



The effect of Environmental, Social, Governance (ESG) disclosure on Company Value with Audit Quality as A moderating variable

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Abstract

This study examines the effect each aspect of Environmental, Social, Governance (ESG) disclosure on firm value and how the role of audit quality in moderating the relationship. This study was conducted using panel data regression from 22 companies in the energy and basic materials sector that listed on the Indonesia Stock Exchange (IDX) in the period 2021-2023, with a total of 66 samples. The moderating role was tested using Moderated Regression Analysis (MRA). The results of this study indicate that only Governance disclosure has a significant positive effect on firm value (Tobin's Q). Meanwhile, Environmental disclosure has a negative insignificant effect and Social disclosure has a positive insignificant effect. In this study, the role of audit quality doesn't strengthen the relationship of each ESG aspect to firm value. This result indicates that good governance is more concerned by investors, while audit quality is not a determining factor in the relationship.

Keywords: ESG disclosure, firm value, audit quality, energy and basic material sector

Introduction

Every company is encouraged to focus on achieving its company objective. Pramana & Mustanda (2016) state that in the short term, companies focus on maximizing their profits, while in the long term, companies focus on enhancing their capabilities in earning revenue and improving the prosperity of their shareholders. Harmono (2009) states that firm value could be reflected by its performance, which can be observed through its stock prices. Data from Bursa Efek Indonesia (2021) ^[5] show that despite the challenges faced by the capital market during the COVID-19 pandemic, the growth of the Composite Stock Price Index (IHSG) reached 6,600.68 by the end of 2021, reflecting a strong sign of recovery. With the IHSG rising by 10.4% and increasing market capitalization by nearly 18% at the end of 2021, companies in Indonesia successfully managed to maintain and improve their firm value in the eyes of stakeholders.

As firm value increased throughout 2021, beside financial factors, recent studies have increasingly explored the influence of non-financial elements, particularly Environmental, Social, and Governance (ESG) disclosures. Alareeni & Hamdan (2020) ^[2] found that ESG disclosure is positively associated with Tobin's Q, indicating its role in enhancing firm value. Most of the research on ESG disclosure has been fueled by the increasing focus on 'corporate sustainability' which urges companies to embed sustainability principles into their core business strategies (Bansal, 2005) ^[4]. Furthermore, growing awareness of the severe negative impacts and critical corporate activities that have damaged the environmental, society, and governance structures has driven increased investment in ESG initiatives.

In practice, the impact of Environmental, Social, and Governance (ESG) disclosure continues to raise many questions, particularly in the energy and basic materials sectors, which are among the sectors contributing the most significant risks to the environment, society, and

governance. One of the leading companies in Indonesia's energy sector, PT Adaro Energy Indonesia Tbk (ADRO), outlines its ESG practices in its sustainability report. However, data from the Indonesia Stock Exchange (IDX) reveal a 28.13% decrease in the share price of PT Adaro Energy Indonesia Tbk (ADRO) and its subsidiaries since the start of 2023 (Olivia, 2023) ^[28]. Similarly, in the basic materials sector, PT Aneka Tambang Tbk (ANTM) faced issues related to corruption and clean water pollution, which led to a negative response from investors, evident in the decline of ANTM's stock price during the third quarter of 2022. However, Fauzan Luthfi Djamal, an analyst at RHB Securities, believes that ANTM's shares still have strong potential due to solid nickel prices and stable business performance (Suryahadi, 2022) ^[32]. Previous studies have also reported mixed outcomes. Constantinescu & Mititean (2020) ^[8] a positive impact of ESG disclosure in the energy sector, while Loftsgarden (2020) ^[24] found a negative effect. Difa & Larasati (2024) ^[10] identified a positive impact in the basic materials sector, but Evans *et al.* (2023) ^[14] found no significant effect of ESG disclosure in the mining sector. These phenomena suggest stakeholders focus more on the short-term financial performance rather than the long-term effects of ESG disclosures. Fatemi *et al.* (2018) ^[15] highlights that previous studies have failed to establish a consistent relationship between ESG disclosure and firm value. Therefore, it is crucial to introduce a new variable to examine this relationship, that is audit quality. El-Deeb *et al.* (2023) ^[13] find that high-quality audits can enhance the impact of ESG on firm value by improving the credibility of the information. However, in Indonesia, particularly in the energy and basic materials sectors, the role of audit quality as a moderating variable remains underexplored.

