International Journal of
Economics Development Research, Volume 5(3), 2024
pp. 2281-2303

Does ESG Disclosure and Audit Quality Influence The Bank's Financial Performance?

Nisriinaa Yumnaa 'Aatikah[1], Siti Mutmainah[2]

Abstract:

Bank play an important role in the global economy makes the sustainability report disclosure and audit quality of banks becoming more important for stakeholders to make decisions. This study was conducted to find out whether ESG disclosure and audit quality affect bank performance. In this study, ESG disclosure variables were obtained from the Bloomberg database, audit quality was measured using dummy variable proxies, bank performance variables were measured using ROA and ROE. This study uses a sample of banks listed on the Indonesia Stock Exchange (IDX) during the 2019-2022 period. The analysis technique involves multiple linear regression analysis using SPSS 26 software. The results show that ESG disclosure are not significantly related to ROA but has a significant positive effect on ROE and audit quality has a significant negative effect on ROA but not significantly related to ROE.

Keywords: *Environmental, Social, and Governance (ESG) Disclosure, Audit Quality, Firm Performance, Bank*

Submitted: 4June 2024, Revision 6 August 2024, Published: 23 August 2024

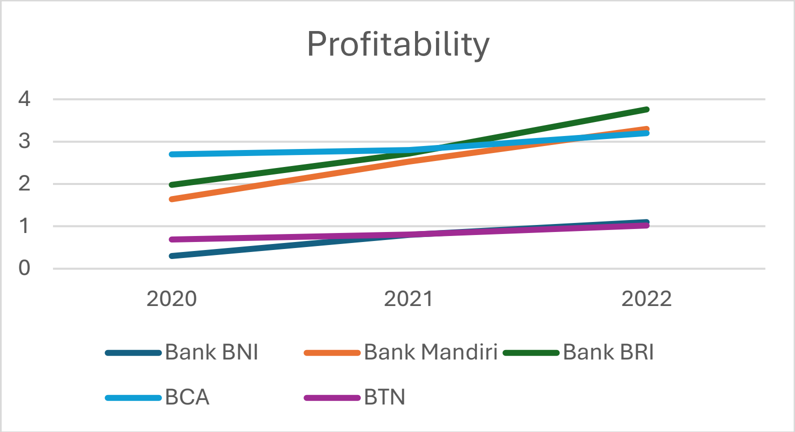
1. Introduction

The banking industry not only plays a role as a financial institution but also as an agent of social and economic change. Banking plays a crucial role in the economy as the main provider of financial services, credit distributors, and managing public savings. Banks can be said to be good if the bank is able to achieve good performance as well, so the company's financial statements are very important to be used as an operational basis for the company (Nianty & Amin, 2023). Banking performance can be seen in financial statements. The bank's financial statements are published with the aim of providing useful data for internal and external banking parties. Banking performance is an important thing, because it can describe the prospects, growth and potential for good development for banks (Dandung et al., 2020).

The quality of good financial performance is important for the development of company operations to decide whether a company has good quality financial performance (Makat, 2016). The company's financial performance report is useful as information regarding planning, funding, investment, and company operations (Hastiwi et al., 2022). Assessment of banking performance can be known in various ways, one of which is using banking financial ratios. Financial ratio analysis can be

[1]*Universitas Diponegoro, Indonesia.* nisriinaayumnaa@students.undip.ac.id
[2]*Universitas Diponegoro, Indonesia.*

classified into various types, including liquidity ratios, solvency ratios and profitability ratios (Ass, 2020).



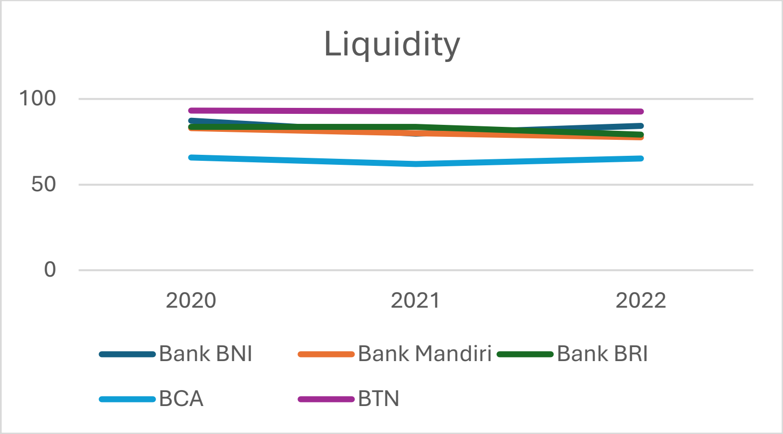


Figure 1. Provitability and Liquidity of Banks in Indonesia
Source: Bank Financial Statements, 2024

Graph 1 shows that in the last 3 years the financial performance of several banks has fluctuated. The profitability of each bank increased from 2020 to 2022, albeit at different rates. Most banks show variation in liquidity but remain within relatively safe limits, with BTN having the highest level of liquidity. The improvement in banks' ability to generate profits is indicated by increased profitability, while variations in liquidity indicate banks' adaptation to market and operational conditions.

As key financial institution in the economy, banks play an important role in mobilizing capital and influencing the economy to adopt more environmentally friendly and sustainable operations (**KPMG, 2023**). Environmental, Social, and Governance (ESG) disclosure is taken into consideration by stakeholders regarding the public's legitimacy towards the company as well as the company's existence and sustainability in the future (Hartomo & Adiwibowo, 2023). ESG disclosure is an increasingly important practice for banks to maintain sustainable financial performance, good corporate governance practices and sustainability have become a key focus, not only for companies, but also for investors and other stakeholders. The growing engagement in considering environmental, social and governance (ESG) factors has changed the investment and decision-making landscape in the banking industry.

