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Analysis on the Linkage Between ESG Disclosure and Audit Quality from the Perspective of Corporate Governance

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ABSTRACT

The disclosure of ESG information is gradually shifting from a voluntary practice to an institutional obligation. This has expanded the information border of organisations and has resulted in changes in the structure of corporate governance. In April 2024, the Shanghai, Shenzhen and North Stock Exchanges released Guidelines for Sustainable Development Reports of Listed Companies. In 2025, China Securities Regulatory Commission (CSRC) respectively updated the information disclosure and governance rules, which put sustainable development reports in the required disclosure scope. As of the end of 2025, 1,869 listed companies produced sustainability reports, representing 34.7% of all listed companies and over 70% of total market capitalisation. Of them, 67.3% had built governance structures and 44.0% had defined quantitative targets. In July 2025, the Chinese Institute of Certified Public Accountants released the draft of the "Guidelines for Sustainable Information Assurance" to create a regulatory basis for non-financial information assurance. From the perspective of corporate governance, the relationship between the two is an integrated governance loop, not a one-way flow of information, in three ways: optimising the information environment, changing the governance structure, and implanting the audit mechanism. Information disclosure minimises information asymmetry in audits. The assurance system creates a new layer of supervision for non-financial information assurance. They are mutually reinforcing and together offer an interactive system for governance through transparency and disclosure through auditing.

KEYWORDS

ESG information disclosure; Audit quality; Corporate governance; Third-party assurance; Linkage mechanism

1. INTRODUCTION

ESG is a concept introduced by the UN Global Compact in 2004. In the last two decades it has transformed from corporate social responsibility to the core investing paradigm of the world's capital markets. In recent years, the development of ESG information disclosure in China has accelerated. In April 2024, the three major stock exchanges in Shanghai, Shenzhen and Beijing issued the "Guidelines for Sustainable Development Reports of Listed Companies", which, at the level of self-regulation of the exchanges, for the first time established a disclosure framework of 21 issues from the three dimensions of environment, society and governance. In 2025, the CSRC successively amended the "Measures for Information Disclosure of Listed Companies" and the "Corporate Governance Guidelines for Listed Companies", therefore putting the report on sustainable development into the mandatory disclosure system of information disclosure of listed companies. 2026 is the first year of ESG information disclosure of A-share market, and the first batch of mandatory disclosure organisations are due to release the 2025 sustainable development report by April 30. The publication of ESG information has been elevated from the voluntary social

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responsibility practice of corporations to the legal obligation under the securities regulatory framework.

The new issues are brought to the traditional problem of audit quality in corporate governance by the quick development of information disclosure system. When ESG information is brought within the scope of mandatory disclosure, auditors now have to deal with financial data and also multi-dimensional information in the areas of environment, society and governance. In July 2025, the Chinese Institute of Certified Public Accountants published for the first time the "Sustainable Information Assurance Business Standard No. X—Basic Standards (Draft for Comment)", which systematically outlined the requirements for third-party assurance services of sustainable information. There is an increasing number of studies that have explored the relationship between ESG performance and audit conduct, but most of them assume a one-way causal relationship and pay less attention to their intrinsic link in the systemic framework of corporate governance [1]. This research contends that the relationship between the two is not a one-way spillage of information but a governance loop comprised by three paths: optimisation of information environment, reshaping of governance structure and embedding of audit mechanisms. This framework may be utilised to understand the governance logic of the current institutional structure, and also can provide theoretical reference for the ESG system to progress from the framework establishment to the quality enhancement stage.

2. INSTITUTIONAL LOGIC OF ESG INFORMATION DISCLOSURE AND ITS GOVERNANCE EMBEDDEDNESS

Building the ESG information disclosure system is not a passive reaction to international trends. This strategy, in the scope of the corporate governance, essentially demands the rebuilding of the internal governance structure of enterprises.

