Digital Transformation and ESG Disclosure: Antecedents of Audit Quality and Its Consequences on Financial Reporting Quality

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Abstract

Purpose: This study aims to analyze the effect of digital transformation and Environmental, Social, and Governance (ESG) disclosure on financial reporting quality, with audit quality as a mediating variable in manufacturing companies listed on the Indonesia Stock Exchange for the 2023-2025 period.
Design/methodology/approach: The study used a quantitative approach with panel data obtained from 72 manufacturing companies over three years of observation, resulting in 216 observations. Data analysis was conducted using EViews through panel data regression model selection, hypothesis testing, and Sobel mediation test.
Findings: The results of the analysis indicate that digital transformation and ESG disclosure have a positive and significant effect on audit quality. In addition, digital transformation, ESG disclosure, and audit quality also have a positive and significant effect on financial reporting quality. The mediation test shows that audit quality partially mediates the relationship between digital transformation and financial reporting quality and the relationship between ESG disclosure and financial reporting quality.
Practical Implications: These findings indicate that increased corporate digitalization and transparency of ESG disclosure, supported by good audit quality, can improve financial reporting quality.
Originality/value: This research provides practical implications that manufacturing companies need to strengthen investments in digital transformation, improve the quality of ESG disclosures, and maintain audit quality to produce higher-quality, transparent, and credible financial reporting.
Paper type: Empirical.
Keywords: Digital Transformation, ESG Disclosure, Audit Quality, Financial Reporting Quality, Manufacturing Companies.

1. Introduction

Finance is a fundamental aspect of corporate sustainability because it serves as the basis for decision-making for investors, creditors, regulators, and other stakeholders. As the digital economy evolves, companies are required to produce transparent, accurate, and reliable financial information to build market trust. Digital transformation has transformed business processes and accounting systems through the use of digital technology, while demands for sustainable business practices are driving companies to improve the quality of Environmental, Social, and Governance (ESG) disclosures. Both aspects are believed to strengthen corporate governance while improving the quality of published financial information (Wang et al., 2023; Serly et al., 2025).

The quality of financial reporting is becoming an increasingly important topic because financial reports are the primary medium for communicating a company's economic condition to users. Quality financial reports must be relevant, reliable, comparable, and timely, thereby reducing information asymmetry. Various studies have shown that financial reporting quality is influenced by the effectiveness of corporate governance, the implementation of digital technology, audit quality, and the quality of sustainability reporting (ESG), which is increasingly attracting global investor attention.

Manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2023-2025 period were selected for this study because the manufacturing sector is the largest contributor to market capitalization and has complex operational activities. This complexity increases the risk of financial statement misstatements, requiring companies to have better internal control systems, audit quality, and

ESG transparency. Furthermore, the implementation of digitalization in the manufacturing sector is growing rapidly as part of the transformation towards a technology-based industry.

Studies have shown that digital transformation can improve the efficiency of reporting processes, while ESG disclosures strengthen corporate transparency and accountability. However, the benefits of both factors are highly dependent on audit quality, which plays a role in ensuring the fairness of financial reports before publication. Therefore, audit quality is suspected to be a crucial mechanism bridging the relationship between digital transformation and ESG disclosure and financial reporting quality.

An initial survey of annual reports of manufacturing companies on the IDX shows that the level of digitalization, comprehensiveness of ESG disclosures, and the use of high-quality public accounting firms still vary across companies. Some companies have implemented digital systems and published comprehensive sustainability reports, while others still show limited disclosure, potentially impacting the credibility of financial information.

This phenomenon indicates that despite the continued development of regulations regarding sustainability reporting and digital transformation, the quality of financial reporting among manufacturing companies remains inconsistent. Differences in technology adoption rates, audit quality, and ESG disclosure indicate ongoing implementation gaps that require further study. Therefore, this study aims to analyze the effect of digital transformation and ESG disclosure on financial reporting quality, with audit quality as a mediating variable, in manufacturing companies listed on the Indonesia Stock Exchange for the 2023-2025 period. This research is expected to contribute to the development of accounting literature, audit practices, and corporate decision-making in improving financial reporting quality.

