

Audit Quality as a Moderation Variable in Environmental, Social and Governance on the Financial Performance of IDX ESG Leaders Company

Original Article

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Abstract

The aim of this research is to investigate how Environmental, social, and Governance (ESG) factors impact financial performance, with consideration of Audit Quality, in companies listed on IDXESG Leaders. The study utilised secondary data from companies listed on IDX ESG Leaders. Quantitative methods were employed in this research. A purposive sampling approach was used to select companies based on specific criteria: (1) being listed on IDX ESG Leaders, and (2) consistently appearing on IDX ESG Leaders between 2021 and 2023. In this study, financial performance was considered as a dependent variable. Environmental, social, and ESG were identified as independent variables, while Audit Quality was treated as a moderation variable. The findings indicated a negative correlation between Environmental, Social, and Governance factors and the Financial Performance of IDX ESG Leaders companies, with no moderation effect being observed by Audit Quality. It is important to note that the study had limitations, including a small sample size of only 18 companies and the sole use of ROE as a measure for financial performance.

Keywords: Financial Performance, Environmental, Social and Governance (ESG), Audit Quality.

1. Introduction

In today's changing business world, companies are now judged not just on their financial performance but also on their dedication to sustainable practices. The IDX ESG Leaders (IDX ESGL) index represents companies that demonstrate robust Environmental, Social, and Governance (ESG) reporting, high liquidity, and impressive financial results. This elite group exemplifies how businesses can balance profit-seeking objectives with responsible corporate citizenship. The financial success of a company reflects its proficiency in managing finances and securing funding over a specific timeframe (Inawati & Rahmawati, 2023).

In addition to good financial performance, companies that implement ESG practices are also an attraction for investors. The ESG concept emphasizes that companies must go beyond just pursuing profitability, they must also consider their operations the environment, and society and apply the principles of good governance. Companies with corporate ESG practices tend to have lower risk. Businesses that include ESG will provide benefits to the business itself and can reduce adverse impacts on society and the environment (Antonius & Ida, 2023). Positive ESG means when a company can protect the environment and have a good influence on society by paying attention to the community around the company, and governance such as the application of business ethics and transparency to financial statements so that investors



become interested in long-term investment, and make the company easier for business development so that the company's financial performance can be better.

Regulation Number 51/POJK.03/2017 issued by the OJK focuses on sustainable financing implementation in the financial services sector. This regulation emphasizes the importance of a national economic system that pays attention to harmony between the environment, society, and governance to achieve sustainable development that maintains overall economic stability (POJK, 2017). In a study conducted by Stanley (2019) 8 out of 10 individual investors (86%) argued that a company's ESG practices may result in greater profits and maybe a more profitable long-term investment. ESG reporting offers insights into how a company approaches environmental, social, and governance issues. As a result, it is believed that ESG disclosure can impact the financial outcome of the company. This suggests that stakeholders will take into account the company's commitment to sustainability when deciding to support the company (Khairunnisa & Widiastuty, 2023). According to the stakeholder theory, it is suggested that companies need to be truthful in relation to their environmental, social, and governance practices in order to meet the needs of stakeholders. By being transparent about their actions, companies are able to mitigate ESG risks and demonstrate a clear understanding of the impact they have on society and the environment. ESG measurement, which encompasses environmental, social, and governance factors, relies on scoring systems that are deemed more reliable compared to disclosure methods as they provide a more comprehensive evaluation of the company's ESG policies.

The influence that positive ESG practices will have on financial results varies depending on the effectiveness of the audit procedures. The level of audit quality is determined by whether the audit adheres to set standards and relevant quality control criteria (Aprila et al., 2019). A good audit can increase the confidence of a company's financial statements and ESG reports. With competent auditors, companies are expected to be able to present ESG information more clearly and accurately, so that stakeholders can make better investment choices, because the quality of audits helps reduce the risk of misinformation. Audit quality is believed to have the ability to enhance or diminish the link between ESG disclosure and financial performance (Fetomalae et al., 2024). The data supplied by external auditors may serve as guidance for users of financial statements when making decisions (Shafira & Astuti, 2024). Per stakeholder theory, the correlation between ESG factors and a company's financial success significantly impacts the credibility of auditing practices. By conducting thorough audits, businesses can enhance their financial results and satisfy the demands of stakeholders, ensuring the accuracy and dependability of ESG reports.