The "Guidelines" set the strict lower limit and the "Preparation Guidelines" serve as the flexible guideline, thereby establishing a two-tier system of regulation. The "Guidelines" describe the extent of disclosure entities, the issue framework and basic requirements. The "Preparation Guidelines" are operational and give methodological references. On January 30, 2026, Shanghai, Shenzhen and North Exchanges announced the modified "Guidelines", and added three specific application Guidelines, "No. 3: Pollution Emission", "No. 4: Energy Utilisation" and "No. 5: Water Resource Use". A total of 1,869 listed companies issued their 2024 sustainability reports, with a total disclosure rate of 34.7%, and the total market value accounted for about 70% of the total market value, according to the CSRC in 2025. This implies the evolution of ESG information disclosure from an individual behaviour to a systematic structure with extensive coverage.

Two aspects of the "Guidelines" are of particular significance for governance. Article 4 Before the disclosure of the sustainability report, the board of directors shall conduct review and approval of the sustainability report, and the final review shall be undertaken by the board of directors. Article 12 mandates that the disclosure body set up a complete governance structure and internal mechanism for important institutions to have the professional capability to identify, assess, manage and supervise risks of sustainable development. Therefore, these requirements brought the ESG concerns to the realm of the board's decision-making and supervision responsibilities, which stimulate enterprises to build a comprehensive governance chain from the strategic plan and risk identification to information disclosure [2].

The value of ESG information disclosure is not only the inclusion of non-financial information in the financial reporting. The introduction of disclosure obligations will inevitably lead companies to adapt internal governance structures, including the allocation of ESG responsibilities between the board of directors, management and executive levels, the creation of cross-departmental coordination mechanisms and internal process controls for data collection, assurance and reporting. The

implementation of this paradigm will effect not just the disclosure of ESG information but also the whole corporate governance structure. The ESG information disclosure system, through the setting of disclosure responsibilities, indirectly promotes the reform of the corporate governance structure, and this governance embedding aspect provides an institutional support for the linkage between ESG information disclosure and audit quality [3].

3. OPTIMIZATION OF THE INFORMATION ENVIRONMENT: HOW ESG DISCLOSURE CREATES CONDITIONS FOR AUDIT QUALITY

Once the governance embedding part of the ESG disclosure is established, the question to be asked is: What impact does this institutional structure have on audit quality? Research shows that the most direct transmission channel is the optimising of the information environment.

The quality of the audit is determined by the knowledge of the auditor about the operating conditions and the risk status of the companies. The more information available, the more precise the design of the audit program and the more accurate the audit conclusions can be. The information basis of conventional financial audit is mainly financial statements and notes. This method is constrained by accounting laws and it has defects in reflecting the business picture of organisations. The inclusion of ESG information expands the information boundary for auditors in three dimensions.

First of all, ESG data provides another set of references for risk detection and financial indicators. Non-financial indicators such as carbon emission intensity, pollution discharge compliance record, staff turnover rate, supplier stability, independence of board of directors, and anti-corruption policies represent the operational substance of enterprises from many perspectives. Such information could be critical proof of cross-validation for auditors in analysing sustainability of operations or identifying risks of material misrepresentation.

Second, the act of disclosure itself provides cues. The integrity of management in risk assessment has long been a basic tenet of audit theory. The manipulation of information can also occur in the domain of financial reports, where a company selectively discloses positive information and hides bad information in ESG reporting. This judgement has been confirmed by empirical studies: Based on the sample of A-share listed organisations from 2009 to 2022, the research finds that the development of ESG performance can increase the quality of audit. The basic mechanism is that the organisations with better ESG performance tend to have higher levels of information disclosure and transparency, and the information asymmetry faced by auditors is reduced correspondingly [4].

Thirdly, the quality of ESG disclosure affects the allocation of audit resources. Studies have shown that the quality of ESG disclosure and abnormal audit fees are inversely related, the more comprehensively revealed, the less additional audit investment auditors reserve to cope with the uncertainties. The economic argument is that adequate ESG disclosure can decrease the agency cost and operational risk of the firm, and the auditors do not need to spend too much time to remedy information gaps [5]. But this improvement in efficiency indicates no increase in audit quality, but that auditors are able to focus their attention on high-risk areas.

The analysis of the three dimensions shows that when ESG information comes into the sight of the auditors, the reconfiguration of the information environment goes beyond the simple addition of information, and thus has changed the design of the audit procedures and the allocation of the audit resources.

4. GOVERNANCE STRUCTURE IMPETUS: REVERSE SHAPING OF ESG DISCLOSURE BY HIGH-QUALITY AUDIT

If the information environment optimisation theme is about how ESG disclosure facilitates audit, then the governance structure impulse is about how audit activities reverse-shape the ESG disclosure of corporations.

