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THE IMPACT OF CORPORATE ESG INFORMATION QUALITY ON AUDIT QUALITY: AN EMPIRICAL STUDY

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ABSTRACT

This study empirically examines the relationship between ESG information quality and audit quality using data from A-share listed companies in China from 2013 to 2023. The findings indicate that companies with higher ESG ratings tend to exhibit lower levels of earnings manipulation and higher audit quality. In terms of control variables, higher debt levels, corporate loss status, and a greater proportion of independent directors negatively impact audit quality. To ensure the robustness and stability of the results, this study employs fixed-effects models, lagged treatment, and instrumental variable methods (2SLS), with consistent conclusions. Therefore, strengthening ESG disclosure standards can not only enhance a company's market image and social responsibility but also indirectly improve external audit quality, promoting the healthy development of capital markets.

KEYWORDS: *ESG, Information Quality, Audit Quality*

1. INTRODUCTION

Environmental, Social, and Governance (ESG) issues have gained increasing global attention. Companies are not only subject to stringent regulatory oversight but also face growing expectations from investors, consumers, and other stakeholders regarding sustainability and transparency. In this context, corporate ESG performance and its information disclosure have become particularly important. ESG information not only reflects a company's efforts in environmental protection, social responsibility, and corporate governance, but also directly influences its market image, investment appeal, and long-term value.

In recent years, both academic and practical circles have increasingly focused on the impact of ESG information on corporate operations and market performance (Mei & Xiao, 2024; Xi & Zhang, 2022; Tian & Zhang, 2020). Research has shown a positive correlation between strong ESG performance and firm value (Liu, 2024). Additionally, an increasing number of companies voluntarily publish sustainability reports to meet stakeholder expectations and enhance information transparency (Liu, Ye, Xie, et al., 2023). However, despite the widespread recognition of the importance of ESG disclosure, there is still relatively limited research on how such information affects the external audit process and its outcomes.

Against this backdrop, this study empirically analyzes data from A-share listed companies in China, using the modified Jones model to calculate discretionary accruals (AbsDA) as a measure of earnings manipulation and the Huazheng ESG rating system to evaluate the audit quality and ESG ratings of the sample companies. By controlling a range of variables that may influence audit quality, this study explores the relationship between ESG information quality and audit quality. The paper seeks to answer several key questions: first, does high-quality ESG information disclosure help improve audit efficiency and accuracy? Second, when faced with detailed and reliable ESG data, do auditors adjust their audit strategies or methods to better assess a company's non-financial risks? Finally, does such an adjustment ultimately result in higher audit quality, thus improving the relevance and reliability of audit opinions? This study not only reveals the relationship between ESG information quality and audit quality but also provides new perspectives for the academic community and valuable insights for practitioners and policymakers. It ensures that our analytical framework is based on solid theoretical foundations in the evaluation of related studies.

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2. THEORETICAL ANALYSIS AND RESEARCH HYPOTHESIS

A company's strong ESG (Environmental, Social, and Governance) practices not only demonstrate its firm commitment to sustainable development and social responsibility but also have far-reaching effects on its financial stability and risk management. According to the research by Asante-Appiah and Lambert (2023), ESG performance has become a key consideration in the audit process, as it significantly affects the company's balance sheet, profitability, and overall risk profile.

When a company provides detailed information in its ESG reports about its environmental initiatives, community engagement activities, and corporate governance frameworks, such disclosures offer auditors important decision-making insights (Zhou, Ding, & San, 2023). This allows auditors to gain a deeper understanding of the company's operational context and the various risks it faces, enabling them to prepare more precise and valuable audit reports. High-quality ESG disclosure aids auditors in identifying potential risk points more accurately, enhancing the reliability of their assessments of the company's performance and risks.

Moreover, transparent ESG reporting reduces the information asymmetry between the company and the auditing firm, thus lowering the risk of errors during the audit process. With detailed ESG data, auditors can effectively evaluate the risks associated with environmental, social, and governance factors, improving both the efficiency and quality of the audit work. Additionally, a strong ESG record helps build trust between the company and the audit team, reducing the extra costs arising from information opacity and fostering better cooperation between the two parties.