The research conducted by Husada and Handayani (2021) resulted the final analysis shows that disclosing information about environmental, social, and governance aspects does not affect the financial performance of companies in the financial sector, as measured by return on assets, Tobin's Q, or sales growth. Conversely, research conducted by Inawati and Rahmawati (2023) concluded that ESG factors play a beneficial role in boosting financial outcomes. Therefore, the presence of sustainable development initiatives tends to be more attractive to potential investors. Based on findings from Aji et al. (2023), there is a clear link between the quality of audits and financial results. On the other hand, Hanisa et al. (2024) suggest that both financial and non-financial firms' financial performance can be impacted by the quality of audits. Contrary to this, Maharani and Setyaningsih, (2023) argue that the quality of audits does not affect financial performance. Therefore, this study aims to examine how Environmental, social, and governance factors impact financial performance, and whether the quality of audits can moderate this impact.

2. Literature Review

2.1. Stakeholder Theory

According to Ningwati et al. (2022), stakeholder theory says that every company pays attention to the interests of other parties. These other parties include shareholders, employees, suppliers, creditors, and members of the public who have a direct commercial relationship with the company. Financial performance is used to predict the future quality of production from existing resources. The company is required to ensure that all its business operations align with the expectations and requests of stakeholders (Safriani & Utomo, 2024). Good financial performance can help investors identify companies that generate higher profits than others (Inawati & Rahmawati, 2023). In order for investors to make well-informed decisions and choose where to invest their money accurately, they need access to all relevant information (Nita & Kwarto, 2024).

2.2. Financial Performance

Faisal et al. (2018) underscore that a company's financial condition measured through financial analysis provides an overview of financial performance, which shows how well or poorly the company operates in a certain period, time. According to Putri and Maufaqiroh (2020) financial statements are business achievements described by their financial performance. The financial data included in the company's financial statements provides information regarding the company's financial performance. The main metric to assess the level of success achieved by a business is its performance. Annual financial statements made by management in accordance with financial statement preparation standards provide information about the company's financial performance (Yuniar & Amanah, 2021).

2.3. Environmental, Social, and Governance

Antonius and Ida (2023) mention that ESG encompasses business practices that prioritise factors beyond profit, focusing on environmental, social, and governance aspects. As such, investors and important stakeholders require access to ESG data for informed decision-making. Inawati and Rahmawati (2023) added that the implementation of ESG, for example through emission reduction, energy efficiency, and waste management, can contribute to solving existing problems.

2.4. Audit Quality

Shafira and Astuti (2024) note that audit quality refers to how well the auditor's provided information aligns with the relevant audit standards, detecting any discrepancies in the client's financial records. Ensure company's financial statements correct, auditors must apply audit principles and standards that are independent and in accordance with the professional code of ethics (Supriyanto et al., 2022). Research conducted by Zahid et al. (2022) shows that companies with better audit quality tend to issue better and more trustworthy ESG information.

2.5. Hypothesis

2.5.1. The Influence of Environmental, Social and Governance (ESG) on the Company's Financial Performance

Based on stakeholder theory, ESG data is used mainly for the benefit of stakeholders, especially investors. Environmental performance information is important for companies to be known by stakeholders to avoid demands from the community and stakeholders. This will

affect the company's financial performance and sustainability (Zahroh & Hersugondo, 2015). Investors consider environmental, social, and governance impacts when making (Naziyatul Ulfa & Rahman, 2024). A company can protect the environment and not harm the community and is supported by good governance by implementing transparency on the company's financial performance, making investors interested in investing. Companies that fail to manage ESG risks often experience declines in market value and share prices due to loss of reputation or uncertainty about the long-term outlook. This could result in increased fluctuations in stock prices and decreased overall financial success in the long run. According to the stakeholder theory, it suggests that a company is accountable not just to shareholders, but also to a range of other groups such as staff, clients, suppliers, communities, and the ecosystem. Failing to fulfill stakeholder expectations in adopting ESG initiatives may lead to a decline in trust and commitment, potentially harming the financial position of the company.