Based on these conditions, several issues still require attention, including the uneven implementation of digital transformation in manufacturing companies, low consistency in ESG disclosures, and differences in audit quality that could potentially impact the quality of financial reporting. These variations result in information presented to stakeholders not fully reflecting corporate transparency and accountability. Therefore, research is needed to examine how digital transformation and ESG disclosure affect financial reporting quality through the mediating role of audit quality in manufacturing companies listed on the Indonesia Stock Exchange.

Research shows that digital transformation contributes to improving the quality of financial reporting through accounting process efficiency, increased transparency, and strengthened internal controls (Kerrouche & Belouadah, 2025). ESG disclosure has also been shown to increase the credibility of financial information by promoting corporate transparency and accountability (Ningsih & Maryanti, 2025). Furthermore, digital transformation can strengthen audit quality through the use of digital audit technology and data analytics (Judijanto et al., 2023), while ESG implementation supports the effectiveness of the audit process through better governance (Pramono et al., 2023). Other research shows that audit quality positively influences financial reporting quality by reducing the risk of material misstatement (Manik, 2026; Asmira & Sulkiah, 2025). These findings indicate that audit quality has the potential to mediate the relationship between digital transformation and ESG disclosure on financial reporting quality in manufacturing companies listed on the IDX.

Although various studies have examined the relationship between digital transformation, ESG disclosure, audit quality, and financial reporting quality, the results remain inconsistent. Some studies find a significant effect, while others indicate a weak effect or one that depends on company characteristics. Furthermore, research integrating these four variables into a single mediation model for manufacturing companies in Indonesia is still relatively limited, particularly for the 2023-2025 period.

The novelty of this research lies in the development of a model that integrates digital transformation and ESG disclosure as antecedents, audit quality as a mediating variable, and financial reporting quality as a consequential variable within a single research framework. Focusing on manufacturing companies listed on the Indonesia Stock Exchange for the 2023-2025 period also provides more up-to-date empirical evidence on the implementation of digitalization and ESG practices in improving financial reporting quality.

E-ISSN: XXX-XX

2. Literature Review and Hypotheses Development

Digital Transformation and Financial Reporting Quality

Digital transformation encourages companies to optimize accounting information systems, automate business processes, and manage data in real time. The implementation of digital technology can improve the accuracy, timeliness, and transparency of financial report presentation, thereby improving the quality of financial reporting. Digitization also strengthens internal controls and reduces the potential for recording errors and data manipulation. Therefore, the higher the level of digital transformation in a company, the better the quality of its financial reporting (Kerrouche & Belouadah, 2025; Huang et al., 2025).

H_1: It is suspected that there is a significant direct influence between Digital Transformation on the Quality of Financial Reporting in Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX) for the 2023-2025 Period.

ESG Disclosure, Audit Quality, and Financial Reporting Quality

Environmental, Social, and Governance (ESG) disclosure demonstrates a company's commitment to implementing sustainable and responsible business practices. Comprehensive ESG disclosure increases company transparency, making it easier for auditors to conduct audits. A quality audit will enhance the credibility of financial reports by reducing the risk of material misstatement. Therefore, ESG implementation is expected to contribute to improving audit quality and financial reporting quality (Lulaj & Brajkovićc, 2025; Lu et al., 2024).

H_2: It is suspected that there is a significant direct influence between ESG Disclosure and Financial Reporting Quality in Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX) for the 2023-2025 Period.

H_4: It is suspected that there is a significant direct influence between ESG Disclosure and Audit Quality in Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX) for the 2023-2025 Period.

Digital Transformation and Audit Quality

The development of digital technology has transformed the audit process, making it more effective through the use of audit analytics, artificial intelligence, and continuous auditing. Auditors can obtain audit evidence more quickly, accurately, and comprehensively, thereby improving audit quality. In addition to accelerating the audit process, digital transformation also helps auditors detect transaction anomalies and reduce audit risk. Therefore, companies with high levels of digital transformation tend to produce better audit quality (López-Lluch et al., 2024; Judijanto et al., 2023).

H_3: It is suspected that there is a significant direct influence between Digital Transformation on Audit Quality in Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX) for the 2023-2025 Period.