Considering the growing importance of ESG disclosures in the energy and basic materials sectors, the existing research gap, and the potential impact of audit quality on firm value, this study is titled The Effect of Environmental, Social, and Governance (ESG) Disclosure on Firm Value with Audit Quality as a Moderating Variable in the Energy and Basic

Materials Sectors of Indonesia Listed on the IDX from 2021 to 2023.

Literature review and hypothesis development

Theoretical review

Stakeholder Theory

Freeman & Reed (1983) ^[16] suggests that companies hold significant responsibilities not only to their internal operations or shareholders but also to other parties, such as stakeholders. According to this theory, one way to involve stakeholders is by providing comprehensive information about the company's activities, especially information that impacts stakeholder interests. One form of such information is the disclosure of its Environmental, Social, and Governance (ESG) responsibilities.

Agency Theory

Jensen & Meckling (1976) ^[22] defined the relationship between principals and agents, where one or more principals delegate responsibility and decision-making authority to agents. In the relationship, the existence of information asymmetry can lead to challenges, particularly when agents behave in ways that diverge from what principals expected makes principles find it challenging to assess the agent's actions (Eisenhardt, 1989) ^[11]. As a result, agents may seek their own interests, ultimately reducing the trust that principals place in them. To address these challenges, the presence of independent third parties can help to mitigate these issues to reduce the risk of self-serving behavior (Purba, 2023) ^[30].

Environmental, Social, and Governance Disclosure

As companies increasingly pay attention toward sustainability continues to rise, ESG disclosure has considered as an important factor that could impact in enhancing firm value. ESG contributes to value creation by addressing various dimensions of corporate performance that affect to strengthening stakeholder trust in the company. In carrying out their operations, companies are expected to integrate ESG considerations to better address the risks, impacts, and opportunities involved in achieving sustainability. (Mian *et al.*, 2024) ^[26].

Audit Quality

El Badlaoui *et al.* (2021) ^[10] state that audit quality involves audit activities carried out by competent, independent, experienced professionals who possess high integrity, aiming to provide reasonable assurance that information has been presented according to audit standards and is free from material misstatements. Audit quality serves as an indicator of the effectiveness of an auditor's work. High audit quality is typically reflected in the auditor's competence and independence. This leads to a perception that Big Four accounting firms, such as PricewaterhouseCoopers (PwC), KPMG, Ernst & Young (EY), and Deloitte, tend to deliver more detailed audit results compared to firms outside the Big Four.

Firm Value

As described by Lonkani (2018) ^[25], firm value refers to the evaluation of a company's worth, which is shaped by several factors, including assets, earning, and future projections. This makes firm value a crucial measure through which stakeholders observe a company's performance and operational success. One common method

used to evaluate firm value is Tobin's Q ratio. A high Tobin's Q indicates that the company's market value exceeds the value of its total assets, reflecting greater efficiency in resource management and stronger profitability. Over time, strong operational performance increases market value, thereby enhancing the firm's overall value for its shareholders.

The framework below is provided to illustrate the researcher's line of thought.

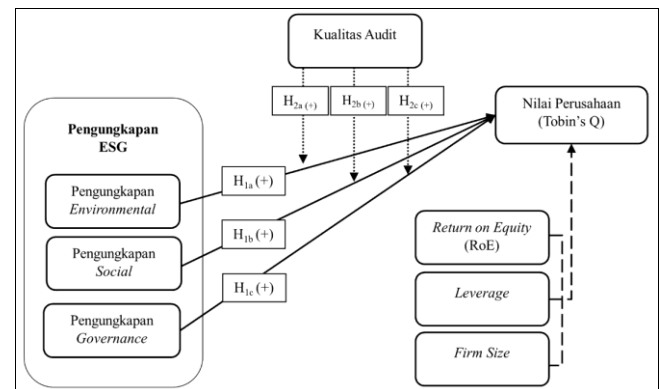


Fig 1: Research Framework

The Impact of ESG Disclosure on Company Value

Stakeholder theory emphasizes that companies must be responsible for providing information about their business activities to all stakeholders. This information can be presented both financially and non-financially, including disclosures related to ESG (Environmental, Social, and Governance) practices.