Research conducted by Krüger (2015) on corporate social responsibility (CSR) and poor implementation of ESG policies can have a negative impact on the value of shareholders' wealth. These findings indicate that companies with weak ESG policies are at risk of declining stock prices as well as potential financial losses. This is due to governance problems or social scandals that can reduce market and investor confidence. As a result, hypotheses proposed this study:

H1: Environmental, social and governance (ESG) has a negative effect on the company's financial performance.

2.5.2. Audit Quality Moderates the Influence of Environmental, Social, and Governance (ESG) on the Company's Financial Performance

Audit quality is a term used to describe how well the auditor's work is done compared to the standards that have been set (Supriyanto et al., 2022). Based on stakeholder theory, high audit quality ensures that ESG data submitted to stakeholders is accurate and reliable. To reduce the risk of false information, ESG reports will be verified by independent and competent auditors. The level of thoroughness, independence, and honesty demonstrated in the financial statement audit process High-quality audits increase the confidence of investors and other stakeholders by ensuring that financial statements and sustainability reports are accurate and reliable.

According to Pasaribu and Soeratin (2024) Oversight to increase transparency in corporate sustainability practices, which allows stakeholders, including investors, to more easily assess a company's commitment to sustainability and good governance. As a result, hypotheses proposed this study:

H2: Audit Quality moderates the Influence of Environmental, Social, and Governance (ESG) on the Company's Financial Performance

Figure 1 below contains the framework of this research with 3 hypotheses that have been discussed. Figure 1 shows the dependent variable of the research of the company's financial performance; the independent variable is ESG the and moderation variable is audit quality.

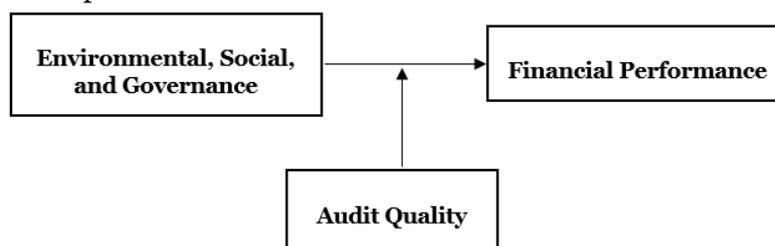


Figure 1. Research Framework

3. Methods

3.1. Research Design

Quantitative methods were employed in this research to evaluate the suggested theory, in order to explore the impact of ESG on the Financial Performance of the Company and the function of Audit Quality as a moderating factor.

3.2. Population and Sample

The sample for this study included all the companies that were listed on the IDX ESG Leaders index. Purposive sampling was employed as the sampling technique. The sampling criteria companies IDXESGL index between 2021-2023 and companies included consistent index period. In this study, the sample used was 18 companies that met the sample selection criteria.

3.3. Dependent Variables

To demonstrate the company's financial performance, business management prepares annual financial statements in compliance with the established reporting requirements. (Yuniar & Amanah, 2021). Return on Equity (ROE) serves as an indicator of financial performance in this study. It is assessed based on the company's capability to generate profitability or profit margins, the efficiency of asset utilization in driving revenue, and the effective management of debt. According to (Zahroh & Hersugondo, 2015) the formula is as follows:

$$\text{ROE} = \frac{\text{Net Income}}{\text{Equity}} \times 100\%$$

3.4. Independent Variables

The study uses the ESG score from Sustainalytics as an evaluation tool, which can be found on the Indonesia Stock Exchange (IDX) website under the IDXESGL stock index.

3.5. Moderation Variables

Assessment of audit quality as a moderation variable using the measurement of dummy variables, given a value of 1 if using KAP BIG-4 audit services, and a value of 0 if not using KAP BIG-4 (Emalia et al., 2020).

3.6. Data Collection Techniques

In order to gather the required information, the writer employs two approaches: literary exploration and record-keeping. Researching in libraries involves examining, analysing, and scrutinising books, articles, and past studies relevant to the subject under investigation. The documentation method utilises data from the financial statements of companies listed on the Indonesia Stock Exchange (IDX) for the years 2021–2023.