KPMG's 2022 survey showed an increase in sustainability reporting by N100 companies. Ten years ago only 64 percent of N100 companies reported sustainability reports, by 2022 this had increased to 79 percent of companies. Today, almost all of the world's 250 leading companies (G250) report on sustainability. Financial services organizations account for 16% of the N100 and 24% of the G250, the most prevalent sectors being banks, financial services, life insurance, etc. ESG disclosure has become a voluntary practice worldwide (Mion & Adaui, 2019). However, the number of jurisdictions requiring ESG disclosure has increased in the last two decades (Ioannou & Serafeim, 2017), and ESG disclosure requirements are expected to become a global phenomenon in the near future as they gain greater attention as a social issue.

In addition to ESG disclosure, audit quality also plays an important role in shaping investor confidence in the company's financial statements. A high-quality audit is not only able to detect and prevent financial fraud, but also provides assurance that the information presented in the financial statements has been thoroughly and independently examined. In some cases of corporate fraud, it was found that external auditors were found to be actively involved in a fraud case (Mutasher, 2016). However, the primary responsibility of an external auditor is to provide accurate and reliable assessments of financial statements to prevent accounting errors and detect deviations from applicable accounting principles and practices. The auditor's brand name reputation and audit firm size have a significant influence on the auditor's strength and ability to monitor the financial performance of their clients (Mutasher, 2016). These points allow auditors to produce quality assessments and reports that ultimately improve the company performance (Cheng et al., 2014).

Investor confidence built from high audit quality can be a driver of firm value, because investors tend to be more trusting and motivated to invest in companies with transparent and reliable financial reports. Companies with better audit quality are able to produce better quality financial reports that provide certainty and trust to business owners, shareholders, and investors, so that they can maximize the value of their companies (Al-ahdal & Hashim, 2022). Improving audit quality will help reduce information asymmetry thereby reducing agency bias for companies and increasing business efficiency (Alsmady, 2022).

Previous research shows that ESG disclosure has a positive effect on company performance (Chung et al., 2024; Fuadah et al., 2022; Sharma et al., 2022; Alareeni & Hamdan, 2020; Albitar et al., 2020; Buallay, 2019), but research Jaiwani & Gopalkrishnan (2023) and Agarwal et al. (2023) shows that ESG disclosures have a negative impact on performance. This research also refers to the results of Al-ahdal & Hashim (2022), Abu Afifa et al. (2023), Sattar et al. (2020)and Hyarat et al. (2023) which states that audit quality has a positive effect on the company's performance.

However, research Ozegbe & Jeroh (2022) and Rifan & Qintharah (2021) It results that the quality of the audit has a negative influence on performance. The inconsistency of results from previous studies is the impetus to conduct further research. On the other hand, banks have various advantages such as economic and social relevance, a strict regulatory environment, the need for transparency, and reliable data. Therefore, in this study, banks listed on the Indonesia Stock Exchange (IDX) are the object of research.

2. Theoretical Background

Stakeholder Theory
Stakeholder Theory refers to the concept that a company not only has responsibilities to shareholders (internal stakeholders), but also to various other parties around it (external stakeholders) that can affect or be affected by the company (Freeman, 1984). They have different interests and influences on the company. Therefore, company management needs to consider the interests and needs of these various stakeholders in making decisions and carrying out business operations.

The importance of disclosing information about company activities in stakeholder theory is closely related to the rights of stakeholders to obtain information relevant to their interests. In current business practices, in making decisions, stakeholders not only consider financial factors such as profitability, but also non-financial factors such as environmental, social, and governance impacts. Rupley et al. (2012) Stakeholders are increasingly emphasizing the need for transparency and accountability from companies, especially regarding the disclosure of information on environmental, social, and corporate governance aspects. ESG-related activities are considered as management's efforts to meet stakeholder demands and improve overall company performance (Atan et al., 2018). By taking into account the perspective of stakeholder theory and the interests of various stakeholders, companies are expected to manage risks, build strong relationships with stakeholders.

Agency Theory
Agency theory as a contract between owner (principal) who hire other person (agents) to perform a specific task and gives decision-making power to the agent (Jensen & Meckling, 1976). This theory arise because of a conflict of interest between agent (managers) and principal (shareholders). In agency theory, the separation of roles between the principal and the agent of the company, agency problem arise because these two parties have different and often conflicting interests\ (Himawari, 2021). The agent has the responsibility to provide information to the principal in the form of financial statements. However, on the principal's side, financial statements are more focused on business continuity. Thus, they can take actions that will improve their performance assessment, even though this may harm other parties in the future (Amaliatussa'diah & Aprilia, 2021).

In this case, an external auditor is needed an independent third party and is considered to have the ability to overcome disagreements between agents and principals. Auditors are essential to reduce information discrepancies to verify the truth of financial statements and agency problems (Patrick et al., 2017). Auditors can take utilize agency conflicts to improve audit quality; for example, when auditors had complex agency conflicts, auditors will try to improve the quality of the audits they create. External auditors serve as independent supervisors that help maintain an organization's integrity, transparency, and compliance with ethical principles and applicable laws, and ensure that the relationship between principals and agents is beneficial for all parties involved.

Financial Performance

Financial performance is an analysis conducted to determine how well and correctly a company applies financial implementation regulations (Irham, 2018). Performance reflects the individual or group fulfills the requirements and responsibilities of the job given, with the aim of achieving the company's targets or goals. Financial performance is assessed from the company's operational results presented in the form of financial figures that can be compared with the previous period or other similar companies (Anggraini, 2012). Performance measurement are carried out periodically to determine the operational effectiveness of an organization. According to Jumingan (2006), financial performance describes financial conditions related to the collection and distribution of funds. Financial ratios such as Return on Assets (ROA) and Return on Equity (ROE) are often used to provide an overview of operational efficiency, ability to use capital, and company value in the financial markets (Buallay, 2019). Financial performance analysis also includes comparing the results of operating activities to assess whether performance is increasing or decreasing, so that management can take the necessary actions (Anggraini, 2012)**.** Measurement of financial performance can also be done through the analysis of financial statements or financial ratios to assess the company's progress, produce useful information for decision-making, and create company value (Mulyadi, 2001).

