CHAPTER V

CONCLUSION

5.1 Conclusion

This study aims to examine the effect of ESG report assurance, the use of the same accounting firm for both ESG report assurance and financial statement audits, and Big Four auditors on audit quality among non-financial companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Using panel data regression with the Fixed Effect Model (FEM), this study analyzed 342 firm-year observations from 77 companies. The overall regression model is statistically significant, with an Adjusted R-squared of 60.36%, indicating that the independent and control variables jointly explain a substantial proportion of the variation in audit quality. These findings suggest that the research model is appropriate for explaining audit quality within the context of Indonesian listed companies.

The first objective of this study was to investigate whether ESG report assurance improves audit quality. The empirical findings indicate that ESG report assurance does not have a statistically significant effect on audit quality. Therefore, the first hypothesis is rejected. ESG assurance is designed to enhance the credibility, transparency, and reliability of sustainability disclosures. However, the findings suggest that its existence alone is insufficient to improve audit quality as measured by discretionary accruals.. This result implies that, within the Indonesian context, ESG assurance currently functions primarily as a mechanism for enhancing the credibility of non-financial reporting rather than directly improving the quality of financial statement audits. Since ESG assurance remains voluntary and companies differ considerably in the scope, standards, and quality of assurance engagements, the benefits of ESG assurance may not yet be fully integrated into the financial reporting process. Consequently, improvements in sustainability reporting do not necessarily translate into measurable improvements in audit quality.

The second objective was to examine whether engaging the same accounting firm to perform both ESG report assurance and financial statement audits improves audit quality. The findings reveal that the use of the same accounting firm does not significantly influence audit quality, resulting in the rejection of the second hypothesis. Knowledge Spillover Theory argues that auditors performing both engagements should acquire greater client-specific knowledge and a deeper understanding of business operations, sustainability practices, and corporate risks. However, the findings of this study do not support this argument, these expected benefits are not supported by the empirical evidence in this study. One possible explanation is that professional auditing standards require auditors to maintain independence and objectivity regardless of whether they provide multiple assurance services. Consequently, while the same accounting firm may benefit from additional client knowledge, such knowledge does not automatically improve audit quality. Moreover, descriptive statistics show that only a small proportion of the sampled companies engaged the same accounting firm for both ESG assurance and financial statement audits, indicating that this practice remains relatively uncommon in Indonesia. As a result, the expected knowledge spillover effect may not yet be sufficiently widespread to generate a statistically significant improvement in audit quality.

The third objective of this study was to determine whether companies audited by Big Four audit firms exhibit higher audit quality. The empirical results show that Big Four auditors do not have a statistically significant effect on audit quality, leading to the rejection of the third hypothesis. Big Four firms possess greater expertise, stronger reputational incentives, and more extensive resources. However, these advantages alone do not necessarily lead to higher audit quality in the Indonesian setting. This finding suggests that audit quality is not determined solely by the reputation or size of the audit firm. Instead, audit quality may depend more heavily on auditor competence, audit planning, professional judgment, compliance with auditing standards, client characteristics, and the effectiveness of audit procedures. Since both Big Four and non-Big Four audit firms are required to comply with the same professional standards and regulatory framework in

Indonesia, differences in audit quality between the two groups may become less pronounced.

In addition to the main independent variables, this study finds that several control variables significantly explain variations in audit quality. Firm size and return on assets have significant positive effects, while loss status has a significant negative effect. Meanwhile, leverage does not significantly affect audit quality. These findings indicate that company characteristics continue to play an important role in explaining audit quality and may have greater explanatory power than ESG assurance practices or auditor characteristics alone.

Overall, this study concludes that ESG report assurance, the use of the same accounting firm for ESG assurance and financial statement audits, and the engagement of Big Four auditors do not significantly influence audit quality among Indonesian non-financial companies during the 2020–2024 period. However, these findings should not be interpreted as evidence that ESG assurance or auditor characteristics lack value. Instead, they indicate that the effectiveness of these mechanisms is highly dependent on the institutional environment, regulatory maturity, corporate governance practices, and the quality of assurance implementation. In emerging markets such as Indonesia, where ESG assurance is still developing and its adoption remains relatively limited, the expected benefits proposed by Agency Theory, Signaling Theory, and Knowledge Spillover Theory may not yet be fully realized. Therefore, this study contributes to the growing body of literature by providing empirical evidence that the relationship between ESG assurance arrangements and audit quality is context-dependent and cannot be generalized across different institutional settings.