3.7. Analysis Methods

The research investigates the impact of organizational environmental, social, and ESG financial performance. Research uses moderating variable audit quality, dependent variable is measured by ROE. Before conducting panel data regression testing, a panel data model will be selected and the estimation method will be included in the Eviews panel data regression step. Then the data was tested on standard assumptions such as normality, heteroscedasticity, multicollinearity, and autocorrelation. In addition, hypothesis testing such as determination coefficients, T and F was carried out in conjunction with the regression analysis of the panel data. Examples of regression models used in this study are:

$$Y = \alpha + \beta_1 \text{ESG} + \beta_2 \text{KA} + \text{eit}$$

$$Y = \alpha + \beta_1 \text{ESG} + \beta_2 \text{KA} + \beta_3 \text{ESG} * \text{KA} + \text{eit}$$

Information:

- Y = Return On Equity (ROE)
- ESG = ESG Score
- KA = Audit Quality
- A = Constant
- eit = Error or interference variable
- β_1 - β_3 = Regression coefficient

4. Results and Discussion

4.1. Research Results

The findings obtained from the results of the study must be written and described clearly. The discussion in the research article explains the results obtained from the research. No data is displayed repeatedly, the results are supported by good data processing and illustrations. The researcher studied the population of companies listed on the IDX ESG Leaders list from 2021-2023. The researcher employed purposive sampling, a method where criteria are set beforehand for selecting samples. The table shows the procedure for selecting samples.

Table 1. Acquisition of Research Samples

It	Criterion	Sum
1	Companies listed on IDX ESG Leaders	48
2	Inconsistent companies listed in IDX ESG Leaders from 2021-2023	(30)
3	Total sample companies	18
4	Years of observation	3
5	Number of observations (18x3)	54

Source : data in processing, 2025

For the years 2021–2023, 48 businesses were listed on the IDX ESG Leaders list. During this time, thirty of them had inconsistent listings. Only 18 businesses so satisfied the requirements to be included in the study. 54 observations in total, spanning a three-year observation period, were used in the study.

4.1.1. Research Model Selection Test

The model selection test is carried out to find out which model is suitable for the research being studied. Model selection involved three statistical tests as follows:

Table 2. Equation Model Selection 1

Chow Test		Hausman Test		Lagrange Multiplier Test	
Statistic	Prob.	Chi-Sq Statistic	Prob.	Cross-Section-BP	Prob.
51.4379	0.0000	2.5310	0.1116	7.6349	0.0057

Source: data processed using Eviews 12 (2025)

The choice of the most suitable equation model is determined through hypothesis testing. If H_0 is greater than 0.05, the general effect model is preferred, but if H_a is less than

0.05, the fixed effect model is chosen. Based on the data presented in the table, the chi-square probability value of 0.0000 is less than 0.05, indicating that the fixed effects model is more suitable than the general effects model.

To determine the optimal model, the Hausman test relies on the probability value. If H_a is less than 0.05, the fixed effect model is selected, while if H_0 is greater than 0.05, the random effect model is preferred. The table suggests that the random effect model is more appropriate than the fixed effect model because the probability value for the cross-section random effect is 0.1116, which exceeds 0.05.

In the context of the Lagrange Multiplier test, a p-value above 0.05 results in the Common Effect Model, whereas a p-value below 0.05 leads to the Random Effect Model. The Random Effect Model is considered more suitable, as indicated by the Breusch-Pagan Cross-section test which yielded a statistically significant p-value of 0.0057, below the threshold of 0.05.

Table 3. Equation Model Selection 2

Chow Test		Hausman Test		Lagrange Multiplier Test	
Statistic	Prob.	Chi-Sq Statistic	Prob.	Cross-Section-BP	Prob.
47.3069	0.0001	3.7334	0.2917	4.8495	0.0277

Source: data processed using Eviews 12 (2025)

From table 3, The Chow test ($p=0.0001 < 0.05$) indicated the fixed effect model was superior to the common effect model. The Hausman test ($p=0.2917 > 0.05$) suggested the random effects model was preferable to the fixed effects model. Finally, the Lagrange Multiplier test ($p=0.0277 < 0.05$) confirmed the Random Effect Model as the most appropriate choice for this analysis.

4.1.2. Classical Assumption Test

The classical assumption test aims to see the results of the variable data used to be free from data normality, multicollinearity, heteroscedasticity, and autocorrelation problems.