Pengungkapan *Environmental, Social and Governance* (ESG)

ESG (Environmental, Social, and Governance) disclosure refers to a company's practice of companies to provide information related to their performance in environmental, social, and good governance aspects. This become important due to increasing public awareness of social and environmental issues, which encourages companies to not only focus on making profits, but also pay attention to the impact of their operational activities on society and the surrounding environment. Luqyana & Sukmono (2020) said that ESG is a standard of corporate investment practices that involves three main criteria environmental, social, and governance, so that companies that follow ESG principles in their business and investment will continue to update their policies to be in line with these three aspects for the company's sustainability.

Banks need to adopt strong ESG disclosure practices to facilitate transparent communication about progress and initiatives, to enhance their reputation and attract investors who have a focus on ESG (Jaiwani & Gopalkrishnan, 2023). ESG disclosure provides relevant information benefits to regulators (Chung et al., 2024). Adopt strong ESG disclosure practices to enhance reputation and attract investors, provide relevant

information benefits to regulators, improve banks' information quality and transparency, and strengthen value creation strategies and financial performance. Adopting ESG policies and initiatives can improve financial performance and contribute to broader sustainability goals (Strekalina et al., 2023). Several studies have shown that good ESG disclosure has a positive impact on performance. The results of the research of Al Amosh et al. (2023), Ali & Chouaibi (2024), Chung et al. (2024), Strekalina et al. (2023), Sandberg et al. (2023), Lee & Isa (2023), and Shakil et al. (2019) argue that environmental, social, and governance disclosure can have a good impact on improving performance, so the hypothesis proposed is:
H1a: ESG disclosure has a positive effect on ROA.
H1b: ESG disclosure has a positive effect on ROE.

Audit Quality

Audit quality is the level of market confidence in the likelihood of auditors finding potential violations in the financial statements, such as finding discrepancies in the accounting system used by the client (De Angelo, 1981). Thus, audit quality is an important factor in determining how effective auditors finding violations, it is not appropriate to measure it as a direct probability of finding violations. Wakil et al. (2020) say that real quality refers to the possibility of reducing the risks related to material errors that may be revealed in financial statements, while perceived quality by users of financial statements relates to their view of the auditor's ability to find material errors.

Poor audit quality can encourage managers to manipulate earnings (Afifa et al., 2023). Companies with poor performance tend to require a high level of audit quality (Al-ahdal & Hashim, 2022). Investors, lenders, and other parties involved in a company's financial activities will feel more confident in a company's financial statements if the reports are audited by an audit firm that has a high reputation for quality (Rompotis & Balios, 2023). Audit quality is important for investors to gain confidence in financial information related to company quality (Hyarat et al., 2023). The company's transparency is increased due to the good quality of audits to gain the trust of shareholders, which leads to higher profitability (Masood & Afzal, 2016). The results of the research of Al-ahdal & Hashim (2022), Afifa et al. (2023), Sattar et al. (2020) and Hyarat et al. (2023) argue that audit quality can have a good impact on improving performance, so the hypothesis proposed is:
H2a: Audit Quality has a positive effect on ROA.
H2b: Audit Quality has a positive effect on ROE.

3. Methodology

This study uses a quantitative method by testing hypotheses. The main objective of this study is to reveal how ESG disclosure and audit quality affect the performance of a bank. This study uses a ratio scale in its data analysis. The data used comes from the annual financial statements of banks listed on the Indonesia Stock Exchange (IDX) during the period 2019 to 2022. This data was obtained through the documentation method. The study population includes all banks listed on the IDX in the period. The sampling technique used is non-probability sampling with a purposive sampling approach. The criteria used in sampling are: 1) Banks listed on the IDX in the 2019-2022 period. 2) Banks have complete annual report data, financial reports and sustainability reports.

In this study, two variables were determined, namely independent variables and dependent variables.

1. Dependent variables
   The dependent variable in this study is financial performance (Y) in banks listed on the Indonesia Stock Exchange (IDX) in 2019-2022. Financial performance in this study is proxied by Return on Assets (ROA) and Return on Equity (ROE). ROA and ROE have a measurement scale in percentage units. The formula for ROA and ROE is as follows:
   a. Return On Assets (ROA) is a ratio used to measure the bank's ability to generate overall profits (Korompis et al., 2020). This variable has a measurement scale in ratio units. The formula for calculating Return On Assets is as follows (Khan & Subhan, 2019):
   $$ROA = \frac{Profit\ after\ Tax}{Total\ Assets}$$
   b. Return On Equity (ROE) is a ratio that measures ability to manage available capital to generate net profit (Wijaya, 2019). This variable has a measurement scale in ratio units. The formula for calculating Return On Equity is as follows (Al-ahdal et al., 2020):
   $$ROE = \frac{Profit\ after\ Tax}{Total\ Equity}$$
2. Independent variables
   The independent variables in this study are Environmental, Social, and Governance (ESG) *disclosure* (X1) and audit quality (X2).
   a. *Environmental, Social, and Governance* (ESG) *disclosure* (X1) is a non-financial indicator of a company that includes aspects related to sustainability, social, and corporate governance capabilities (Melinda and Imagination, 2020). ESG disclosure variables are obtained from the Bloomberg database. Bloomberg calculates an ESG score that ranges from 0.1 (lowest) meaning zero disclosure to 100 (highest) meaning full disclosure (Al Amosh et al., 2023).
   b. Audit quality (X2) is an indicator used to measure audit quality refers to the accuracy of accounting information reported by auditors (Widyadi & Widiatmoko, 2023). Audit quality variables are measured using a dummy variable proxy by assigning values to external audit points (Al-ahdal & Hashim, 2022). It provides a code of 1 if the bank makes a disclosure and 0 if the bank does not make a disclosure based on a list of 10 items.

The data collection method in this study is based on a documentation method that emphasizes quantitative data. The data source of this research is secondary data in the form of annual financial statements. Secondary data of banks listed on the Indonesia Stock Exchange (IDX) were obtained from the official website of the IDX (www.idx.co.id) and the Bloomberg database from 2019 to 2020.