According to Zumente & Bistрова (2021) ^[36], companies with a higher sustainability awareness tend to demonstrate greater transparency and accountability in their ESG reporting. This transparency strengthens the company's image among stakeholders, creating value that translates into improved internal operations, higher management quality, and reduced business risk. In addition, these improvements make the company more attractive to stakeholders, particularly shareholders, which can ultimately enhance the firm value.

Empirical evidence also supports the positive impact of ESG disclosure on firm value. Research conducted by Yu & Xiao (2022) ^[35], El-Deeb *et al.* (2023) ^[13], Alareeni & Hamdan (2020) ^[2], and Dakhli (2022) ^[9] have found a significant positive relationship between ESG disclosure and both financial performance and firm value.

H_{1a}: Environmental Disclosure has a significant positive effect on firm value

H_{1b}: Social Disclosure has a significant positive effect on firm value

H_{1c}: Governance Disclosure has a significant positive effect on firm value

Audit Quality Strengthens the Relationship between ESG Disclosure and Firm Value

Stakeholder theory suggests that audit quality plays an important role in amplifying the impact of ESG disclosures on firm value. This is because high-quality audits ensure that financial statements are free from material misstatements (Suciana & Setiawan, 2018) ^[31]. As a result, accurate and reliable financial reports lead to positive

perceptions from stakeholders, including those regarding the company’s ESG disclosures and practices.

Meanwhile, agency theory posits that strong governance systems are essential for mitigating issues in the principal-agent relationship (Imelda & Patricia, 2019) [20]. The principal-agent relationship, in this case, refers to the connection between the company and its stakeholders, where, according to agency theory, the company’s ESG disclosure might be viewed as a safeguard against suboptimal financial and operational performance (Peng & Isa, 2020; Yu & Xiao, 2022) [29, 35]. With high-quality audits, stakeholders gain confidence that ESG disclosures are accurate and transparent, which strengthens the company's reputation and boosts its value in the eyes of its stakeholders.

Research by El-Deeb *et al.* (2023) [13] and Dakhli (2022) [9] demonstrates that audit quality plays a role in strengthening the link between ESG disclosure and firm value.

H2a: Audit quality strengthens the relationship between environmental disclosure and firm value.

H2b: Audit quality strengthens the relationship between social disclosure and firm value.

H2c: Audit quality strengthens the relationship between governance disclosure and firm value.

Research Method

Research Variable

Tabel 1: Variabel Penelitian

No.	Types of Variable	Symbols	Variables	Measurement
1.	Independent	ENV, SOC, GOV	ESG disclosure	Bloomberg ESG Disclosure Score
2.	Dependent	Y	Tobin’s Q	(Market Value of Equity + Total Liabilities_/Total Assets
3.	Control	SIZE	Firm Size	Ln Total Asset
4.	Control	LEV	Leverage	Total debt / Total assets
5.	Control	ROE	Return on Equity	Net Income / Total Equity
6.	Moderations	AQ	Audit Quality	Variable dummy of BIG4 Accounting Firms

Population and Sampel

The companies included in the population for this research consist of energy and basic materials sector companies listed on the Indonesia Stock Exchange during the 2021-2023 period. The sample for this research was selected using purposive sampling.

Analysis Method

This research uses a multiple linear regression analysis approach with panel data. To analyze the role of audit quality in either strengthening or weakening the relationship, Moderated Regression Analysis (MRA) is applied. As a result, two study equation models are created, as follows:

$$1. Y_{it} = \alpha_i + \beta_1 ENV_{it} + \beta_2 SOC_{it} + \beta_3 GOV_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 ROE_{it} + \epsilon_{it}$$

$$2. Y_{it} = \alpha + \beta_1 ENV_{it} + \beta_2 SOC_{it} + \beta_3 GOV_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 ROE_{it} + \beta_7 AQ + \beta_8 AQ_ENV_{it} + \beta_9 AQ_SOC_{it} + \beta_{10} AQ_GOV_{it} + \epsilon_{it}$$

Keterangan

- Y = Firm Value
- i = Cross section data
- t = Time series data
- α = Constanta
- β₁, β₂, β₃, β₄, β₅, β₆, β₇, β₈, β₉, β₁₀ = Regression Coefficient
- ENV = Environmental disclosure
- SOC = Social disclosure
- GOV = Governance disclosure
- AQ = Audit Quality
- SIZE = Firm Size
- LEV = Leverage
- ROE = Return On Equity

Result & Discussion

Deskripsi Objek Penelitian

This research is focused on companies in the energy and basic materials sectors that have been listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023.

