

## Analysis In Evaluate Risk Environment , Social and Corporate Governance and Impact on Sustainability Business

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### Abstract

**Objective:** This Study aiming For explore auditor analysis in evaluate risk related environmental , social and corporate governance as well as impact to sustainability business, approaches, challenges, and opportunities faced by auditors in evaluate ESG risks, as well as how is this audit can influence taking decision strategic company in the future .

**Design/Method/Approach:** Study Method use Approach Quantitative , analysis descriptive , is The method used to describe and summarize data quantitatively. This technique is used to provide an overview of the data, so that it can be used to draw conclusions and make decisions . By using the literature review method is description about theories , findings and materials other research obtained from material reference For made into runway important study .

**Findings:** Audit Environmental, Social and Governance provides impact positive to sustainability business, improvement transparency , showing that auditor involvement in audit ESG report is able to increase transparency information presented to the public, Strengthening Governance, Audit process helps identify potential risk or gap in governance that can influence sustainability company in term long , management risk environment and social, in evaluation risk by the auditor provides guide for company For design more mitigation strategies effective so that make company more Ready in face challenges . Environmental , social and corporate governance audits not only serve as an independent verification tool to improve transparency and accountability of ESG information, but also contribute to strengthening corporate governance, risk management and increasing stakeholder trust.

**Originality/Value:** This Novelty study discuss about auditor analysis in evaluate risk environmental , social and corporate governance as well as impact on sustainability business .

**Practical/policy implications :** This Research expected can help management in ensure sustainability long- term company and assist auditors in analyze risk environment , social and corporate governance .

**Keywords :** Auditor, Environment , Social , Governance, literature review

**JEL Classification:** M2, M4

[authors should add 1-3 JEL classification numbers, the information guide for the Journal of Economic Literature (JEL) can be found at <https://www.aeaweb.org/jel/guide/jel.php>]

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### Introduction

In an era of business that is increasingly oriented towards sustainability, the Environmental, Social, and Governance (ESG) aspect has become an important element that is considered by various stakeholders, including investors, consumers, and regulators. Sustainability not only includes social responsibility, but also reflects the company's ability to deal with risks that arise from environmental, social, and governance dynamics. Related report finance , auditors have good faith to report management . Certainty This show the auditor's desire to project belief to accuracy the conclusions presented . (Putra, 2024) With the increasing awareness of the importance of ESG, ESG risk assessment is now an integral part of a company's business strategy. Disclosure of non-financial information through ESG-related reporting aims to increase the value and performance of the company. (Nisa et al., 2023) .

*Moody's ESG outlook 2023*, reports that ESG risks show change in five years lastly . This is triggered by the implementation of sustainable policies and programs , as well as improvement standard accountancy sustainability . Trends This highlight How focus on power work , ethics business , and

governance product become main material issues cross industry analysis from various sector show that company with better ESG management Good tend own greater risk low and potential increase Power competition them . While that , ESG disclosures that are not adequate increase risk reputation and law , especially in the midst of improvement regulator focus .

The role of ESG auditors becomes the more significant . As an independent who is tasked with For evaluate reliability and reporting , auditors face challenge For measure How risk can influence performance and company . ESG consists of from related activities with operational company , no focus on profit only , but importance principle environment , social and corporate governance . (Antonius & Ida, 2023)

Related Environment company , change climate and natural resource degradation, social risks related to human rights and labor welfare, and governance risks involving business ethics and transparency, all have the potential to impact a company's profitability and reputation. Therefore, ESG risk assessment by auditors plays a critical role in ensuring that companies have adequate and transparent mitigation measures in place to address these challenges. ESG generally refers to a broad range of environmental, social, and corporate governance considerations that have the potential to impact a company's ability to execute its business strategy and build long-term value. ESG Risk includes environmental, social, and governance risk components. From an environmental perspective, the risks considered include the impact of climate change, use of natural resources, waste management, and environmental conservation efforts . (Nugroho & Hersugondo Hersugondo, 2022)

ESG audits also serve as a tool to build stakeholder trust. Through objective and comprehensive assessments, auditors can provide a clear picture of the extent to which a company is committed to sustainability principles and how it manages ESG-related risks. (Maghdalena Sihaloho et al., 2024) . Careful assessments not only help companies understand potential risks that could affect their long-term performance, but also enable companies to make improvements and increase their operational efficiency. With disclosure of environmental , social and governance responsibilities the company is expected to be able to create a good reputation for the company. (Aulia Fadilah & Yuni Rosdiana, 2024) .