The Role of Audit Quality in Improving the Quality of Financial Reporting

Audit quality is a critical factor determining the reliability of financial reports. A quality audit provides assurance that financial reports have been prepared in accordance with accounting standards and are free from material misstatement. Furthermore, digital transformation and ESG disclosure can enhance the effectiveness of the audit process, potentially enabling audit quality to act as a mediating mechanism for improving financial reporting quality. Therefore, audit quality is expected to strengthen the relationship between digital transformation, ESG disclosure, and financial reporting quality (Baharom, 2025; Singhania et al., 2025).

H_5: It is suspected that there is a significant direct influence between Audit Quality on Financial Reporting Quality in Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX) for the 2023-2025 Period.

H_6: It is suspected that there is a significant indirect influence between Digital Transformation on Financial Reporting Quality through Audit Quality in Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX) for the 2023-2025 Period.

H_7: It is suspected that there is a significant indirect effect between ESG Disclosure on Financial Reporting Quality through Audit Quality in Manufacturing Companies Listed on the Indonesia Stock Exchange (IDX) for the 2023-2025 Period.

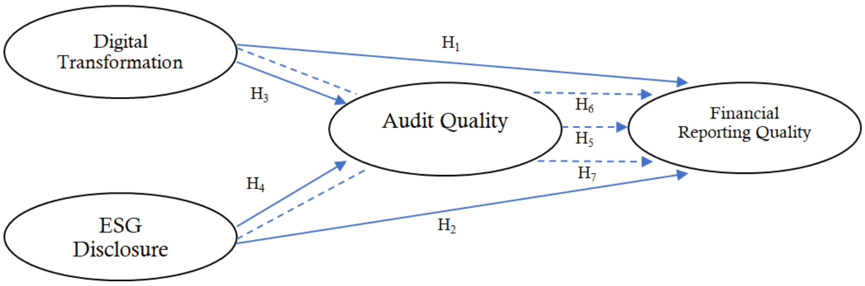

Figure 1. Conceptual Framework
Source: Authors' own creation

3. Research Method

This study uses a quantitative approach to examine the causal relationship between digital transformation, Environmental, Social, and Governance (ESG) disclosure, audit quality, and financial reporting quality in manufacturing companies listed on the Indonesia Stock Exchange (IDX). The quantitative approach was chosen because it can objectively explain the relationships between variables through statistical analysis. According to Wibowo (2024), quantitative research provides more measurable results in hypothesis testing, while Fang et al. (2024) state that the use of panel data analyzed with EViews can produce more accurate estimates in accounting and finance research.

Research Approach

This research is an explanatory research (*explanatory research*) which aims to explain the causal relationship between research variables. According to Kerrouche and Belouadah (2025), explanatory research is highly suitable for analyzing the influence of digital transformation on financial reporting quality because it can empirically test causal relationships. Meanwhile, Li et al. (2024) explain that a quantitative approach using panel data provides more comprehensive results in evaluating the implementation of digital transformation and ESG disclosure in companies. The research data consists of secondary data derived from annual reports (*annual report*), sustainability reports, and financial reports of manufacturing companies listed on the Indonesia Stock Exchange for the 2023-2025 period.

Research Time

The research was conducted from January to March 2026. In January, problem identification, sampling, and secondary data collection were conducted. February focused on data processing using Microsoft Excel and EViews 13, while March was used for interpreting the analysis results, testing hypotheses, compiling the discussion, and finalizing the research report. According to Kerrouche and Belouadah (2025), systematic research stages will improve the quality of research results, while Li et al. (2024) emphasized that a structured analysis process provides a better level of reliability and validity in empirical research in accounting and finance.

Population and Sample

The study population was all manufacturing companies listed on the Indonesia Stock Exchange during the 2023-2025 period. The sampling technique used was*purposive sampling*Purposive sampling, which is the selection of samples based on specific criteria to align with the research objectives. This research sample was taken from manufacturing companies over three years of observation, resulting in 216 observations. According to Adianto and Choiriah (2025), purposive sampling is able to produce representative samples in accounting research because it considers the completeness of company data. Sholekha and Astuti (2024) state that selecting companies that consistently publish financial reports and sustainability reports will increase the validity of the research results. The sample criteria include companies that published complete financial reports during the research period, have not been delisted, and have data on digital transformation, ESG, audit quality, and financial reporting quality.