The methodology used in this study uses SPSS version 26 and data analysis includes classical assumption tests, hypothesis tests, and determination coefficients (R^2). The formula for multiple regression analysis in this study is as follows:

$$Y1 = \alpha + ß_1.X1 + ß_2.X2 + e \text{ ………………………………. 1)}$$

$$Y2 = \alpha + ß_1.X1 + ß_2.X2 + e \text{ ………………………………. 2)}$$

Information:

Y1	: Return on Assets
Y2	: Return on Equity
A	:Constant
$ß_1 - ß_2$	: Regression coefficient
X1	: Environmental, Social, and Governance Disclosure
X2	: Audit Quality
and	: Error

4. Empirical Findings/Result

This study conducted classical tests which include normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

Table 2. Descriptive Statistical Testing

	ROA	ROE	ESG	AQ
Mean	0,0149	0,0917	43,4679	0,921
Median	0,0142	0,0900	44,6100	0,900
Minimum	0,00	0,01	23,76	0,40
Maximum	0,03	0,18	58,72	1,00
Standard Deviation	0,00733	0,04345	9,3797	0,11246

Source: Processed secondary data, 2024

The purpose of descriptive statistical testing is to characterize the distribution and behavior of data samples. This test consists of calculating the minimum, maximum, mean and standard deviation of each data sample. The results of the descriptive statistical test are presented in table 2. In table 2, descriptive statistical testing reveals that from 2019 to 2022, the ROA variable has a minimum value of 0.00, a maximum value of 0.03 and a median value of 0.0142, with an average of 0.0149, which shows that the data from the ROA variable is in the range of 0.0149. The standard deviation is 0.00733, which means that when there is an average deviation, the number is neither greater nor less than -0.00733. The fact that the standard deviation of the ROA variable is less than average indicates that the data for this variable is consistent. The ROE variable has a minimum value of 0.01, a maximum of 0.18, a median value of 0.0900 and an average of 0.0917, which shows that the data from the ROE variable is usually at 0.0917. Standard deviation (std. Dev) is 0.04345, so even if there is an average deviation, the figure is not greater than 0.04345 or less than -0.04345. The fact that the ROE deviation value is less than average indicates that this variable does not contain data that varies from case to case.

The ESG variable had a minimum value of 23.76, a maximum value of 58.72, a median value of 44.61 and an average value of 43.4679, which shows that the data from the ESG variable is often centered around 43.4679. Standard deviation (std. Dev) is 9.3787, which indicates that despite the mean deviation, the number is neither greater than 9.3787 or less than -9.3787. The fact that the ESG deviation value is less than average indicates that this variable does not contain data that varies from case to case. The AQ variable has a minimum value of 0.4, a maximum value of 1, a median value of 0.900 and an average value of 0.9209. The standard deviation is 0.11246, meaning that if there is a standard deviation it is not between 0.11246 and –0.11246. The standard deviation of the AQ variable is smaller than the mean, which indicates that this variable does not contain data that varies from one agency to another.

Table 3. Results of the Classic Assumption Test

		ROA		ROE	
		ESG	AQ	ESG	AQ
Multicollinearity	Tolerance	0,621	0,621	0,621	0,621
	BRIGHT	1,610	1,610	1,610	1,610
Heteroscedasticity		0,298	0,729	0,127	0,268
Normality	*Kolmogorov-Smirnov*		0,167		0,200

Source: Processed secondary data, 2024

For the Classical Assumption, the data results in table 3 of the normality test after the semi-log transformation of the Kolmogorov-Smirnov test have a significant value of 0.167. These results indicate that the data is normally distributed. The Kolmogorov-Smirnov test showed a significance level greater than 0.05. Therefore, the data can be used in regression model testing and can be continued in subsequent tests. Based on the results of the multicollinearity test, the multicollinearity test has a VIF (variance inflation factor) value below 10 and a tolerance value above 0.10. The results of the tolerance value test on ESG disclosure variables and audit quality showed a result of more than 0.10. In addition, from the results of the Variance Inflation Factor (VIF) value, no independent variables were found that had a VIF of more than 10. Therefore, the regression model in this study is free from multicollinearity assumptions. Based on the heteroscedasticity test (Gleejser test), it can be seen that the values of all variables are above 0.05. The result is that none of the independent variables statistically and significantly affect the dependent variable with an absolute value. This means that in this study there is no heteroscedasticity.

Table 4. Autocorrelation Test Results

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Runs Test
ROA	0,338	0,114	0,070	0,00707	0,356
ROE	0,375	0,141	0,098	0,04128	0,064

Source: Processed secondary data, 2024

Based on table 4, the correlation test show that the Runs Test statistics at ROA is 0.356 and ROE is 0.064. The Runs Test produced a value of >0.05 so that it can be concluded that there is no autocorrelation in the regression of the survey data. So that the model can be used in hypothesis testing. The coefficient of determination (R^2) ranges from 0 to 1. Independent variables can explain dependent variables if the determinant score (R^2) obtained is small. Instead, all information is provided to predict the dependent variable by the independent variable when the determinant score (R^2) is large and close to 1. The results of the regression analysis showe that the R Square ROA value was 0.114 and the R Square ROE was 0.141, which indicates that 11.4% ROA and 14.1% ROE could be influenced by environmental, social and governance (ESG) disclosure (X1) and audit quality (X2) variables. Meanwhile, the remaining 88.6% and 85.9% were influenced by other variables that were not included in this research model, which are still relevant to the study of financial performance.