This Research gap related existence rapid change in ESG regulations and expectations stakeholders interest make it difficult for auditors evaluate risk with appropriate time . Expectation stakeholders diverse and continuing interests increased , besides that , limitations source power and technology owned by some big auditors also become constraint in do evaluation comprehensive ESG risks .

This article aims to explore the role of auditors in assessing ESG risks and how these assessments contribute to business sustainability. In addition, this article will discuss the approaches, challenges and opportunities faced by auditors in assessing ESG risks, and how these audits can influence companies' strategic decision-making in the future.

## Literature Review and Hypothesis Development

### 1. Agency Theory

Agency Theory explains existence connection between owner company and management . Theory This show that supervision and control towards Management Actions in order to be able to ensure that interest holder share can represented with good . Related analysis environment , social and corporate governance , theory This state that risk related environment , social and governance sometimes No seen in report finance company , although impact significant to mark company . ESG audits conducted by independent auditors play a role in overcome problem between dam management holder shares . This audit ensure that information about risk social environment and governance are delivered in a way transparent and accurate . With Thus , ESG audits can help management increase accountability in apply practice sustainability and improving trust holder share to company . (Mättö et al., 2023)

### 2. Stakeholder Theory

Theory stakeholders interest state that company No only prioritize interest holder shares , but also pay attention to need all stakeholders interests , such as employees , communities , customers and the environment . Related environment , social and corporate governance , theory This state that company responsible answer For manage social, environmental and corporate impacts . Auditors play a role in evaluate and report How company consider and manage impact environmental , social and corporate , with verify reported performance , the auditor helps ensure that report reflect commitment company to stakeholders interest as well as increase reputation company in the eyes of the world and strengthen trust of stakeholders interest . (Samagaio & Felício, 2023)

### 3. Legitimacy Theory

Legitimacy Theory states that company need maintain social legitimacy for can support and run continuity its operations . This is can achieved when the company walk his business is in line with values , norms and expectations society . In context environment , social and corporate governance , theory This emphasizes that companies risk losing legitimacy if they fail to properly manage their social or environmental impacts. Auditors play a critical role in assessing ESG risks by ensuring that companies comply with recognized sustainability standards and guidelines . (Nurmala, 2024) . Through ESG audits, auditors support companies in maintaining their legitimacy in the eyes of the public while reducing the risks that may arise from non-compliance with public expectations.

### 4. Institutional Theory

Institutional Theory explains that firms tend to adopt practices and structures that are aligned with prevailing norms, regulations, and best practices in their industry to increase legitimacy and competitiveness. In Topic environmental , social and corporate governance theory This emphasizes that regulators , financial institutions and stakeholders interest help company For carry out practice sustainability that can acknowledged globally . Auditors play a critical role in evaluating the extent to which companies comply with applicable ESG standards and how such implementation impacts long-term business sustainability. (Hartomo & Adiwibowo, 2023)

## Method

The research method is approach quantitative , with descriptive analysis and literature review techniques , are method used to describe and summarize data quantitatively. This technique is used to provide an overview of the data, so that it can be used to draw conclusions and make decisions . Literature review is description about theories , findings and materials other research obtained from material reference For made into runway important study .

## Results and Discussion

The role of auditors in evaluation risk environmental , social and corporate governance has become attention main among academics and practitioners business . Improvement focus This driven by the height expectation stakeholders interest to reliable and accurate ESG reports . Based on study literature , the role of ESG auditors includes aspect important to support sustainability business , including improvement transparency , strengthening governance , and management risk more social and environmental effective .