Data Types and Sources

This study uses secondary data obtained through documentation of annual reports, sustainability reports, independent auditor reports, and publications of the Indonesian Stock Exchange (www.idx.co.id [2024]). According to Liu et al. (2024), secondary data is a relevant source of information for measuring a company's digitalization and ESG implementation. Furthermore, Tian et al. (2024) explain that the use of panel data allows researchers to observe changes in company behavior over time, thus making the analysis results more reliable. The digital transformation variable is measured using the company's digitalization indicator, ESG disclosure using the ESG disclosure index, audit quality is proxied by the quality of the Public Accounting Firm, while financial reporting quality is measured based on the accounting information quality indicator.

Data Analysis Techniques

Data processing was performed using EViews 13. The analysis stages included descriptive statistics, multicollinearity tests, heteroscedasticity tests, autocorrelation tests, and panel data regression model selection using the Chow Test, Hausman Test, and Lagrange Multiplier Test. According to Wibowo (2024), these stages are necessary to determine the best estimation model between the Common Effect Model, Fixed Effect Model, or Random Effect Model. Furthermore, Fang et al. (2024) explained that hypothesis testing was conducted using the t-test, F-test, coefficient of determination (Adjusted R^2), and mediation analysis using the Sobel Test to determine the role of audit quality as a mediating variable in the relationship between digital transformation and ESG disclosure on financial reporting quality.

4. Result and Discussion

Research result

This study aims to examine the effect of digital transformation and ESG disclosure on audit quality and its implications for financial reporting quality in manufacturing companies listed on the Indonesia Stock Exchange for the 2023-2025 period. The analysis was conducted using panel data regression with a Fixed Effect Model (FEM) approach, selected based on the Chow Test, Hausman Test, and Lagrange Multiplier Test. Prior to hypothesis testing, all instruments met the requirements for validity, reliability, and classical assumptions, thus establishing a suitable research model for examining the relationships between variables.

Table 1. Descriptive Statistics Results of Research Variables

Variable	Mean	Median	Max	Min	Std. dev.
Digital Transformation	3.748	3.760	4.910	2.010	0.526
ESG Disclosure	3.521	3.540	4.820	2.140	0.488
Audit Quality	3.882	3.890	4.980	2.260	0.441
Financial Reporting Quality	3.914	3.940	4.960	2.180	0.452

Source: Research data processed using EViews (2026).

Table 1 shows that all variables have an average value above 3.50, indicating that manufacturing companies are relatively well-performing in implementing digital transformation, ESG disclosure, audit quality, and financial reporting. The financial reporting quality variable has the highest average value of 3.914, while ESG disclosure has the lowest average value of 3.521. The standard deviation values for all variables are below the average, indicating relatively homogeneous data distribution and no significant variation between companies during the observation period.

Prior to the regression analysis, the research instrument was tested for validity and reliability. All indicators had loading factor values above 0.70, while the Cronbach Alpha, Composite Reliability, and Average Variance Extracted (AVE) values met the minimum required threshold. These results indicate that all constructs are able to consistently measure the research variables. Furthermore, the classical assumption test showed that the data were normally distributed based on the Jarque-Bera value of 2.381 with a probability of 0.304. The White Test produced a probability of 0.211, indicating that the model was free from heteroscedasticity, while the LM Test of 0.311 indicated no autocorrelation. The Variance Inflation Factor (VIF) values for all variables were also below 10, indicating no signs of multicollinearity.

Based on the panel data model selection results, the Chow Test yielded a probability of 0.0000, indicating that the Fixed Effects model was superior to the Common Effects Model. The Hausman Test also showed a probability of 0.0030, confirming the use of the Fixed Effects Model. Although the LM Test indicated that the Random Effects model was superior to the Common Effects model, the Hausman Test results were the final basis for determining that the Fixed Effects Model was the most appropriate model for use in this study.

Table 2. Regression Results of the Effect of Digital Transformation and ESG on Audit Quality

Variable	Coefficient	t-Statistic	Probability
Permanent	1.1285	2.738	0.0068
Digital Transformation	0.4362	7.989	0.0000
ESG Disclosure	0.3178	5.165	0.0000
R^2	0.684		
Adjusted R^2	0.679		
F-statistic	230.41		0.0000
Durbin-Watson	2.01		

Source: The research data was processed using EViews (2026).