Tabel 2: Number of Research Samples

No.	Description	Amount
1.	Energy sector and basic materials sector companies listed on the Indonesia Stock Exchange during 2021 - 2023.	198
2.	Energy sector and basic materials sector companies that did not disclose their Environmental, Social and Governance scores on Bloomberg during the 2021 – 2023 period.	(171)
3.	Energy sector and basic materials sector companies that disclosed their Environmental, Social and Governance scores on Bloomberg, but did not report audited financial statements during the 2021 – 2023 period.	(0)
Number of Companies		27
Total Observation (3 years)		81
Outliers Data		15
Number of samples that meet the assessment criteria (3 year x 22 companies)		66

From the selection results based on the specified criteria, 27 companies were obtained as the companies included as the initial sample of this study. However, of the 27 companies, five companies were not normally distributed, so several samples were removed that were categorized as outlier data. After this removal process, the total number of companies was 22, with 5 energy companies and 17 basic material companies. Of the 22 companies, 3-year periods were the scope of this study, so the total samples observed were 66.

Result & Discussion

Descriptive Analysis

Descriptive analysis is a statistical test used to present the data from a sample generally, without trying to make conclusions about the entire dataset. This study describes the data by calculating the mean, median, maximum, minimum, and standard deviation and how the data is spread. Table 3 shows the descriptive analysis for this study.

Tabel 3: Descriptive Analysis

	N	Mean	Median	Maximum	Minimum	Std. Dev.
Y	66	0,9773	0,8933	2,0096	0,3726	0,3299
ENV	66	36,6636	42,6150	78,0700	0,8500	23,9459
SOC	66	33,2188	30,5300	64,4500	7,8600	14,0585
GOV	66	69,4255	74,8300	98,6200	34,6500	15,8013
SIZE	66	30,5589	30,5788	32,7578	27,4195	1,4799
LEV	66	0,4084	0,4288	0,8616	0,0847	0,1927

ROE	66	0,2047	0,1050	1,7384	-0,9963	0,3934
AQ	66	0,4848	0,0000	1,0000	0,0000	0,5036

Sumber: Olahan data penulis dengan Eviews 12

Data Panel Regression Model Determination

This research uses panel data regression, which combines time series and cross-sectional data. There are three approaches in panel data regression, such as Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). In this study, two model determinations will be made, that are one with moderation and one without. Model selection is conducted through three tests, such as the Chow test, the Hausman test, and Lthe agrange Multiplier test. Below are the results of these tests to determine the most appropriate approach based on the data characteristics.

Table 1: Testing the Panel Data Regression Method Approach

Model 1				Model 2			
No	Metode	Prob.	Model	No	Metode	Prob.	Model
1.	Chow	0,000 0 < 0,05	FEM	1.	Chow	0,000 0 < 0,05	FEM
2.	Hausman	0,031 5 < 0,05	FEM	2.	Hausman	0,029 6 < 0,05	FEM
3.	LM	-	-	3.	LM	-	-

Sumber: Olahan data penulis dengan Eviews 12

Based on the tests conducted, it was determined that the appropriate regression model for this study is the Fixed Effect Model (FEM), regardless of whether the moderation effect is included.

Classical Assumption Test

Normality Test

Normality is tested to ensure that the data is distributed normally without extreme values that could impact the accuracy and validity of the research findings.

Table 5: Normality Test

No	Model	Probabilities
1	Model 1 (Without Moderating Variable)	0,435692 > 0,05
2	Model 2 (With Moderating Variable)	0,822616 > 0,05

Based on Table 5, the probability of data normality is greater than 0.05, suggesting that the data is normally distributed.

Heteroscedasticity Test

In this research, heteroscedasticity is tested using the Glejser method, with absolute residuals as the dependent variable.