Furthermore, a company's exemplary ESG performance is crucial to enhancing audit effectiveness and efficiency and contributes to building a positive corporate image. As investors and society increasingly focus on ESG issues, companies must continuously refine their ESG strategies to ensure that the information they provide meets international standards and accurately reflects the company’s actual situation. This, in turn, supports responsible investment decisions and long-term value creation.

Thus, as companies promote their own coordinated development, they also positively influence the quality of the audit work. Based on this reasoning, the following hypothesis is proposed:

H1: Under certain conditions, improvements in the ESG performance of listed companies will have a positive effect on audit quality.

3. RESEARCH DESIGN

3.1 Variable Definitions

3.1.1 Dependent Variable: Audit Quality (AbsDA)

In this study, audit quality is measured by using the *discretionary accruals* (AbsDA), which is based on the modified Jones model, following the approach of Dong, Tian, & Yan (2007). The model calculates the *discretionary accruals* as a proxy for external audit quality. The specific formula is as follows:

$$\frac{TA_{it}}{A_{i,\ t-1}} = \frac{\beta_0}{A_{i,\ t-1}} + \frac{\beta_1(\Delta REV_{it} - \Delta REC_{it})}{A_{i,\ t-1}} + \frac{\beta_2 PPE_{it}}{A_{i,\ t-1}} + \varepsilon_{it} \qquad (1)$$

In this equation (1), *i* and *t* represent the company and time period, respectively. *TA* refers to the total accruals, which is the difference between the company's operating profit and net cash flows from operating activities. *ΔREV* represents the change in revenue, *ΔREC* represents the change in receivables, and *PPE* stands for the net value of the company’s fixed assets. *A_{i,t-1}* refers to the total assets of the company at the end of the previous period (*t-1*), and *ε_{it}* is the residual term of the regression model.

This model allows for regression analysis across different years and industries. The residuals obtained from the regression are used as a proxy for discretionary accruals (AbsDA). According to the study by Kothari et al. (2005), generally, a smaller absolute value of AbsDA indicates higher audit quality. Specifically, smaller absolute values of AbsDA suggest that the financial statements of a company are more likely to reflect the true operational conditions, which implies higher auditing standards and reliability.

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In summary, AbsDA serves as the key indicator of audit quality, with lower values signifying better audit quality and greater financial statement accuracy.

3.1.2 Independent Variable: ESG Rating (ESG)

In this study, the ESG rating of sample companies is measured using the Huazheng ESG Rating System, as adopted by Wang & Yang (2022). According to this system, Huazheng assigns ESG ratings ranging from AAA to C, with the ratings being assigned numerical values from 9 (highest) to 1 (lowest).

3.1.3 Control Variables

Following the approach of Wang & Huang (2024), we select control variables that account for company governance, financial performance, and company characteristics. These include: company size (Size), debt-to-asset ratio (Lev), quick ratio (Quick), return on assets (ROA), proportion of independent directors (Indep), whether the company reported a loss (Loss), audit opinion (Opinion), and whether the audit firm is one of the "Big Four" international audit firms (Big4). Additionally, we control for year and industry effects.

The following table summarizes the definitions of the variables:

Type	Variable Name	Symbol	Variable Description
Dependent Variable	Audit Quality	AbsDA	Absolute value of discretionary accruals calculated using the modified Jones model
Independent Variable	ESG Performance	ESG	ESG rating assigned based on the Huazheng ESG rating system
Control Variable	Company Size	Size	Natural logarithm of total assets
	Debt-to-Asset Ratio	Lev	Total liabilities / Total assets at the end of the period
	Return on Assets	ROA	Net income divided by total assets
	Quick Ratio	Quick	(Current assets - Inventory) / Current liabilities
	Big Four	Big4	Assigned value of 1 if audited by a Big Four audit firm, otherwise 0
	Audit Opinion	Opinion	Assigned value of 1 for unqualified audit opinion, otherwise 0
	Loss	Loss	Assigned value of 1 if the company reported a loss, otherwise 0
	Proportion of Independent Directors	Indep	Proportion of independent directors on the board
	Industry Dummy	Ind	Industry the company belongs to (dummy variable)
	Year Dummy	Year	Year of observation (dummy variable)

Table 1: Variable Definitions

These control variables are included to account for other factors that may influence audit quality, such as the company's financial health, governance structure, and external audit characteristics. By controlling for these variables, the study aims to isolate the effect of ESG performance on audit quality.