The regression results in Table 2 show that digital transformation has a positive and significant effect on audit quality, with a coefficient of 0.4362 and a probability of 0.0000. This indicates that the higher the level of a company's digital transformation, the better the audit quality. ESG disclosure also has a significant positive effect on audit quality, with a coefficient of 0.3178 and a probability of 0.0000. The coefficient of determination of 0.684 indicates that 68.4% of the variation in audit quality can be explained by digital transformation and ESG disclosure, while the remainder is influenced by other factors outside the research model.

Table 3. Regression Results of the Effect of Digital Transformation, ESG, and Audit Quality on Financial Reporting Quality

Variable	Coefficient	t-Statistic	Probability
Permanent	0.8456	2.601	0.0100
Digital Transformation	0.2824	4.615	0.0000
ESG Disclosure	0.2448	4.214	0.0000
Audit Quality	0.3986	6.159	0.0000
R^2	0.738		
Adjusted R^2	0.734		
F-statistic	198.73		0.0000
Durbin-Watson	2.07		

Source: The research data was processed using EViews (2026).

Table 3 shows that all independent variables have a positive and significant effect on financial reporting quality. Digital transformation has a coefficient of 0.2824 with a probability of 0.0000, while ESG disclosure has a coefficient of 0.2448 with a probability of 0.0000. Audit quality is the variable with the largest influence on financial reporting quality, with a coefficient of 0.3986. The coefficient of determination of 0.738 indicates that the model is able to explain 73.8% of the variation in financial reporting quality, thus offering excellent predictive power.

In addition to testing the direct effect, this study also tested the indirect effect using the Sobel Test. The results show that the relationship between digital transformation and financial reporting quality through audit quality produces a Sobel Z value of 4.32 with a probability of 0.0000. The indirect effect value of 0.1739 indicates that audit quality is able to partially mediate the relationship. Furthermore, the ESG disclosure pathway to financial reporting quality through audit quality produces a Sobel Z value of 3.56 with a probability of 0.0004 and an indirect effect value of 0.1267. Thus, audit quality is also proven to be a partial mediator in the relationship between ESG disclosure and financial reporting quality.

Based on the overall results of the hypothesis testing, all research hypotheses were accepted. Digital transformation and ESG disclosure were shown to have a positive effect on both audit quality and financial reporting quality. Furthermore, audit quality had a significant direct effect on financial reporting quality and acted as a partial mediator in both relationships. These findings suggest that increased business process digitalization and ESG transparency will be more effective in improving financial reporting quality when supported by high audit quality.

Discussion

The results of the hypothesis testing indicate that all relationships between variables in this study are significant. Digital transformation and Environmental, Social, and Governance (ESG) disclosure play a role in improving audit quality and financial reporting quality. Furthermore, audit quality is also proven to be a mediating variable, strengthening the relationship between digital transformation and ESG disclosure on financial reporting quality. A discussion of each hypothesis is described below.

The Impact of Digital Transformation on the Quality of Financial Reporting (H_1)

The test results show that digital transformation has a positive and significant effect on the quality of financial reporting, with a regression coefficient of 0.2824 and a probability value of 0.0000, thus accepting the first hypothesis. This finding indicates that increasing the implementation of digital transformation can improve the quality of financial reporting in manufacturing companies. The use of digital technologies, such as Enterprise Resource Planning (ERP), cloud computing, big data analytics, and artificial intelligence, accelerates the accounting data processing process, resulting in more accurate, relevant, timely, and reliable financial information. Digitalization also strengthens the internal control system, reducing recording errors and the risk of financial report manipulation. This condition increases investor and stakeholder confidence in the information presented by the company.

The results of this study support the research of Kerrouche and Belouadah (2025), who stated that digital transformation improves the quality of financial reporting by increasing the efficiency of accounting information systems and internal controls. This finding is also consistent with Huang et al. (2025), who explained that corporate digitalization can improve the transparency and quality of financial information. Furthermore, Asmira and Sulkiah (2025) found that the implementation of accounting digitalization has a positive impact on the quality of financial reports by increasing the accuracy and effectiveness of the reporting process. Thus, the results of this study strengthen the empirical evidence that digital transformation is a key determinant in improving the quality of financial reporting in manufacturing companies in Indonesia.