Table 6: Heteroscedasticity Test Model 1

Variable	ENV	SOC	GOV	SIZE	LEV	ROE
Prob	0,90	0,87	0,21	0,34	0,84	0,12

Table 7: Heteroscedasticity Test Model 2

Variable	ENV	SOC	GOV	SIZE	LEV	ROE	AQ	AQ*ENV	AQ*SOC	AQ*GOV
Prob	0,57	0,49	0,60	0,58	0,92	0,14	0,99	0,58	0,46	0,93

Based on Tables 6 and 7, both in Model 1 and Model 2, all variables in each model have a probability greater than 0.05, meaning they are free from heteroscedasticity problems.

Multicollinearity Test

This research found multicollinearity in the model that accounts for the moderating role. A high correlation between the interaction of the moderator and the independent variable is expected. To reduce the correlation effect, the independent and moderating variables can be standardized by subtracting their means, a method known as mean centering (Aiken & West, 1991)^[1].

Table 8: Multicollinearity Test

	MC_ENV	MC_SOC	MC_GOV	SIZE	ROE	LEV	MC_AQ	MC_AQ*ENV	MC_AQ*SOC	MC_AQ*GOV
MC_ENV	1,00									
MC_SOC	0,77	1,00								
MC_GOV	0,60	0,67	1,00							
SIZE	0,52	0,33	0,20	1,00						
LEV	0,13	-0,03	-0,08	0,33	1,00					
ROE	0,16	0,12	0,25	0,03	-0,38	1,00				
MC_AQ	0,30	0,38	0,24	0,20	-0,20	0,21	1,00			
MC_AQ*ENV	0,11	0,04	-0,36	0,08	-0,10	0,18	0,02	1,00		
MC_AQ*SOC	0,04	-0,04	-0,23	-0,06	-0,15	0,10	0,02	0,75	1,00	
MC_AQ*GOV	-0,36	-0,22	-0,31	-0,26	-0,27	0,28	0,02	0,56	0,64	1,00

Table 7 shows that after mean centering, the correlation for each variable is < 0.80, meaning there is no significant correlation between the variables.

Autocorrelation Test

When using panel data regression, autocorrelation testing is often not identifiable, thus it is not necessary to conduct the test.

Hypothesis Test

Simultan Test (F-test)

F test is conducted to identify whether there is a collective effect of all independent variables on the dependent variable.

Table 9: Uji Simultan (F)

Model 1		Model 2	
F-Statistic	8,487054 >	F-Statistic	7,064572 >

	1,52992		1,54534
Prob (F-Statistic)	0,00 < 0,05	Prob (F-Statistic)	0,00 < 0,05

Based on Table 9, both in Model 1 and Model 2, the F-statistic's probability is less than 0.05, and the calculated F-value is higher than the F-table value. This indicates that the variables ENV, SOC, and GOV, including the control variables SIZE, LEV, ROE, and the moderating variable AQ, as well as their interaction, have a significant effect on the company's value.

Coefficient of Determination Test (R²)

A coefficient of determination (R²) test is carried out to identify how large a proportion of the independent variables run the regression model to describe the dependent variable.

Tabel 10: Koefisien Determinasi (R^2)

Model 1		Model 2	
Adjusted R-squared	0,756691	Adjusted R-squared	0,743085

Based on Table 10, the independent and control variables in Model 1 explain 75.6691% (0.756691) of the variation in the dependent variable, while 24.3009% is attributed to other factors. In model 2, which includes audit quality as a moderating variable, the independent and control variables explain 74.3085% (0.743085), leaving 25.6915% explained by other variables.

Uji Parsial (T)

The Partial Test (T) is used to identify the significance of each independent variable in relation to the dependent variable.

Tabel 11: Uji Parsial (T) Model 1

Variable	Coefficient	t-Statistic	Prob.	Hipotesis
C	-0,733878	-0,108010	0,9146	
ENV	-0,009847	-1,955863	0,0579	H _{1a} : ditolak
SOC	0,006370	0,917095	0,3649	H _{1b} : ditolak
GOV	0,043071	2,704408	0,0102	H _{1c} : diterima
SIZE	-0,050994	-0,232457	0,8174	
LEV	0,991256	2,669874	0,0111	
ROE	0,116361	1,337739	0,1889	