A. Normality Test

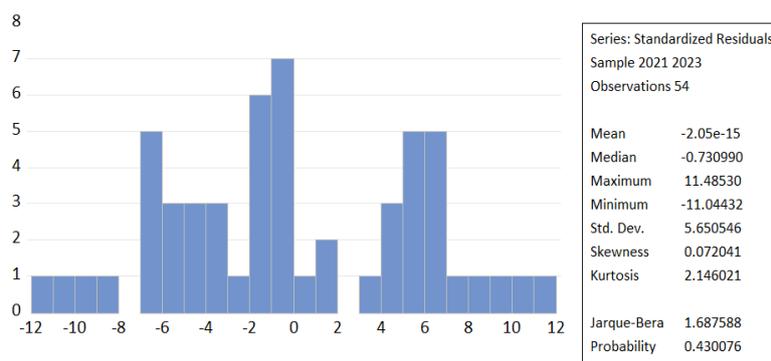


Figure 2. Normality Test Result

Source: data processed using Eviews 12 (2025)

The probability value from the normality test, as shown in the image, is 0.583748, which exceeds the 0.05 threshold. This indicates that the data follows a normal distribution, confirming that the normality assumption for the model is satisfied.

B. Multicollinearity Test

Table 4. Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	11.02783	19.80340	NA
X	0.023575	20.62391	1.047558
M	2.454611	2.693721	1.047558

Source: data processed using Eviews 12 (2025)

The results of the test for multicollinearity suggest that the regression model used in this study does not exhibit multicollinearity. This finding is backed up by the Centered VIF values for each independent variable, X and M, all of which are under 10.

C. Heteroscedasticity Test

Table 5. Heteroscedasticity Test

F-statistic	0.034903	Prob. F(2,51)	0.9657
Obs*R-squared	0.073811	Prob. Chi-Square(2)	0.9638
Scaled explained SS	0.045756	Prob. Chi-Square(2)	0.9774

Source: data processed using Eviews 12 (2025)

Based results Breusch Pagan Godfrey heteroscedasticity test, it was concluded was no heteroscedasticity problem with regression model of this research. Assess the Problem. Obs*R-Square $0.9638 > 0.05$.

D. Autocorrelation Test

The test results indicated that the Durbin Watson (DW) value fell within the range of the DU and 4-DU values, with the DW value exceeding the DU value but being lower than the 4-DU value ($1.6383 > 2.007154 < 2.3617$). This suggests that there is no autocorrelation present in the regression model used in the study.

4.1.3. Hypothesis Test

The test results indicated that the Durbin Watson (DW) value fell within the range of the DU and 4-DU values, with the DW value exceeding the DU value but being lower than the 4-DU value ($1.6383 > 2.007154 < 2.3617$). This suggests that there is no autocorrelation present in the regression model used in the study.

Table 6. Hypothesis Test 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.127356	4.376198	1.400155	0.1674
X	-0.417928	0.197416	-2.116993	0.0391

	Weighted
R-squared	0.077253
Adjusted R-squared	0.059508
S.E. of regression	4.362922
F-statistic	4.353479
Prob(F-statistic)	0.041855

Source: data processed using Eviews 12 (2025)

The outcomes of the T-test demonstrate that Environmental, Social, and Governance (ESG) possesses a likelihood value of 0.0451, along with a significance level of 0.0391, both falling below 0.05. This implies that ESG has a negative impact on the financial performance of a company, as indicated by the coefficient of -0.417928.

As per the findings of the F-test, the F-statistic value of 0.041855, which is also below 0.05, suggests that ESG has a concurrent influence on the financial performance of the company. The results of the Coefficient of Determination test show that the Adjusted R-squared value stands at 0.059508 or 5.9%. This suggests that ESG only accounts for 5.9% of the fluctuations in a company's financial performance, while the remaining 94.1% is influenced by other variables not considered in this research.