Table 5. Multiple Linear Regression Results

Variable	ROA			ROE		
	Coefficient	Q	Meaning	Coefficient	Q	Meaning
(Constant)	0.026	0.009	0.007	0.064	0.053	0.233
Pengungkapan *Environmental, Social and Governance* (ESG)	0.000	0.000	0.052	0.002	0.001	0.018
Audit Quality	-0.026	0.012	0.045	-0.070	0.072	0.338
F Calculate			2.571			3.273
F Significance			0.089			0.048

Source: Processed secondary data, 2024

Based on Table 5, the results of data processing show that the final regression equation obtained is as follows:

$$Y1 = 0.026 + 0.000X1 – 0.026X2 + e$$

$$Y2 = 0.064 + 0.002X1 – 0.070X2 + e$$

The equation above shows a regression model on banks using a financial performance approach, namely ROA and ROE which are proxied with Environmental, Social and Governance (ESG) disclosure and audit quality. Each variable has a different result from the two variables. In the first test, audit quality had a negative effect on ROA while Environmental, Social and Governance (ESG) disclosure had no effect on ROA. The F test shows an F value of 2.571 with a significance of 0.089 or greater than 0.05. Thus, it can be concluded that Environmental, Social and Governance (ESG) disclosure and audit quality together have no effect on ROA. In the second test, Environmental, Social and Governance (ESG) disclosure has a positive effect on ROE while audit quality had no effect on ROE. The F test shows an F value of 3.273 with a significance of 0.048 or less than 0.05. Thus, it can be concluded that Environmental, Social and Governance (ESG) disclosure and audit quality together have no effect on ROE.

The Effect Environmental, Social and Governance (ESG) disclosure on ROA

Based on the results of data analysis, there is no significant effect of Environmental, Social, and Governance (ESG) disclosure on the financial performance (ROA) of banks which is indicated by a probability of 0.052 > 0.05. ESG disclosures has no impact on financial performance. The implementation of ESG in company does not have a significant impact on increasing ROA, because the ESG impact from a financial point of view is not significant. ESG disclosure is a new practice, companies are not ready to provide optimal disclosure because the average disclosure rate of companies is still below 50% and suboptimal disclosure makes information unable to influence decision making. Users of financial information need time to understand the information to consider it when making decisions, this is because it takes time to show the impact of ESG on financial performance and cannot be shown in the same period. Research conducted by Rahmaniati & Ekawati (2024), Nurdiati et al. (2023)and Elliza et al. (2023) proving that there is no implication of ESG disclosure on the bank's financial performance (ROA).

5. Discussion

The Effect Environmental, Social and Governance (ESG) disclosure on ROE

Based on the results of data analysis, there is a significant positive influence between Environmental, Social, and Governance (ESG) disclosure on the financial performance (ROE) of banks, which is indicated by a probability of 0.018 < 0.05. Non-financial disclosures, such as Environmental, Social, and Governance (ESG) disclosures that provide information on environmental, social, and governance issues, are critical to meet stakeholder needs, maintain harmony with stakeholders, and achieve stakeholder value as part of a company's efforts. By increasing sales of the company's products and services that have been well received by all stakeholders, by complying with the prevailing social norms and norms in the community, so that these stakeholders support and trust all the company's business activities. The capital investment that can be made not only increases company profits, but also expand company operational activities. If a company's profit increases, the return on capital used in carrying out its business activities will also increase. Environmental, Social, and Governance (ESG) disclosure can reduce the level of business risk that may arise from practices related to capital participation in the social environment around the company which attracts the attention of stakeholders because they have the view that the company has a good sustainability so there is support from stakeholders in the form of capital participation and from the use of banking products and services. This study is consistent with the findings of Leony et al. (2024), Triyani et al. (2020), Alareeni & Hamdan (2020)and Safriani and Childhood (2020) prove the positive and significant implications of Environmental, Social, and Governance (ESG) disclosure on financial performance (ROE).

The Effect of Audit Quality on ROA

Based on the results of data analysis, there is a significant negative effect between audit quality on the financial performance (ROA) of banks, as indicated by a probability of 0.045 <0.05. Audit of financial statements by accounting firms plays an important role in ensuring transparency and accountability of a company's performance reporting. Having financial statements audited by an independent auditor provides confidence to the parties that the report has been verified by an independent and competent third party. Audit quality can negatively impact a bank's Return on Assets (ROA) for several reasons. Using the services of internationally renowned accounting firms such as Deloitte, PwC, KPMG, and E&Y entails very high costs that can reduce ROA. Rigorous audits and full transparency allow companies to uncover or correct hidden weaknesses in management and operations, which can bring about significant changes that impact efficiency and profitability. Disclosure obligations for non-audit services provided by auditors may create conflicts of interest or reveal additional costs that were previously unknown to the public, thus impacting investor perceptions and market confidence and may ultimately impact ROA. Frequent changes in audit partners or audit firms can disrupt the continuity of understanding the company's business, reduce audit effectiveness, and negatively impact financial performance. Research conducted by Ozegbe & Jeroh (2022), Rifan & Qintharah (2021)and London (2020) proving that there are negative and significant implications of audit quality on the financial performance (ROA) of bank's.

The Effect of Audit Quality on ROE
Based on the results of data analysis, there is no significant influence between audit quality on the financial performance (ROE) of banks, as indicated by the probability of 0.338 > 0.05. A strong regulatory system and strict accounting and auditing regulations can have an impact on audit quality being less significant. The banking industry has a different level of complexity and regulation than other industries. Banks are often supervised by strict financial regulators, which can limit the role of external auditors in influencing financial performance. Banks also receive stricter supervision from regulators so that their financial performance is more stable and controllable. This stability helps reduce performance fluctuations due to audit quality. In addition, longer auditor tenure can reduce earnings quality and timely detection of misstatements. Misstatement detection and correction are important, but may not be entirely dependent on external auditors (Singer & Zhang, 2018). This results is consistent with the findings of Al-ahdal & Hashim (2022), Agasha and Monametsi (2020), Ozegbe & Jeroh (2022)and Elewa & El-Haddad (2019) proving that there is no implication of audit quality on the financial performance (ROE) bank's. However, this results is inconsistent with the findings Ozegbe & Jeroh (2022).

