions at three levels, hoping to provide more theoretical basis for this field and help China's economic development enter a new stage.

**Keywords:** ESG, external audit, investment efficiency, High-quality development, New Development Concept

## 1. Introduction

In today's era, with the rapid development of technology and the surging trend of industrial transformation, China's development is in a period of strategic opportunities and risks, as well as an increase in uncertain and unpredictable factors. In the face of this situation, China has always adhered to high-quality development as a new goal and requirement for future economic development. At the same time, during the upcoming 14th Five Year Plan period, the country has launched a new development concept with a focus on innovation, coordination, green, openness, and sharing, based on its work in areas such as economic development, environmental protection, and social governance, and pursued development goals of higher quality, efficiency, fairness, sustainability, and security.

And this happens to be highly in line with the ESG concept, so the environment, social responsibility, and corporate governance have become important standards for measuring corporate value in China. The non-financial confidence disclosed by them has gradually become a focus of attention for stakeholders, becoming an important factor affecting investment decisions. In terms of publicizing corporate value, improving investment efficiency Further promoting high-quality economic development plays a crucial role.

To implement this concept, enterprise managers prevent climate risks, policy risks, and ethical risks by directly or indirectly improving capital operation efficiency and sustainable management, and adjust and optimize the trans-

formation methods of enterprises. This will effectively increase enterprise value, actively adjust industry culture, and efficiently promote high-quality development of the industry.

Different institutions have their own understanding of ESG, and since the three major indicators of environment, social responsibility, and corporate governance are used as the standards for measuring corporate value, the transparency and credibility of non-financial information disclosed by enterprises are particularly important. However, due to the imperfect management of the current market economy, there are still problems such as false information disclosure, untimely and insufficient information, and the root causes of these problems are summarized by Li Jialin in her paper as two points: information asymmetry and agency problems.

In the face of this situation, external auditing with signal transmission and supervision functions is particularly important. The audit report issued by auditors, as a comprehensive result of their examination of corporate information and disclosure behavior, and through systematic analysis, greatly improves the transparency and credibility of ESG information disclosure. It facilitates stakeholders such as shareholders and creditors to have a deep understanding of internal information of the audited entity, which is conducive to improving investment efficiency, promoting rational resource allocation, and promoting sustainable and high-quality development of the enterprise.

The implementation of green concepts and the development of ESG enhance the enthusiasm of enterprises for voluntary disclosure, promote the improvement of external audit quality, and in turn enhance the transparency and reliability of ESG disclosure. The two promote each other and complement each other, jointly promoting the deepening of sustainable development strategies, and promoting the high-quality development of enterprises and even the entire industry.

## 2. Analysis

### 2.1 *Audit Quality and Investment Efficiency*

It can be seen that audit quality, ESG disclosure, and investment efficiency are closely related. Regarding the issues of audit quality and investment efficiency, many scholars have conducted research and summary before this, and the content is relatively unified and detailed.

Zhai Huayun (2010) used empirical analysis to study the correlation between audit quality and investment efficiency. The analysis results showed that there is a negative correlation between audit quality and underinvestment of listed companies, and a negative correlation with overinvestment, but not significant. That is, the role of audit quality in alleviating underinvestment is far stronger than that in suppressing overinvestment. Lei Guangyong et al. (2014) used the international “Big Four” and domestic “Top Ten” to measure audit quality, and based on this, conducted a study on the relationship between audit quality and corporate investment efficiency. Empirical research confirmed that there is a significant positive correlation between high-quality auditing and corporate investment efficiency. [1] The research content of Tang Hua (2019) is also about the correlation between audit quality and corporate investment efficiency. It selects the type of audit opinion and firm size as the measurement indicators of audit quality, and the analysis results also show that audit quality is positively correlated with corporate investment efficiency, which can alleviate inefficient investment. [2]

### 2.2 *Audit Quality and ESG*

Regarding the relationship between audit quality and ESG disclosure, research in this area is still ongoing in China, with a common focus on studying a single aspect of the three aspects of ESG. For example, Sun Junqi et al. (2014) mainly studied the impact of audit quality on environmental performance in their paper, selecting heavily polluting industry companies listed in Shanghai and Shenzhen as research objects. The research results showed that the higher the audit quality, the better the environmental performance of enterprises. External audit supervision is an effective way to improve the environmental performance

of enterprises. [3] Ahmad Hammami et al. (2020) directly explored the relationship between audit quality and ESG disclosure in their article, using audit fees and earnings management to measure audit quality. The study found a positive correlation between audit fees and ESG disclosure, and a negative correlation between earnings management and ESG disclosure, indicating that the higher the audit quality, the higher the degree of ESG disclosure. [4] In addition, the most comprehensive study on this type of research is by scholar Li Jialin (2022), who used OLS regression and mediation test models to argue the research hypothesis. A total of 8769 samples of 1000 A-share listed companies from 2011 to 2020 were selected as the research objects, and professional and authoritative “International Big Four” and Bloomberg’s ESG disclosure score were used as the measurement indicators of audit quality and ESG disclosure transparency. Empirical analysis was used to prove that there is a negative correlation between audit quality and inefficient investment, and there is a positive correlation between audit quality and corporate ESG disclosure. Further sample studies showed that high-quality external audits can inhibit overinvestment and alleviate underinvestment. ESG disclosure plays a mediating role in the process of suppressing inefficient investment in audit quality.