Tabel 12: Uji Parsial (T) Model 1

Variable	Coefficient	t-Statistic	Prob.	Hipotesis
AQ	-0,056549	-0,131678	0,8960	
AQ_ENV	-0,012899	-1,017281	0,3162	H _{2a} : ditolak
AQ_SOC	-0,004719	-0,276462	0,7839	H _{2b} : ditolak
AQ_GOV	-0,008677	-0,252550	0,8021	H _{2c} : ditolak

The results from tables 11 and table 12 provide findings on the hypotheses, which can be interpreted as follows

1. The Influence of Environmental Disclosure on Firm Value

This test shows that higher environmental disclosure tends to reduce firm value, but the effect is insignificant. This is evidenced by the environmental disclosure (ENV) variable, which has a probability of 0.0579 > 0.05, and a t-statistic of 1.95586, < t-table of 1.99773. The regression model indicates that environmental disclosure (ENV) has a coefficient of -0.010, pointing to a negative relationship with firm value, although insignificant. Therefore, the hypothesis suggesting a significant positive effect of environmental disclosure on firm value is rejected (H_{1a} is rejected).

This finding can be connected to agency theory, which argues that as companies engage in more sustainability practices, they often increase costs and use more resources for their own benefit. In sectors like energy and basic materials, too much environmental transparency could signal future financial risks to investors. The lack of a significant effect could also be due to environmental disclosure not being a top priority for investors or lacking societal legitimacy. Aydoğmuş *et al.* (2022)^[3] also explain that the effects of environmental disclosure take time to show and may require higher initial investment costs, which can lower firm value. This aligns with findings Wirawati *et al.* (2020)^[33] and Johan & Toti (2022)^[23] which also found that environmental disclosure has a negative but insignificant effect on firm value.

2. The Influence of Social Disclosure on Firm Value

This test shows that higher social disclosure tends to reduce firm value, but the effect is insignificant. This is evidenced by the social disclosure (SOC) variable, which has a probability of 0.3649 > 0.05, and a t-statistic of 1.0917095 < t-table of 1.99773. The regression model indicates that social disclosure (ENV) has a coefficient of 0.0063, pointing to a positive relationship with firm value, although insignificant. Therefore, the hypothesis suggesting

a significant positive effect of social disclosure on firm value is rejected (H_{1b} is rejected).

One reason for the insignificant effect may be the low average level of social disclosure in energy and basic materials companies, which is the focus of this study. According to the descriptive analysis (Table 3), the average social disclosure is 33.1817. This low level of social disclosure is common among the companies analyzed. According to the descriptive analysis (Table 3), the average social disclosure is 33.1817, the lowest among the other disclosures. When social disclosure is low in the energy and basic material sectors, investors are less able to interpret the information. They may regard it as a critical factor in their investment decisions, thus reducing its impact on firm value. Husada & Handayani (2021)^[18] also found that companies often view social investments as a hindrance to achieving long-term goals, leading them to focus on financial indicators to increase firm value.

3. Pengaruh Pengungkapan Governance terhadap Nilai Perusahaan

This test shows that higher governance disclosure tends to increase firm value significantly. This is evidenced by the governance disclosure (GOV) variable, which has a probability of 0.0102 < 0.05, and a t-statistic of 2.70448 > t-table of 1.99773. The regression model indicates that governance disclosure (GOV) has a coefficient of 0.0431, indicating a positive relationship with firm value. Therefore, the hypothesis suggesting a significant positive effect of governance disclosure on firm value is accepted (H_{1c} is accepted).

This finding aligns with this study's leading theory, the Stakeholder Theory. In this context, governance disclosure, as a form of sustainability responsibility, can enhance trust and reputation among stakeholders, particularly in energy and basic material sector companies.

This is also supported by findings from (Alareeni & Hamdan, 2020; Dakhli, 2022; El-Deeb *et al.*, 2023)^[2, 9, 13], whose research indicates that governance disclosure positively and significantly impacts firm value.

4. The Role of Audit Quality in Strengthening the Environmental, Social, and Governance Disclosure's Impact on Firm Value.

a. The Role of Audit Quality in Strengthening the Environmental Disclosure Impact on Firm Value.