The shaping effect of high quality audit is mostly from the pressure of external monitoring. Risk issues at the ESG level, for example, the penalties and litigations associated with environmental compliance issues, the compensation and recalls associated with product safety issues, and related-party transactions behind governance failures, will be discovered by auditors who are naturally trained to do so in regular financial audits. The audit report of the auditors with the going concern issue of the entity or disclosure of ESG-related risks in the major audit concerns section, is free of bias and gives warning signals at the governance level. Once these signals are received, firms are exposed to higher scrutiny by investors and creditors, which creates an internal impetus for the improvement in the quality of ESG disclosure.

The audit committee operates as a link between internal governance and the external audit, as a channel for information flow and supervisory behaviour. Empirical studies on A-share listed companies in 2014-2020 shown that the better the performance of the audit committee, the higher the quality of the ESG disclosure of the companies [6]. The scope of monitoring can be extended to the ESG field if the audit committee has the professional competence and takes actively participation. It supports companies' increased focus on ESG issues and standardisation of ESG disclosure via oversight of internal control and risk management.

Also, there is an interaction between the methods of governance. Some research have found that both ESG performance and the quality of internal control can help increase audit quality, although there is a substitution impact between the two. Enterprises with superior internal control show the minimal marginal contribution of ESG performance to audit quality while enterprises with inadequate internal control show more salient governance signals carried by ESG information [7]. This demonstrates that the strength of association between ESG information and audit quality is not fixed and varies considerably across the diversities of governance bases of organisations.

High-quality audit reverses the shaping of ESG disclosure along a defined transmission line Auditors' awareness of and disclosure of ESG concerns signals governance weakness to the market. This pressure is conveyed by the market through stock price, financing cost and other channels, and finally stimulates the firms to extend the governance investment of ESG disclosure. The efficacy of the functioning of this chain depends on the development of the audit market and the pricing efficiency of ESG information in the capital market.

5. EMBEDDING OF THE ASSURANCE SYSTEM: THIRD-PARTY ASSURANCE AS THE INSTITUTIONALIZED HUB OF THE LINKAGE

In addition to the above information effect and governance effect, the institutionalised connecting mechanism of third-party assurance between ESG information disclosure and audit quality is highlighted.

For a long time, there has been no unified standard for assurance of ESG information in China, which has reduced the trustworthiness of the information. Assurance providers employ multiple frameworks, like ISAE3000 and AA1000, therefore there is no comparability of assurance processes and results. Some assurance reports of enterprises are "stamped reports", i.e., assurance procedures are formally conducted, but the actual provision of significant guarantees is not present.

In July 2025, the Chinese Institute of Certified Public Accountants (CICPA) published a draft of the standards for sustainable information assurance company for public opinions. This study is based on the basic framework of international sustainability assurance standard ISSA 5000 and integrated with the current situation of China's sustainable information disclosure and assurance in the beginning stage. It defines the exact legal standards for the assessment of dual significance, the assurance of value chain information and the competence of experts, thus creating a common operating framework for the sector. The standard system is composed of three layers, including fundamental standards, specialised standards and application Guidelines, to built a complete assurance norm framework.

Third-party assurance plays a hub function in the following domains.

First, the impact of knowledge spillover Where the annual report audit and ESG assurance are carried out by the same accounting firm, the industry expertise and risk assessment experience of the latter will be translated to the financial statement audit [8]. For example, in the assurance of carbon emissions of manufacturing enterprises, the information obtained by the auditor in the assurance process, such as process characteristics, energy consumption structure and the operation of environmental protection facilities, can be used to more accurately assess the provisions related to environmental compliance matters and thus improve the risk identification ability.

Secondly, the reputation building effect. The accounting firm's professional standing in sustainable development, earned by providing ESG assurance, will be passed on to the regular audit business by means of the internal quality control system [9]. This accumulation of reputation does not directly impact the specific audit procedures, but it indirectly spurs the betterment of the quality of traditional audit company by altering the quality culture and risk mentality of the accounting firm.