### 2.3 *ESG and investment efficiency*

[5] At the same time, Tang Kaitao, Ning Jiali, and Wang Lei (2023), three scholars, from the perspective of corporate behavior, selected A-share listed companies from 2010 to 2020 as research objects to examine whether ESG ratings would attract the attention of auditors. The research results showed that ESG ratings of listed companies can affect auditors’ decision-making on audit report behavior. The higher the ESG rating of listed companies, the greater the probability of auditors issuing positive audit reports, And when the institutional regulation intensity of the region where the enterprise is located is greater, the nature of the enterprise is non-state-owned and non polluting, and the internal control is more effective, the positive impact of ESG rating on audit report behavior decision-making is more obvious. [6] It can be seen that external audit supervision is an effective way to promote the improvement of ESG disclosure level, and the improvement of ESG rating will in turn enhance the quality of audit supervision. On the basis of traditional research, Li Lu (2024) added research considerations on the moderating effect of financing constraints. Based on the data of A-share listed companies in the heavily polluting industry in Shanghai and Shenzhen from 2015 to 2022, an empirical analysis was conducted to study the relationship between environmental, social, governance information disclosure and audit quality. The research results showed that high-quality ESG information disclosure by enterprises has a significant positive

impact on the audit quality of certified public accountants, Financing constraints inhibit ESG information disclosure and have a positive impact on audit quality. [7]

ESG and investment efficiency are also one of the focuses of research and discussion among many scholars, with a wealth of literature foundation. Yang Jieshi, Yi Ting and Liu Jiayang (2023) focused on the impact of ESG peer group effect on investment efficiency. Taking the panel data of Chinese A-share listed companies from 2011 to 2021 as the research sample, the empirical analysis shows that there is a significant peer group effect in the performance of enterprise ESG, and the peer group effect of enterprise ESG performance can effectively improve enterprise investment efficiency. [8] This is because the more significant the group effect of ESG performance in a company, the higher the effectiveness of information transmission. This also improves the level of information disclosure and transparency of the company, thereby reducing the degree of information asymmetry between the company and stakeholders, promoting investors to make better investment decisions, effectively alleviating underinvestment and suppressing overinvestment. Li Wei and Zhang Yi (2023) selected A-share listed companies in Shanghai and Shenzhen from 2011 to 2020 as samples to study the relationship between ESG performance and corporate investment efficiency. They innovatively studied their moderating effects on the relationship between ESG performance and corporate investment efficiency from both internal and external regulatory perspectives. They also proved that ESG performance does have a significant promoting effect on investment efficiency, and further found that both internal and external regulation of enterprises help to strengthen the positive relationship between ESG performance and enterprise investment efficiency. [9]

### 3. Discussion

Numerous scholars have chosen different perspectives and indicators to analyze and prove that their fundamental purpose is to enrich existing theoretical knowledge in the field of ESG and audit quality, while providing suggestions and suggestions for the development of enterprises and even industries, in line with the trend of promoting high-quality and sustainable development in the country. This not only affects the image and reputation of enterprises, but also to a certain extent affects their survival and development. Heavy polluting and backward enterprises have gradually entered a period of decline or even been eliminated. The ESG concept, which considers the environment, society, and corporate governance as the three major indicators, is precisely in line with the current development concept of society, and has therefore become

the main criterion for many investors to consider. The subtle influence in the overall environment and the continuous deepening of decision-making standards are forcing entrepreneurs to continuously improve their awareness of ESG disclosure.

The high-quality development of a company depends on its own operations and internal and external investments, and the efficiency of investment is particularly important for its development. The two major investment problems currently existing in China are blind overinvestment and cautious underinvestment. In numerous literature, scholars attribute the main reasons for these two investment situations to information asymmetry and agency problems, which are commonly present in market operations. ESG discloses non-financial information of a company, and the information held by the company and its stakeholders is not equal. Stakeholders who are at a disadvantage in information often make extreme investment decisions due to incomplete information. They cannot accurately predict the development prospects of the company, resulting in limited capital injection by investors and insufficient investment in the company; Excessive prediction of the development prospects of enterprises, injection of a large amount of capital, creates enormous pressure on the development of enterprises, and increases the degree of unreasonable resource allocation. Both overinvestment and underinvestment have their undeniable drawbacks, seriously affecting the high-quality and sustainable development of enterprises. The agency problem is about the interest relationship between enterprise managers and owners, which carries risks such as moral hazard and control risk, which also greatly affects the investment decisions of investors towards the enterprise.