3.2 Sample Selection and Data Sources

In selecting the sample, careful consideration is given to industry representativeness and data availability. Therefore, this study uses data from A-share listed companies in China from 2013 to 2023 as the initial sample. To ensure the generalizability and robustness of the research results, the following steps are taken to process the initial sample:

1.Exclude companies from the financial industry and those that have been listed for less than one year;
2.Exclude companies designated as ST or *ST (i.e., companies under special treatment due to financial distress);
3.Exclude companies with missing data for key variables such as audit quality and ESG ratings.

After applying these filters, a total of 12,595 valid data points are obtained. Additionally, to reduce the impact of outliers, 1% winsorization is applied to all continuous variables. The ESG ratings are sourced from the Huazheng ESG year-end ratings, while the other variables are retrieved from the GTJA database. Data analysis and regression are conducted using Stata 17 software.

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3.3 Model Design

To examine the impact and mechanisms through which ESG performance influences audit quality in listed companies, the following regression model is constructed:

$$\text{AbsDA}_{i,t} = \beta_0 + \beta_1 \text{ESG}_{i,t} + \beta_2 \text{Controls}_{i,t} + \sum \text{year} + \sum \text{industry} + \varepsilon_{i,t} \quad (2)$$

In the model:

- $\text{AbsDA}_{i,\ t}$ represents the discretionary accruals (i.e., the measure of audit quality) for company iii in year ttt;
- $\text{ESG}_{i,\ t}$ represents the ESG performance of company iii in year ttt;
- $\text{Controls}_{i,\ t}$ refers to the set of control variables, including company size, debt ratio, profitability, and other factors that could influence audit quality;
- $\sum \text{year}, \sum \text{industry}$ are year and industry fixed effects, respectively;
- $\varepsilon_{i,\ t}$ is the random error term.

This model is designed to assess the direct impact of ESG performance on audit quality while controlling for other potential factors that could confound the relationship. The use of year and industry fixed effects ensures that the results are robust to temporal and industry-specific variations.

4. EMPIRICAL ANALYSIS

4.1 Descriptive Statistical Analysis

Table (2) presents the descriptive statistics for the key variables used in this study. According to the data, the audit quality variable (AbsDA) shows considerable variation: the mean value is 0.0626, with a standard deviation of 0.0618. The minimum and maximum values are 0.000936 and 0.413, respectively. This indicates that, although the overall audit quality is relatively high, there is significant variation in audit quality across different listed companies.

For ESG performance (ESG), the average score of the sample companies is 4.086, with a standard deviation of 0.926. The minimum score is 1, and the maximum score is 8. This broad distribution reflects the diversity of companies' environmental, social, and governance practices, providing a rich empirical foundation for the study.

Regarding control variables, the average company size (Size) is 22.31, with a standard deviation of 1.14. The minimum value is 19.68, and the maximum value is 26.09, indicating a wide range of company sizes, with most companies falling into the large enterprise category. The debt ratio (Lev) shows that the average leverage ratio for the sample companies is 0.408, with a standard deviation of 0.193. The minimum value is 0.0521, and the maximum value is 0.894. This high standard deviation reflects significant differences in debt levels across firms, which could have important implications for financial stability and operational efficiency. The return on assets (ROA) has a mean value of 0.0347, with a standard deviation of 0.0633, indicating substantial variation in the profitability of the companies in the sample, reflecting their differing operating conditions and growth potential.