Table 7. Hypothesis Test 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	12.79367	7.163992	1.785830	0.0802
X	0.010099	0.351991	0.028690	0.9772
M	-8.160532	8.408377	-0.970524	0.3365
X_M	0.519155	0.404881	1.282240	0.2057

	Weighted
R-squared	0.139022
Adjusted R-squared	0.087363
S.E. of regression	4.404199
F-statistic	2.691160
Prob(F-statistic)	0.056097

Source: data processed using Eviews 12 (2025)

In the analysis of the data, Audit Quality is considered as a moderating variable with a probability value of 0.2057 from the T-test findings, indicating that it does not have a significant impact on mitigating the influence of ESG on the financial performance of the company, as shown by the coefficient of 0.519155. The F-test results show a probability value (F-statistic) of 0.056097, above the threshold of 0.05, suggesting that Audit Quality does not have a combined moderating effect on the relationship between ESG and the company's financial performance. The Coefficient of Determination (R^2) analysis reveals that the Adjusted R-squared value is 8.7%, indicating that ESG and Audit Quality can only account for a small portion (8.7%) of the variations in the company's financial performance, with the majority (91.3%) being influenced by other external factors beyond this study.

4.2. Discussion

4.2.1. The influence of Environmental, Social, and Governance on the company's financial performance

A statistical examination using a t-test on information spanning from 2021 to 2023 has revealed a noteworthy adverse effect of Environmental, Social, and Governance (ESG) criteria on the economic success of leading ESG companies. The probability value of 0.0391, less than 0.05, coupled with a coefficient of -0.417928, provides strong evidence for this inverse relationship. Hence, hypothesis 1, which posited a negative effect, is accepted. This outcome is consistent with stakeholder theory, which suggests that inadequate ESG policy management can lead to adverse financial consequences.

The results of this study are in line with Finrely (2024) and Fransisca et al. (2025) which state that ESG measures can harm a company's financial success, it is believed that inadequate management of these policies can lead to detrimental effects on financial performance. This can occur due to the high compliance costs that must be incurred or due to ineffective policy implementation, so that the expected benefits from the implementation of ESG are not maximized. In addition, the lack of the right strategy for integrating ESG principles into company operations can also reduce efficiency and hinder business growth in the long term. These results can influence investment decisions, as investors may be more cautious of companies with high ESG scores if they indicate lower financial performance.

4.2.2. Audit Quality moderates the Environmental, Social, and Governance Influence on the Company's Financial Performance.

An examination of the t-test statistical analysis indicates that there is no significant impact of Audit Quality on the relationship between Environmental, Social, and Governance (ESG) factors and the financial performance of ESG Leader companies from 2021 to 2023. With a probability value of 0.2057 and a t-statistic of 1.2822403, it is evident that Audit Quality does not play a moderating role in this connection. As a result, hypothesis 2 is disproved. These results go against the stakeholder theory belief that superior Audit Quality should strengthen the influence of ESG factors on financial performance.

This finding aligns with the research of Ciptaningsih and Cahyonowati (2024), which concluded that the quality of an audit does not improve the influence of Environmental, Social, and Governance factors on a company's financial success.

5. Conclusion

The research has shown that there is a detrimental link between Environmental, Social, and Governance (ESG) factors and the financial success of IDX ESG Leaders firms. This implies that inadequate handling of ESG practices could harm a company's financial results. Additionally, Audit Quality does not seem to be able to lessen the impact of ESG on the Financial Performance of IDX ESG Leaders corporations. This indicates that utilizing both Big-4 and non-Big-4 KAP services does not enhance the effect of ESG on a Company's Financial Performance.

This study has a number of constraints. According to the Coefficient of Determination (R^2) test results shown in the above table, it indicates that the adjusted R-squared value is 0.087363 or 8.7%, suggesting that only 8.7% of the company's Financial Performance can be accounted for by ESG and Audit Quality, with the remaining 91.3% influenced by other factors. The research sample is restricted to just 18 companies listed on the IDX ESG Leaders, so the findings may not be applicable to all public companies in Indonesia. Additionally, this research

solely relies on ROE as a representation of financial performance, disregarding other potential financial performance indicators available.

According to the constraints mentioned, there are recommendations for future research, such as including moderating variables or additional control variables that could impact the correlation between ESG and financial performance. Additionally, expanding the sample size by including companies not part of the IDX ESG Leaders, and considering alternative financial performance indicators like ROA, NPM, or Tobin's Q.

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