6. Conclusions

The purpose of this study is to provide empirical evidence on the effect of Environmental, Social, and Governance (ESG) disclosure and audit quality on financial performance (ROA and ROE) of banks in Indonesia. Environmental, Social, and Governance (ESG) disclosure is empirically proven to affect ROE financial performance, but does not affect ROA financial performance. Audit quality is empirically proven to affect ROA financial performance, but does not affect ROE financial performance.

This study is limited by the fact that only two independent variables were examined over four years, using data from annual reports and Bloomberg, although there are many independent variables that could be investigated. The study only covers data from 2019-2022, which may not be sufficient to capture long-term trends or the impact of ESG disclosure and audit quality. In addition, this study is limited to banks in Indonesia, so the results may not be generalizable to banks in other countries with different economic and regulatory conditions.
Further research can extend the observation period to cover more years, to identifying long-term trends and the cumulative impact of ESG disclosures and audit quality on the bank's financial performance. In addition, conducting a comparative study with banks in other countries will help understand whether there are significant differences

in the impact of ESG and audit quality on financial performance between countries. Adding other variables that may be relevant, such as bank size, ownership structure, will provide a more comprehensive picture.

References:

Afifa, M. M. A., Saleh, I. H., & Haniah, F. F. (2023). Does earnings management mediate the relationship between audit quality and company performance? Evidence from Jordan. *Journal of Financial Reporting and Accounting*, *21*(3), 747–774. https://doi.org/10.1108/JFRA-08-2021-0245

Agarwal, B., Gautam, R. S., Jain, P., Rastogi, S., Bhimavarapu, V. M., & Singh, S. (2023). Impact of Environmental, Social, and Governance Activities on the Financial Performance of Indian Health Care Sector Firms: Using Competition as a Moderator. *Journal of Risk and Financial Management*, *16*(2). https://doi.org/10.3390/jrfm16020109

Al-ahdal, W. M., Alsamhi, M. H., Tabash, M. I., & Farhan, N. H. S. (2020). The impact of corporate governance on financial performance of Indian and GCC listed firms: An empirical investigation. *Research in International Business and Finance*, *51*, 101083. https://doi.org/10.1016/j.ribaf.2019.101083

Al-ahdal, W. M., & Hashim, H. A. (2022). Impact of audit committee characteristics and external audit quality on firm performance: evidence from India. *Corporate Governance (Bingley)*, *22*(2), 424–445. https://doi.org/10.1108/CG-09-2020-0420

Al Amosh, H., Khatib, S. F. A., & Husam, A. (2023). Environmental, social and governance impact on financial performance: evidence from the Levant countries. *Corporate Governance (Bingley)*, *23*(3), 493–513. https://doi.org/10.1108/CG-03-2022-0105

Alareeni, B. A., & Hamdan, A. (2020). ESG impact on performance of US S&P 500-listed firms. *Corporate Governance (Bingley)*, *20*(7), 1409–1428. https://doi.org/10.1108/CG-06-2020-0258

Albitar, K., Hussainey, K., Kolade, N., & Gerged, A. M. (2020). ESG disclosure and firm performance before and after IR: The moderating role of governance mechanisms. *International Journal of Accounting and Information Management*, *28*(3), 429–444. https://doi.org/10.1108/IJAIM-09-2019-0108

Ali, A. Ben, & Chouaibi, J. (2024). Mediating effect of ESG performance on executive incentive compensation-financial performance relationship: evidence from MENA banking sector. *Corporate Governance (Bingley)*, *24*(2), 439–461. https://doi.org/10.1108/CG-02-2023-0065

Alsmady, A. A. (2022). Quality of financial reporting, external audit, earnings power and companies performance: The case of Gulf Corporate Council Countries. *Research in Globalization*, *5*(August), 100093. https://doi.org/10.1016/j.resglo.2022.100093

Amaliatussa'diah, S., & Aprilia, E. A. (2021). Pengaruh Audit Tenure, Rotasi Auditor Dan Umur Publikasi Terhadap Kualitas Audit. *Jurnal Sakuntala*, *1*(02), 159–175.

Anggraini. (2012). *Analisis Perbandingan Kinerja Keuangan Perbankan Syariah* *dengan perbankan Konvensional Periode 2002-2011*.

Ass, S. B. (2020). ANALISIS RASIO PROFITABILITAS DAN SOLVABILITAS PADA PT. MAYORA INDAH Tbk. *BRAND Jurnal Ilmiah Manajemen Pemasaran*, *2*(2), 195–206. https://ejournals.umma.ac.id/index.php/brand

Atan, R., Alam, M. M., Said, J., & Zamri, M. (2018). The Impacts of Environmental, Social, and Governance Factors on Firm Performance: Panel Study of Malaysian Companies. *Management of Enviromental Quality*, *29*(2), 182–194.

Buallay, A. (2019). Is sustainability reporting (ESG) associated with performance? Evidence from the European banking sector. *Management of Environmental Quality: An International Journal*, *30*(1), 98–115. https://doi.org/10.1108/MEQ-12-2017-0149

Cheng, B., Ioannou, I., & Serafeim, G. (2014). Corporate Social Responsibility and Access to Finance. *Strategic Management Journal2*, *35*, 1–23. https://doi.org/10.1002/smj

Chung, R., Bayne, L., & Birt, J. (2024). The impact of environmental, social and governance (ESG) disclosure on firm financial performance: evidence from Hong Kong. *Asian Review of Accounting*, *32*(1), 136–165. https://doi.org/10.1108/ARA-07-2022-0165

Dandung, M. E., Amatiran, P. Y., & Ratu, M. (2020). Analisis Perbandingan Kinerja Keuangan Perbankan Koncensional dan Perbankan Syariah. *Journal Of Management*, *11*(1), 65–82. http://ejurnal.undana.ac.id/JEM/article/download/2319/1680

De Angelo, L. E. (1981). *Auditor Size and Audit Quality*. *3*, 16.