The descriptive statistics for the other control variables, such as the quick ratio (Quick), the proportion of independent directors (Indep), the audit opinion (Opinion), whether the company incurred a loss (Loss), and whether the audit was conducted by one of the "Big Four" accounting firms (Big4), show further important variability in corporate governance and financial health.

Table 2: Descriptive Statistics

Variable	N	Mean	P50	Sd	Min	Max
AbsDA	12,595	0.0626	0.045999	0.0618	0.000936	0.413
ESG	12,595	4.086	4	0.926	1	8
Size	12,595	22.31	22.17209	1.147	19.68	26.09
Lev	12,595	0.408	0.3994234	0.193	0.0521	0.894
ROA	12,595	0.0347	0.034654	0.0633	-0.221	0.216
Quick	12,595	1.948	1.282569	2.149	0.186	15.95
Big4	12,595	0.0389	0	0.193	0	1
Opinion	12,595	0.977	1	0.151	0	1
Loss	12,564	0.129	0	0.336	0	1
Indep	12,595	0.377	0.3571429	0.0559	0.167	0.571

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This descriptive analysis provides a comprehensive overview of the key variables, offering valuable insights into the variability across companies in terms of audit quality, ESG performance, and control factors. It underscores the diversity present in the sample, which is essential for examining the relationship between ESG performance and audit quality.

4.2 Correlation Analysis

In this study, Pearson's correlation coefficient method is used to examine the relationships between variables. The results are presented in Table (3). The correlation between the independent variable, ESG performance (ESG), and the dependent variable, discretionary accruals (AbsDA), is -0.052, which is statistically significant at the 1% level. This indicates a significant negative correlation, suggesting that higher ESG ratings are associated with lower discretionary accruals, and hence, higher audit quality. In other words, at a 1% significance level, the better the ESG performance of a listed company, the lower the manipulative accruals, which implies higher audit quality.

Table 3: Correlation Matrix

	AbsDA	ESG	Size	Lev	ROA	Quick	Big4	Opinion	Loss	Indep
AbsDA	**1**									
ESG	-0.052***	1								
Size	0.014	0.1178***	1							
Lev	0.113***	-0.093***	0.516***	1						
ROA	-0.161***	0.201***	0.070***	-0.309***	1					
Quick	-0.068***	0.057***	-0.332***	-0.630***	0.176***	1				
Big4	0.006	0.071***	0.277***	0.104***	0.045***	-0.066***	1			
Opinion	-0.069***	0.107***	0.040***	-0.060***	0.198***	0.026***	0.012	1		
Loss	0.150***	-0.117***	-0.067***	0.175***	-0.683***	-0.092***	-0.027***	-0.194***	1	
Indep	0.030***	0.082***	-0.036	-0.020**	-0.036***	0.020**	-0.017*	-0.013	0.051***	1

Note: *p<0.01, p<0.05, *p<0.1**

The negative correlation between ESG and AbsDA indicates that companies with better ESG ratings tend to exhibit lower levels of discretionary accruals, implying higher audit quality. This finding suggests that higher ESG performance may facilitate more accurate risk assessments during audits, leading to better audit outcomes.

To address concerns regarding multicollinearity, which may inflate the standard errors of regression coefficients and weaken the significance of the results, we perform a variance inflation factor (VIF) test. The results, shown in Table (4), indicate that all VIF values are within an acceptable range. The highest VIF value is 2.34, which is well below the commonly accepted threshold of 10 for detecting multicollinearity. Thus, we conclude that there is no significant multicollinearity between the variables, ensuring the reliability and robustness of the regression results.

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Table 4: Multicollinearity Test

Variable	VIF	1/VIF
ESG	1.12	0.8966
Size	1.66	0.6025
Lev	2.34	0.4267
ROA	2.14	0.4678
Quick	1.66	0.6020
Big4	1.09	0.9206
Opinion	1.05	0.9518
Loss	1.89	0.5302
Indep	1.01	0.9866

These results confirm that the variables in this study are not subject to severe multicollinearity, which further supports the validity of the empirical analysis.

4.3 Regression Analysis

In this section, we apply Model (2) to examine the relationship between ESG ratings and audit quality. The regression results are presented in Table 5.