Therefore, in order to effectively alleviate this situation, it is required that the transparency and reliability of ESG disclosures provided by enterprises be greatly improved, in order to alleviate the problem of information asymmetry. At the same time, internal and external supervision of enterprises should be regulated to alleviate agency problems. External audits with signal transmission and supervision have become an effective way to solve the problems faced by enterprises. External audit refers to the review of the rationality, legality, accuracy, authenticity, and effectiveness of the economic business activities of the audited entity by auditors or social audit institutions dispatched by audit institutions, and the objective and fair evaluation of the review results. Numerous scholars have conducted empirical research on this and have demonstrated a positive correlation between audit quality and ESG disclosure. Enterprises will consciously disclose ESG, and the rigor and credibility of the external audit they choose will also increase; At the same time, high-quality external

audits improve the transparency and credibility of non-financial ESG information disclosure in enterprises through supervision mechanisms, thereby weakening the problem of information asymmetry in non-financial dimensions between enterprises and stakeholders, as well as the moral risks faced by agency relationships. This effectively suppresses inefficient investment, promotes rational resource allocation, and promotes high-quality and sustainable development of enterprises.

## 4. Conclusion

The text analyzes and sorts out the relationship between ESG, audit quality, and investment efficiency through citing literature, and summarizes that high-quality ESG disclosure is positively correlated with audit quality. The two complement each other and play a role in inhibiting inefficient investment, improving investment efficiency, and promoting rational resource allocation. Therefore, it is believed that entrepreneurs should practice the concept of green development and enhance their awareness of ESG disclosure, And conduct rigorous and efficient external audits to further improve the transparency and credibility of ESG information disclosure, alleviate information asymmetry and agency issues between enterprises and investors, better make reasonable investment decisions, and form a good atmosphere to promote high-quality and sustainable development of enterprises and even the industry. Based on the audit, regulatory, and enterprise levels, this article proposes the following suggestions:

First, We should establish a sound and further improved system of auditing standards and standards, enhance the professional competence of auditors, and focus on improving audit quality

The division of audit quality by the Audit Bureau is divided into ten aspects: the legality of audit procedures, the scientificity of audit plans, the feasibility of implementation plans, the sufficiency of audit evidence, the completeness of audit records, the objectivity of audit evaluations, the fairness of audit processing, the standardization of audit reports, the adequacy of rectification inspections, and the effectiveness of quality control. As a third-party independent institution, accounting firms should base their personnel on advanced audit concepts, strictly adhere to the principle of independence and audit standards, ensure the authenticity and reliability of audit reports, and improve the satisfaction of audit expectations.

But these belong to narrow audit standards. In addition, from a macro perspective, the country should further improve and perfect the normative system of audit standards, strengthen supervision of various audit institutions in the field, and constrain the behavior of auditors; At the

same time, further examination and limitation should be conducted on the ethics, abilities, and other aspects of auditors to effectively enhance their quality and professional competence, and maximize the quality of auditing.

Second, We should strengthen the supervision and examination of ESG information disclosure behavior, ensure the purity of the ESG rating process, and better improve the transparency and credibility of ESG information

Due to the continuous development of ESG, regulatory agencies in China have not yet released a unified and comprehensive ESG information disclosure standard and system in this field, and the regulatory system is not yet perfect. This results in uneven and diverse ESG information disclosure by enterprises, with many problems and hidden dangers. Therefore, China should strengthen the sound and perfect ESG information disclosure system, establish a reward and punishment system and regulatory system for the process of enterprise information disclosure, ensure the transparency and credibility of ESG disclosure information, and enhance the enthusiasm and consciousness of entrepreneurs to independently disclose, in order to form a good industry atmosphere and better promote the high-quality and sustainable development of enterprises and even the national economy.

Third, Enterprises should practice new development concepts based on the current social development trend, enhance their awareness of ESG information disclosure, ensure the purity of external audits, and strengthen their emphasis on ESG information disclosure and audit quality. In the current trend of green development, the reputation and image of a company are often more important than other aspects. Whether it practices the new development concept and keeps up with the trend of the times, whether there is concealment and deception from stakeholders, is related to the level of trust and evaluation standards of the public and government departments. Therefore, enterprises should combine ESG concepts with their own development strategies, enhance their awareness of ESG information disclosure and ensure audit quality, in order to reduce information asymmetry between enterprises and stakeholders, enable investors to have a deeper and clearer understanding of the current development status and prospects of the enterprise, and promote the improvement of investment efficiency and the rational allocation of resources; At the same time, enterprises should also pay attention to the environmental and social benefits they bring while improving their own economic benefits, establish a good corporate image, enhance the trust of investors and government departments, and even allow the government to give you a green light, better promoting high-quality and sustainable development of enterprises.

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