Elewa, M. M., & El-Haddad, R. (2019). The Effect of Audit Quality on Firm Performance: A Panel Data Approach. *International Journal of Accounting and Financial Reporting*, *9*(1), 229. https://doi.org/10.5296/ijafr.v9i1.14163

Elliza, Ariyadi, E. E., & Kristina, N. (2023). Kemampuan Indeks ESG Sebagai Prediktor Terhadap Kinerja. *Prosiding ASIC*, *2022*(1), 1–11.

Freeman, R. . (1984). *Strategic management: A stakeholder approach* (Pitman).

Fuadah, L. L., Mukhtaruddin, M., Andriana, I., & Arisman, A. (2022). The Ownership Structure, and the Environmental, Social, and Governance (ESG) Disclosure, Firm Value and Firm Performance: The Audit Committee as Moderating Variable. *Economies*, *10*(12). https://doi.org/10.3390/economies10120314

Hartomo, H. M., & Adiwibowo, A. S. (2023). Pengaruh Pengungkapan ESG terhadap kinerja perusahaan (Studi Empiris pasa Perusahaan manufaktur yang terdaftar di BEI tahun 2016-2021). *Diponegoro Journal Of Accounting*, *12*(4), 1–14.

Hastiwi, M., Novilasari, E. D., & Nugroho, N. T. (2022). Pentingnya Laporan Keuangan Dalam Menilai Kinerja Keuangan Pada Perusahaan. *Prosiding Seminar Nasional Hukum, Bisnis, Sains Dan Teknologi*, *3*(1), 16–24.

Himawari, M. (2021). Pengaruh Growth Opportunity, Investment Opportunity Set (IOS), Intellectual Capital dan Tax Avoidance terhadap Nilai Perusahaan [Sekolah Tinggi Ilmu Ekonomi Perbanas]. In *Fisheries Research*. http://dspace.ucuenca.edu.ec/bitstream/123456789/35612/1/Trabajo de Titulacion.pdf%0Ahttps://educacion.gob.ec/wp-content/uploads/downloads/2019/01/GUIA-METODOLOGICA-EF.pdf%0Ahttp://dx.doi.org/10.1016/j.fishres.2013.04.005%0Ahttps://doi.org

/10.1038/s41598-
Hyarat, H. I., Husin, N. M., & Jos, R. A. G. (2023). the Impact of Audit Quality on Firm Performance: the Moderating Role of Ownership Concentration. *International Journal of Professional Business Review*, *8*(4), 1–22. https://doi.org/10.26668/businessreview/2023.v8i4.1721
Ioannou, I., & Serafeim, G. (2017). The Consequences of Mandatory Corporate Sustainability Reporting. *SSRN Electronic Journal*, 1–49. https://doi.org/10.2139/ssrn.1799589
Irham, F. (2018). *Analisis Kinerja Keuangan*. Alfabeta.
Jaiwani, M., & Gopalkrishnan, S. (2023). Do private and public sector banks respond to ESG in the same way? Some evidences from India. *Benchmarking: An International Journal*, *ahead-of-p*(ahead-of-print). https://doi.org/10.1108/BIJ-05-2023-0340
Jensen, M. C., & Meckling, W. H. (1976). *Theory Of The Firm: Managerial Behavior, Agency Costs and Ownership Structure*. *3*, 305–360.
Jumingan, D. (2006). *Analisis laporan keuangan*. PT. Bumi Aksara.
Khan, A. W., & Subhan, Q. A. (2019). Impact of board diversity and audit on firm performance. *Cogent Business and Management*, *6*(1). https://doi.org/10.1080/23311975.2019.1611719
Korompis, R. R. N., Murni, S., & Untu, V. N. (2020). Pengaruh Risiko Pasar (NIM), Risiko Kredit (NPL), dan Risiko Likuiditas (LDR), terhadap Kinerja Keuangan Perbankan (ROA) Pada Bank yang Terdaftar Di LQ 45 Periode 2012-2018. *Junal EMBA*, *8*(1), 175–184.
Lee, S. P., & Isa, M. (2023). Environmental, social and governance (ESG) practices and financial performance of Shariah-compliant companies in Malaysia. *Journal of Islamic Accounting and Business Research*, *14*(2), 295–314. https://doi.org/10.1108/JIABR-06-2020-0183
Leony, E., Rizkiyanti, A., & Uzliawati, L. (2024). Pengaruh Enviromental, Social Dan Governance Disclosure Terhadap Profitabilitas Perusahaan Sektor Makanan Dan Minuman Di Indonesia. *Jurnal Ilmiah Manajemen, Ekonomi, & Akuntansi (MEA)*, *8*(1), 196–209. https://doi.org/10.31955/mea.v8i1.3655
Luqyana, Y. D., & Sukmono, F. G. (2020). Isu Intoleran dan Video Akun Menjadi Manusia (Sebuah Pendekatan Penerimaan Penonton). *Jurnal Audiens*, *1*(1). https://doi.org/10.18196/ja.11010
Makatita, R. F. (2016). Pentingnya Kinerja Keuangan dalam Mengatasi Kesulitan Keuangan Perusahaan : Suatu Tinjauan Teoritis. *Journal of Management*, *2*(1), 137–150.
Masood, A., & Afzal, M. (2016). Determinants of Audit Quality in Pakistan. *Journal of Quality and Technology Management*, *12*(2), 25–49. https://doi.org/10.5296/ajfa.v14i1.18939
Melinda, A., & Wardhani, R. (2020). the Effect of Environmental, Social, Governance, and Controversies on Firms’ Value: Evidence From Asia. *International Symposia in Economic Theory and Econometrics*, *27*(June 2020), 147–173. https://doi.org/10.1108/S1571-038620200000027011
Mion, G., & Adaui, C. R. L. (2019). Mandatory nonfinancial disclosure and its consequences on the sustainability reporting quality of Italian and German