### 1. Improvement Transparency and Accountability

Based on Study (Haryono, 2020) show that auditor involvement in audit ESG report is able to increase transparency information presented to public . Considering ESG risks are often not revealed in report finance Traditionally , ESG audits have become means For to reveal information relevant additions related impact social and environmental company . In context Here , the auditor is tasked with verify the accuracy and reliability of ESG data, which ultimately strengthen accountability management to stakeholders interests . Deloitte (2023) added that the ESG audit by the party independent can increase trust stakeholders interests and help company interesting investment sustainable .

### 2. Strengthening Corporate Governance

Based on study (Fery, 2021) ESG audits also contribute to strengthening governance company . The audit process helps identify potential risk or gap in governance that can influence sustainability company in term long . With ESG audits, companies pushed For comply more governance guidelines and standards well , which has implications for decision making decision more strategic quality . Companies with strong governance more capable face challenge sustainability , so that increase Power stand business they .

### 3. Management Risk Environment and Social

Study (Alfiana et al., 2023) highlight the role of auditors in help company manage risk environment and social . As example , risk change climate can bother chain supply and operations company , while risk social like violation right basic man or inclusion social can impact straight to reputation company . Assessment risk by the auditor provides guide for company For design more mitigation strategies effective . The auditor

does not only identify and evaluate risk the but also provide recommendation For increase practice sustainability , which ultimately support performance business in a way overall .

#### 4. Compliance to Standards and Regulations Sustainability

Study (Mättö et al., 2023) state that standard international such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) and Task Force on Climate Related Financial Disclosure (TCFD) have role important in ESG audits. Establish standard more ESG reporting tight in the European Union , indicating that global regulation encourages implementation consistent audit standards . Auditors who play a role in evaluate compliance to standards This help ensure company fulfil obligation regulations and reduce risk sanctions or fine from regulator..

#### 5. Challenges in Environmental, Social, and Governance (ESG) Risk Audit

There are also necessary challenges be noted . According to study (Alfiana et al., 2023) auditors face difficulty in measure and assess risk social and governance Because its more nature qualitative compared to with financial data or environment . There is absence methodology standard in ESG audits make it difficult for auditors For do consistent assessment . Therefore that , is needed development framework more solid audit work and methodology for ensure evaluation ESG risks are carried out in a way consistent and transparent across various sector industry .

#### 6. Impact of ESG Audit on Sustainability Business

Based on review literature in a way Overall , ESG audits deliver impact significant positive to sustainability business . Improvement transparency , strengthening governance , and management greater risk effective make company more Ready in face challenge sustainability . Some study even show that companies that are consistent carrying out ESG audits tends to own more performance Good in term long , good in matter finance and also reputation . Companies that involve auditors in their ESG audit process can increase Power competitiveness and reputation in the global market. In general , literature show that ESG audits play a role important in support sustainability business . The auditor does not only ensure company comply standards and regulations , but also provide outlook strategic that can strengthen Power resilience and sustainability company in the future . Although there is challenge in measurement and methodology, benefits obtained from the ESG audit shows that the role of the auditor will increasingly vital in context sustainable business .

### **Conclusions and future directions**

Based on the literature review, it can be concluded that the role of auditors in assessing risk environmental , social and corporate governance become matter important in supporting activities business. Environmental , social and corporate governance audits not only serve as an independent verification tool to enhance transparency and accountability of ESG information, but also contribute to strengthening corporate governance, risk management and enhancing stakeholder trust. By ensuring the accuracy and reliability of ESG information, auditors help companies maintain social legitimacy and meet stakeholder expectations. The literature shows that audit analysis has an impact positive on sustainability business by increasing the company's resilience and readiness to complex environmental, social and governance risks. Overall, the role of auditors in ESG audits is not only related to regulatory compliance, but also has strategic value in creating better sustainability practices. The impact of environmental , social and corporate governance audits on business sustainability shows that companies that proactively involve auditors in the corporate governance process .

### **Implications**

Study This expected can help management in ensure sustainability term long company , and assist auditors in analyze Environmental, Social, and Governance (ESG) risks

### **Conflict of Interest**

Writer state that in research , writing , and publication work this , no There is conflict interests that can influence results or the interpretation presented .

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