Column (1) presents the regression results with only year and industry fixed effects controlled, without including other control variables. The coefficient for ESG ratings is -0.004, which is statistically significant at the 1% level, indicating a significant negative correlation between ESG performance and discretionary accruals (AbsDA). This means that higher ESG ratings are associated with lower discretionary accruals, suggesting that better ESG performance leads to higher audit quality.

Column (2) includes a set of control variables. After introducing these controls, the coefficient for ESG ratings becomes -0.001, which remains statistically significant at the 1% level. This further confirms the negative relationship between ESG performance and discretionary accruals, strengthening the finding that higher ESG performance leads to improved audit quality.

From the perspective of control variables, the regression coefficients for leverage (Lev), whether the firm is in a loss (Loss), and the proportion of independent directors (Indep) are 0.019, 0.018, and 0.033, respectively, all of which are significantly positively correlated with discretionary accruals (AbsDA) at the 1% level. This means that these factors are associated with lower audit quality, i.e., their presence may reduce the quality of audits.

In summary, improving ESG performance not only reduces a firm's discretionary accruals but also significantly enhances audit quality. At the same time, firms with higher leverage, in a loss-making state, or with a lower proportion of independent directors may have relatively lower audit quality.

Table 5: Regression Results of ESG Performance and Audit Quality

Variable	(1)	(2)
ESG	-0.004*** (-6.49)	-0.001** (-2.20)
Size		0.000 (0.42)
Lev		0.019*** (4.19)
ROA		-0.072*** (-5.71)
Quick		-0.000 (-1.00)
Big4		0.001 (0.28)
Opinion		-0.016*** (-4.28)
Loss		0.018*** (7.85)
Indep		0.033*** (3.45)
Constant	0.091*** (16.36)	0.071*** (4.79)
Industry	Yes	Yes
Year	Yes	Yes
N	12,595	12,595
adj.R^2	0.0229	0.0564

Note: *p<0.01, p<0.05, *p<0.1**

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4.4 Robustness Check

While the regression results show a significant relationship between ESG performance and audit quality, it is possible that other correlated variables may simultaneously influence both ESG performance and discretionary accruals, thereby impacting the conclusions of this study. To address this potential issue of omitted variable bias and endogeneity (such as bidirectional causality), this section applies three robustness checks: fixed effects, lagging the independent variable, and instrumental variable techniques.

4.4.1 Fixed Effects Model

To enhance the robustness of our results, we first apply a fixed-effects model, as recommended by Wang, Xu, & Liu (2022). This method controls for unobservable factors that vary across entities but remain constant over time. The regression results are shown in Table 6, Column (1).

In the fixed-effects model, the coefficient for ESG performance is -0.001, which is significant at the 10% level. This negative relationship indicates that higher ESG performance is still significantly associated with lower discretionary accruals, confirming that better ESG performance leads to higher audit quality. The results from the fixed-effects model are consistent with the main regression findings, suggesting that the relationship between ESG performance and audit quality holds even after controlling for entity-specific unobserved heterogeneity.

4.4.2 Lagged Independent Variable

To address potential endogeneity issues stemming from bidirectional causality (i.e., whether better audit quality drives better ESG performance, or vice versa), we follow the methodology of Zhai & Li (2022). Specifically, we create a lagged version of the ESG variable and use it as the independent variable in the regression model. This allows us to examine the impact of past ESG performance on current audit quality, helping to mitigate any reverse causality concerns.

The new explanatory variable is the lagged ESG (L.ESG), which is used to predict discretionary accruals (AbsDA) in the current period. We reduce the sample to 11,419 observations due to the requirement for lagging the data. The regression results are shown in Table 6, Column (2). The coefficient for the lagged ESG variable is -0.001, which is significant at the 10% level, and it continues to show a negative relationship with discretionary accruals. This suggests that improvements in ESG performance have a long-term negative effect on discretionary accruals, thereby leading to higher audit quality over time. The results support the idea that the relationship between ESG performance and audit quality is not just short-term but extends over time.