companies. *Sustainability (Switzerland)*, *11*(17), 1–28. https://doi.org/10.3390/su11174612
Monametsi, G. L., & Agasha, E. (2020). Audit Quality and Firm Performance: Evidence from Botswana and Uganda. *Journal of Accounting Finance and Auditing Studies (JAFAS)*, *6*(4), 79–95. https://doi.org/10.32602/jafas.2020.029
Mutasher, A. T. (2016). *Impact of board characteristics, audit committee characteristics and external auditor on financial reporting quality*. Universiti Utara Malaysia.
Nianty, D. A., & Amin, A. (2023). *Peningkatan Kinerja Keuangan Perbankan melalui Rasio Keuangan* (D. S. Bahasoan (ed.); Pertama). Nobel Press.
Nurdiati, N., Susilowati, D., & Rokhayati, H. (2023). The Effect of Environmental, Social, Governance (ESG) Disclosure on Company Performance. *FORKOMSA: Proceeding of International Students Conference on Accounting and Business*, *2*(1), 609–624.
Ozegbe, K. K., & Jeroh, E. (2022). Audit Quality and the Financial Performance of Quoted Companies in Nigeria : Empirical Discourse. *Acta Universitatis Danubius*, *18*(5), 182–197.
Patrick, Z., Vitalis, K., & Mdoom, I. (2017). Effect of Auditor Independence on Audit Quality: A Review of Literature. *International Journal of Business and Management Invention ISSN*, *6*(3), 51–59. www.ijbmi.org
Rahmaniati, N. P. G., & Ekawati, E. (2024). The role of Indonesian regulators on the effectiveness of ESG implementation in improving firms' non-financial performance. *Cogent Business and Management*, *11*(1). https://doi.org/10.1080/23311975.2023.2293302
Rifan, D. F., & Qintharah, Y. N. (2021). Pengaruh Kualitas Audit dan BOPO terhadap Profitabilitas Bank Umum Syariah Periode 2012-2018. *Jrak*, *12*(2), 55–66.
Ritonga, P. (2020). Pengaruh Risiko Kredit, Risiko Solvabilitas Dan Kualitas Audit Terhadap Profitabilitas Perusahaan Serta Implikasinya Terhadap Kualitas Laba. *Ultimaccounting : Jurnal Ilmu Akuntansi*, *12*(1), 21–43. https://doi.org/10.31937/akuntansi.v12i1.1495
Rompotis, G., & Balios, D. (2023). Audit quality, firm performance and risk: evidence from Greece. *Review of Accounting and Finance*, *22*(5), 636–662. https://doi.org/10.1108/RAF-02-2023-0038
Rupley, K. H., Brown, D., & Marshall, R. S. (2012). J . Account . Public Policy Governance , media and the quality of environmental disclosure. *Journal of Accounting and Public Policy*, *31*(6), 610–640. https://doi.org/10.1016/j.jaccpubpol.2012.09.002
Safriani, M. N., & Utomo, D. C. (2020). Pengaruh Environmental, Social dan Governance (ESG) Disclosure terhadap Kinerja Perusahaan. *Diponegoro Journal of Accou*, *9*(3), 1–11. https://doi.org/10.29313/bcsa.v4i1.11584
Sandberg, H., Alnoor, A., & Tiberius, V. (2023). Environmental, social, and governance ratings and financial performance: Evidence from the European food industry. *Business Strategy and the Environment*, *32*(4), 2471–2489. https://doi.org/10.1002/bse.3259
Sattar, U., Javeed, S. A., & Latief, R. (2020). How audit quality affects the firm performance with the moderating role of the product market competition:

Empirical evidence from Pakistani manufacturing firms. *Sustainability (Switzerland)*, *12*(10). https://doi.org/10.3390/su12104153

Shakil, M. H., Mahmood, N., Tasnia, M., & Munim, Z. H. (2019). Do Environmental, Social And Governance Performance Affect The Financial Performance Of Banks? *Management of Environmental Quality: An International Journal*, *30*(6), 1331–1344. https://doi.org/10.1108/MEQ-08-2018-0155/full/html

Sharma, R. B., Lodha, S., Sharma, A., Ali, S., & Elmezughi, A. M. (2022). Environment, Social and Governance Reporting and Firm Performance: Evidence from GCC Countries. *International Journal of Innovative Research and Scientific Studies*, *5*(4), 419–427. https://doi.org/10.53894/ijirss.v5i4.1006

Singer, Z., & Zhang, J. (2018). Auditor tenure and the timeliness of misstatement discovery. *Accounting Review*, *93*(2), 315–338. https://doi.org/10.2308/accr-51871

Strekalina, A., Zakirova, R., Shinkarenko, A., & Vatsaniuk, E. (2023). The Impact of ESG Ratings on Financial Performance of the Companies: Evidence from BRICS Countries. *Journal of Corporate Finance Research*, *17*(4), 93–113. https://doi.org/10.17323/j.jcfr.2073-0438.17.4.2023.93-113

Triyani, A., Setyahuni, S. W., & Kiryanto, K. (2020). The Effect Of Environmental, Social and Governance (ESG) Disclosure on Firm Performance: The Role of Ceo Tenure. *Jurnal Reviu Akuntansi Dan Keuangan*, *10*(2), 261. https://doi.org/10.22219/jrak.v10i2.11820

Wakil, G. K., Alifiah, M. N., & Teru, P. (2020). Auditor independence and audit quality in Nigeria public sector: A critical review. *Journal of Critical Reviews*, *7*(7), 839–845.

Widyadi, A. P., & Widiatmoko, J. (2023). Pengaruh Pengungkapan Sustainability Report Dan Kualitas Audit Terhadap Nilai Perusahaan Pada Perusahaan Manufaktur 2016-2020. *JIMAT (Jurnal Ilmiah Mahasiswa Akuntansi) Undiksha*, *14*(01), 38–47. https://doi.org/10.23887/jimat.v14i01.51017

Wijaya, R. (2019). Analisis perkembangan return on assets (ROA) dan return on equity (ROE) untuk mengukur kinerja keuangan. *Jurnal Ilmu Manajemen*, *9*(1), 40–51.