Third, the independence restriction; The draft for comments explicitly requires the competency of the project partner in the sustainable information and the assurance business meets the independence standards. Many organisations use the same firm to undertake their annual audit and then their ESG assurance. This enables the spread of knowledge but also has independent dangers. The challenge the design of assurance system should address is how to balance the synergy effect and independence.

6. TENSION IN THE LINKAGE: REALISTIC CONSTRAINTS ON INSTITUTIONAL COLLABORATION

The above study has theoretically revealed the complete picture of the relationship between ESG information disclosure and audit quality. However, several practical restrictions of the correct operation of this logical chain still exist, which not only weaken the linkage effect but also indicate the direction of institutional optimisation.

The first constraint is the rapid growth in the volume of disclosures yet the quality amelioration is lagging. The rate of disclosure coverage is at 34.7%. 67.3% of the declared corporations have governance structures and revealed quantifiable sustainable goals whereas only 44.0% of the revealed enterprises have shown so. Cross-national study has indicated that while the length of Environmental and Social (E&S) disclosures has increased substantially, the use of template language has also increased, while the specific content and the quality of the information have decreased [10]. Many reports are more slogans than substance. The amount of decision beneficial information that auditors can access is quite limited.

The second limitation is the lack of professional skills of auditors to meet the standards. ESG information includes various areas such as environment, society and governance and these concerns are outside the scope of traditional audit competence. At now, the talent structure of most local accounting companies is still dominated by financial auditors, while the proportion of interdisciplinary talents such as environmental engineering and social impact assessment is rather

modest. Assurance standards need competence but there is still a large gap between what the regulations state should be done and what is really done.

Thirdly, there is no internal incentive for corporations to enhance the quality of disclosures. In the current institutional setting, corporations mostly reveal ESG data to comply with regulations, not because the market recognises that this is a matter that can add value. Some organisations even dissociate it as a form of brand promotion [11]. There is still no good feedback mechanism in the market for high-quality ESG information, and the willingness of firms to improve continually has also been reduced.

The regulatory bodies have addressed the two links of disclosure and assurance in separate responses. The CSRC said that it will "continuously summarise the best practices of listed companies and strengthen the dynamic assessment of the Guidelines". The draft of the Chinese Institute of Certified Public Accountants' assurance standards, while borrowing the ISSA 5000 framework, also takes into account the reality that the sustainable information disclosure and assurance in China are still in the initial stage. But better rules alone won't be enough to handle all challenges. It needs the cooperation of the education system for the professional capacity creation, the gradual formation of agreement in the market for the optimisation of incentive mechanisms, and the time for the integration and adjustment among different systems.

7. CONCLUSION

The corporate governance framework presents an analytical framework to explore the relationship between ESG disclosure and audit quality. The paper's research finds that the two are not a one-way transmission of incremental knowledge, but the interwoven link created in the governance structure. On the information path, ESG disclosure enriches the information sources of auditors and improves the information foundation of risk assessment; on the governance path, the quality of audit influences the disclosure behaviour of enterprises through the transmission of external pressure and the mediating role of the audit committee; on the assurance path, third-party assurance strengthens the correlation effect of the former two paths, and knowledge spillover and reputation accumulation act as bri The assurance effect is more similar to the institutionalised form of the information impact and the governance effect among the three, which is consistent with the analytical framework of the third to fifth chapters of this study.

Note that the exact implementation of the linking relation above is not determined. The level of internal control of organisations, the development stage of audit market and the price strategy of ESG information by the capital market will vary the direction and strength of link. Without these specific conditions it is difficult to make a general judgement about the connection between the two.

There are a lot of policy directions worth looking at. The audit evaluation framework incorporates ESG information quality that can assist auditors to systematically analyse such information in risk assessment. The assurance standards should be applied earlier to unify the operational standards and to increase the comparability of the findings. To overcome the deficiencies of interdisciplinary competencies, the audit professional education needs to be enriched with important contents of sustainable development. The market level feedback system should be built, so that high-quality disclosure can get real market recognition and generate a virtuous interaction of "disclosure-audit-market".

This research is a theoretical analysis, thus it just studies the mechanism, does not further distinguish different industries and different scale enterprises, and does not use big sample data to verify the above statement. Future research can pursue similar lines and include empirical approaches to address specific issues in the implementation process of the standards.

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