Ultimately, the findings of this study reinforce the importance of considering institutional and organizational factors when evaluating the effectiveness of ESG assurance practices. While previous studies from other countries generally report positive associations between ESG assurance arrangements and audit quality, the Indonesian evidence presented in this study suggests that the implementation of ESG assurance alone is insufficient to enhance audit quality. Strengthening governance mechanisms, improving the consistency and quality of ESG assurance practices, and increasing the maturity of sustainability reporting may therefore be necessary before the expected benefits of ESG assurance can be fully reflected in financial reporting quality and audit outcomes.

5.2 Practical Implications

The findings of this study provide several practical implications for companies, auditors, regulators, and investors. First, for companies, the insignificant effect of ESG report assurance, the use of the same accounting firm, and Big Four auditors suggests that improving audit quality cannot rely solely on these external assurance mechanisms. Companies should also strengthen internal control systems, corporate governance practices, and the overall quality of financial reporting to enhance audit quality.

Second, for auditors and public accounting firms, the findings indicate that audit quality is not determined solely by the reputation of the audit firm or whether the same accounting firm provides both financial statement audit and ESG assurance services. Auditors should continue to maintain professional skepticism, auditor independence, and rigorous audit procedures when evaluating both financial and sustainability-related information. In addition, effective coordination between financial statement auditors and ESG assurance providers remains important, particularly when different accounting firms are engaged.

Third, for regulators, the insignificant relationship between ESG report assurance and audit quality suggests that encouraging companies to obtain ESG assurance alone may not be sufficient to improve audit quality. Regulators may therefore consider strengthening ESG reporting standards, assurance guidelines, and oversight mechanisms to improve the consistency, reliability, and credibility of sustainability reporting and assurance practices.

Finally, for investors and other stakeholders, the findings suggest that the existence of ESG report assurance, the engagement of the same accounting firm, or the appointment of Big Four auditors should not be interpreted as the sole indicators of high audit quality. Investors should also evaluate other aspects of corporate governance, financial reporting quality, and firm-specific characteristics when assessing the credibility of corporate disclosures and making investment decisions.

5.3 Research Limitations and Recommendations

This study has several limitations that should be considered when interpreting its findings. First, this study identifies ESG report assurance based on the existence of assurance engagements rather than the quality of the assurance provided. Companies are classified according to whether they obtain ESG assurance. However, this study cannot distinguish differences in assurance scope, assurance level (limited or reasonable assurance), assurance procedures, or the depth of assurance activities because such information is not consistently disclosed in publicly available sustainability reports.. Consequently, the findings reflect the presence of ESG assurance rather than its actual quality. Therefore, future research is encouraged to examine the quality of ESG assurance by considering factors such as assurance scope, assurance level, assurance provider, and assurance procedures.

Second, audit quality in this study is measured using discretionary accruals estimated through the Modified Jones Model. This study uses discretionary accruals as a proxy for audit quality because it is widely accepted in accounting research. However, discretionary accruals primarily capture the extent of earnings management and may not fully represent other dimensions of audit quality, such as auditor judgment, audit efficiency, audit effort, audit report lag, financial restatements, or audit fees. Therefore, future studies are encouraged to employ alternative proxies for audit quality to provide a more comprehensive assessment of audit quality.

Third, the practice of obtaining ESG report assurance and appointing the same accounting firm for both ESG assurance and financial statement audits remains relatively limited among Indonesian listed companies. The descriptive statistics show that only 27.86% of the observations obtained ESG assurance, while only 4.40% engaged the same accounting firm for both services. This limited adoption reduces the variation of the independent variables and may restrict the ability of statistical analysis to detect significant relationships, particularly for the Same Accounting Firm variable. Therefore, future research is encouraged to extend the observation period or expand the sample to increase the number of companies adopting ESG assurance and engaging the same accounting firm for both services.

Finally, this study relies exclusively on secondary data obtained from annual reports, sustainability reports, and financial databases. Consequently, the study cannot directly observe qualitative aspects of assurance engagements, such as auditors' professional judgment, communication between auditors and management, or the actual implementation of assurance procedures, all of which may also influence audit quality but are not publicly disclosed. Therefore, future studies may incorporate additional qualitative evidence or governance-related variables to provide a more comprehensive understanding of the relationship between ESG assurance and audit quality.