4.4.3 Instrumental Variables

Although the use of lagged ESG performance as an explanatory variable helps mitigate the potential endogeneity caused by reverse causality, to further address the endogeneity issue between ESG ratings and discretionary accruals, and to strengthen the robustness of the results, this study follows the approach proposed by Shi and Jiang (2023) by using the industry-average ESG rating of peer companies (m_ESG) as an exogenous instrumental variable. A two-stage least squares (2SLS) regression analysis was conducted, and the results are presented in Columns (3) and (4) of Table 6.

In the first stage of the 2SLS, the regression coefficient of the industry average ESG rating (m_ESG) is significantly positively correlated with the company's ESG performance (ESG) at the 1% significance level, with a coefficient of 1.006 (t = 22.66). The F-statistic of 513.328 is well above the commonly accepted threshold of 10, indicating that the instrumental variable passes the weak instrument test and confirming the validity of the instrument chosen.
In the second stage of the 2SLS regression, the coefficient of ESG performance remains significantly negative at the 1% significance level, with a coefficient of -0.012 (t = -3.72), providing further evidence that ESG performance has a positive effect on audit quality, corroborating the results from the previous analyses.

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Table 6: Robustness Check

	Fixed Effects (1)	Lagged One Period (2)	2SLS First Stage	2SLS Second Stage
Variable	**AbsDA**	**AbsDA**	**ESG**	**AbsDA**
m_ESG			1.006*** (22.66)	
ESG	-0.001* (-1.54)			-0.012*** (-3.72)
L.ESG		-0.001* (-1.15)		
Size	0.001* (1.67)	0.000 (0.68)	0.216*** (25.71)	-0.004*** (-3.95)
Lev	0.021*** (4.91)	0.019*** (3.99)	-0.873*** (-14.46)	0.037*** (7.19)
ROA	-0.082*** (-6.50)	-0.096*** (-7.37)	2.102*** (11.87)	-0.095*** (-6.68)
Quick	-0.000 (-0.47)	0.000 (0.15)	-0.004 (-0.93)	-0.000 (-0.17)
Big4	0.002 (0.58)	0.001 (0.39)	0.036 (0.87)	0.002 (0.69)
Opinion	-0.015*** (-4.18)	-0.017*** (-4.56)	0.406*** (7.71)	-0.019*** (-4.74)
Loss	0.017*** (7.58)	0.016*** (6.91)	0.091*** (2.87)	0.013*** (5.61)
Indep	0.032*** (3.28)	0.035*** (3.53)	1.426*** (10.37)	0.008 (0.76)
Constant	0.045*** (3.22)	0.066*** (4.28)	-5.507*** (-20.85)	0.096*** (6.68)
N	12,565	11,419	12,565	12,565
adj. R^2	0.0433	0.0616	0.1380	0.0015

Note: *p<0.01, p<0.05, *p<0.1***

In summary, using the 2SLS method with an industry peer's average ESG rating as an instrumental variable further confirms that ESG performance has a significant, positive impact on audit quality. The findings from this approach strengthen the validity of the research and mitigate concerns about reverse causality and endogeneity, offering robust evidence for the positive role of ESG in improving audit quality.

5. CONCLUSION

This study conducts an empirical analysis of data from A-share listed companies in China between 2013 and 2023, exploring the relationship between ESG (Environmental, Social, and Governance) ratings and audit quality. The findings of this study are as follows:

1. Negative Correlation Between ESG Ratings and Discretionary Accruals
   The study finds a significant negative relationship between ESG ratings and discretionary accruals (AbsDA). Specifically, companies with higher ESG ratings tend to have lower discretionary accruals, which reflects higher audit quality. This conclusion is supported not only by descriptive statistics and correlation tests but also by regression analysis. Whether control variables are included or not, the relationship between ESG ratings and audit quality remains significant at the 1% level. This suggests that companies with higher ESG ratings are more likely to undergo high-quality external audits, which in turn reduces the discretionary accruals in financial statements.
2. Control Variables and Their Impact on Audit Quality
   Regarding control variables, the study finds that leverage (Lev), loss status (Loss), and the proportion of independent directors (Indep) are significantly positively correlated with discretionary accruals. This indicates that higher debt levels, the company's loss status, and a higher proportion of independent directors are negatively associated with audit quality. Conversely, return on assets (ROA) is significantly negatively correlated with discretionary accruals, suggesting that higher profitability contributes to better audit quality. Additionally, audit opinion type (Opinion) shows a significant negative correlation, with unqualified audit opinions associated with lower discretionary accruals, further supporting the importance of high-quality audit opinions in enhancing audit quality. These results highlight that, in addition to ESG ratings, a company's financial condition, governance structure, and the type of audit opinion also play crucial roles in influencing audit quality.
3. Robustness Checks
   To ensure the reliability and stability of the results, the study employs fixed effects models, lagged variables, and instrumental variable methods (2SLS) for robustness checks. These approaches consistently confirm the negative correlation between ESG ratings and audit quality, i.e., higher ESG ratings are associated with better audit quality.

Furthermore, while this study does not specifically analyze industry differences in depth, preliminary results suggest that the impact of ESG ratings on audit quality may vary across industries. For instance, certain industries may exhibit more pronounced effects of ESG practices on audit quality due to specific operational characteristics or regulatory

requirements. Future research could explore the industry-specific relationship between ESG ratings and audit quality, providing more detailed guidance for industry-specific practices.

6. Policy Recommendations

Based on the findings of this study, the following recommendations are made:

1. Enhance ESG Disclosure. Companies should prioritize the disclosure of ESG information, improving the quality and transparency of their ESG reports. High-quality ESG disclosures not only enhance a company's market image and social responsibility but can also indirectly improve the quality of external audits. Transparent ESG information helps auditors in assessing the company's governance and operational practices, thereby facilitating more accurate audit procedures (Kotsantonis & Serafeim, 2019).
2. Optimize Corporate Governance Structure. Corporate management should focus on the independence of the board of directors, increasing the proportion of independent directors to enhance the overall governance quality of the company. Additionally, companies should strengthen financial risk management, particularly for those with high leverage, by adopting measures to reduce financial leverage. This will mitigate potential audit risks and contribute to the company's long-term sustainability (Chen & Wang, 2021).
3. Improve Profitability. Firms should strive to enhance their profitability, as a higher return on assets (ROA) is associated with better audit quality. By improving operational efficiency and controlling costs, companies can achieve higher profitability, which, in turn, promotes better audit quality. Strengthening profitability should be viewed as an integral component of both financial performance and governance practices (García-Sánchez et al., 2020).
4. Select Appropriate Auditing Firms. Although the presence of the Big Four auditing firms does not have a significant direct impact on audit quality, companies should still consider selecting reputable and professional auditing firms for their annual audits. This ensures the fairness and accuracy of the auditing process. Choosing an auditing firm with a strong reputation and expertise can enhance the credibility of the company's financial statements and its governance practices (DeFond & Zhang, 2014).
5. Continuous Monitoring and Improvement. Companies and regulatory bodies should continuously monitor changes in ESG ratings and adjust relevant policies and practices based on the latest research outcomes. Additionally, regular internal and external audits should be conducted to ensure ongoing improvements in auditing processes and methodologies. This ensures that companies remain compliant with evolving standards and best practices (Hansen et al., 2021).
6. Industry-Specific Strategies. Given that different industries face distinct ESG challenges and auditing needs, companies should develop ESG strategies and audit plans that are tailored to their specific industry characteristics. Industry associations and regulatory agencies should also provide industry-specific guidance and support, helping companies implement ESG practices effectively within their respective sectors. Tailored strategies can improve both ESG performance and audit quality by addressing the unique operational and regulatory conditions of each industry (Kotsantonis & Serafeim, 2019).

By following these recommendations, companies can strengthen their ESG practices and improve audit quality, thereby contributing to more transparent and reliable financial reporting. Future research could further examine how these strategies are implemented in different industry contexts, offering more practical insights into the relationship between ESG and audit quality.

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