This test shows that the interaction between environmental disclosure and audit quality (AQ_ENV) tends to weaken the relationship between environmental disclosure and firm value, but the effect is insignificant. This is evidenced by the interaction variable (AQ_ENV), which has a probability of 0.3162 > 0.05, and a t-statistic of 1.01728 < t-table of 1.99773. The regression model indicates that the interaction between environmental disclosure and audit quality (AQ_ENV) has a coefficient of -0.01210, pointing to a negative relationship, suggesting that the moderating effect weakens the relationship between environmental disclosure and firm value, although insignificant. Therefore, the hypothesis suggesting that audit quality strengthens the relationship between environmental disclosure and firm value is rejected (H_{2a} is rejected).

b. The Role of Audit Quality in Strengthening the Social Disclosure Impact on Firm Value.

This test shows that the interaction between social disclosure and audit quality (AQ_SOC) tends to weaken the relationship between social disclosure and firm value, but the effect is insignificant. This is evidenced by the interaction variable (AQ_SOC), which has a probability of 0.7839 > 0.05, and a t-statistic of 0.27646 < t-table of 1.99773. The regression model indicates that the interaction between social disclosure and audit quality (AQ_SOC) has a coefficient of -0.0047, pointing to a negative relationship,

suggesting that the moderating effect weakens the relationship between social disclosure and firm value, although insignificant. Therefore, the hypothesis suggesting that audit quality strengthens the relationship between social disclosure and firm value is rejected (H_{2b} is rejected)

c. The Role of Audit Quality in Strengthening the Governance Disclosure Impact on Firm Value.

This test shows that the interaction between governance disclosure and audit quality (AQ_GOV) tends to weaken the relationship between governance disclosure and firm value, but the effect is insignificant. This is evidenced by the interaction variable (AQ_GOV), which has a probability of $0.8021 > 0.05$, and a t-statistic of $0.25255 < t\text{-table of } 1.99773$. The regression model indicates that the interaction between governance disclosure and audit quality (AQ_GOV) has a coefficient of -0.0087 , pointing to a negative relationship, suggesting that the moderating effect weakens the relationship between governance disclosure and firm value, although insignificant. Therefore, the hypothesis suggesting that audit quality strengthens the relationship between governance disclosure and firm value is rejected (H_{2c} is rejected).

One of the main reasons for this phenomenon is the lack of strong regulations regarding environmental, social, and governance (ESG) disclosures in Indonesia, which makes ESG not a primary focus for companies and audits. In Indonesia, the regulation related to environmental disclosure is the Sustainability Report, governed by POJK No. 51/POJK.03/2017 concerning Sustainable Finance Implementation. However, the implementation of this regulation is still not well adhered to by many energy and basic material companies. From 198 companies in this sector listed on the Indonesia Stock Exchange (BEI) during 2021-2023, 171 companies did not disclose ESG in their sustainability reports. This limited disclosure is due to the voluntary nature of ESG and the absence of legal mandates (Center for Risk Management and Sustainability, 2024).

Furthermore, this result can be explained by the legitimacy theory. According to this theory, companies must act by societal systems and can create perceptions without optimal actions (Michelon *et al.*, 2015). As a result, even though Big 4 public accounting firms audit companies, the audit quality does not sufficiently ensure that ESG disclosures are genuinely transparent and accountable. Therefore, audit quality does not strengthen the relationship between ESG disclosures and firm value because the expected transparency has not yet fully materialized. Additionally, according to Ciptaningsih & Cahyonowati (2024)^[6], this occurs because, from the auditors' perspective, ESG in sustainability reports is not within the scope of the financial statement audit, meaning that the audit quality performed by Big 4 public accounting firms cannot fully guarantee the integrity and transparency of ESG disclosures.

Kesimpulan

This research aims to examine the effect of Environmental, Social, and Governance (ESG) disclosures on firm value and the role of audit quality as a moderating variable. The sample companies in this study are from the Energy and Basic Material sectors, accessible on the Indonesia Stock Exchange (IDX), and have disclosed ESG scores on Bloomberg for 2021-2023, continuously for three years. The results of this study are as follows:

1. Governance disclosure has a significant positive impact on firm value, while environmental and social disclosures do not affect firm value.
2. Audit quality is a homologizer moderator, failing to strengthen the relationship between ESG disclosures and firm value.

The limitation of this study is the relatively small sample size. Future research could consider a broader period and select more relevant moderating variables for the study, such as media exposure.

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