The Effect of ESG Disclosure on Financial Reporting Quality (H_2)

The results of the analysis show that ESG disclosure has a positive and significant effect on the quality of financial reporting with a coefficient of 0.2448 and a probability value of 0.2448.**0,0000**, thus the second hypothesis is accepted. This finding indicates that companies that disclose more extensive Environmental, Social, and Governance information tend to produce higher-quality financial reports. ESG disclosure reflects a company's commitment to the principles of transparency, accountability, and good governance, thus encouraging the presentation of more complete and reliable financial information. The better the quality of ESG disclosure, the smaller the chance of information asymmetry between management and investors, thus improving the quality of financial reporting.

The findings of this study align with those of Lu et al. (2024), who found that companies with high levels of ESG disclosure have better financial reporting quality due to increased transparency of corporate information. These results also support the research of Lulaj and Brajković.c(2025) explained that ESG implementation contributes to improving the quality of corporate reporting and accounting practices. Research by Ningsih and Maryanti (2025) also demonstrated that ESG disclosure improves the quality of financial information and the efficiency of corporate investments. Therefore, these research findings reinforce the view that ESG is not only a form of sustainability compliance but also an instrument capable of improving the quality of corporate financial reporting.

The Impact of Digital Transformation on Audit Quality (H_3)

The results of the study indicate that digital transformation has a positive and significant effect on audit quality with a coefficient value of 0.4362 and a probability of 0.0000, thus the third hypothesis is accepted. This coefficient value is the largest compared to other direct relationships, thus indicating that digital transformation has a very strong contribution to improving audit quality. Digitalization allows auditors to utilize audit analytics, artificial intelligence, machine learning, and continuous auditing so that the audit process becomes faster, more accurate, and able to detect transaction irregularities more effectively. The use of digital technology also improves the quality of audit evidence so that auditors can provide more objective and reliable opinions.

The findings of this study are in line with the research of López-Lluch et al. (2024) which states that digital transformation improves audit quality through the use of digital technology in the financial statement audit process. Research by Fang et al. (2024) also shows that corporate digitalization has a positive impact on audit effectiveness because auditors gain access to more comprehensive and real-time data. Furthermore, Judijanto et al. (2023) found that the implementation of digital auditing improves audit quality and the accuracy of financial reporting in Indonesia. Therefore, the results of this study further strengthen the evidence that digital transformation is a crucial factor in supporting improved audit quality in manufacturing companies.

The Effect of ESG Disclosure on Audit Quality (H_4)

The test results indicate that ESG disclosure has a positive and significant effect on audit quality with a coefficient of 0.3178 and a probability value of 0.0000, thus accepting the fourth hypothesis. This finding indicates that the higher the quality of a company's ESG disclosure, the better the resulting audit quality. ESG information provides additional non-financial information that is important for auditors in identifying business risks, evaluating corporate governance, and assessing the sustainability of a company's operations. With more complete information, auditors can design more appropriate audit procedures, resulting in higher audit quality.

The results of this study are consistent with the research of Lulaj and Brajkovic(2025) stated that ESG implementation improves audit quality by increasing corporate transparency and governance. Research by Sholekha and Astuti (2024) found that companies with high ESG quality tend to achieve better audit quality because auditors obtain more adequate information during the audit process. This finding is also supported by Pramono et al. (2023) who explain that sustainability management accounting practices and sustainability audits improve the effectiveness of the audit process in manufacturing companies. Thus, the results of this study indicate that ESG disclosure not only improves corporate accountability but also strengthens audit quality as a monitoring mechanism for financial reporting quality.

The Influence of Audit Quality on Financial Reporting Quality (H_5)

The results of the hypothesis testing indicate that audit quality has a positive and significant effect on the quality of financial reporting with a coefficient value of 0.3986 and a probability of 0.0000, thus the fifth hypothesis is accepted. This finding indicates that the higher the quality of the audit performed on a company's financial statements, the higher the quality of the resulting financial reporting. A quality audit provides assurance that the financial statements have been prepared in accordance with Financial Accounting Standards (SAK), are free from material misstatements, and fairly reflect the company's financial condition. Independent and competent auditors are able to identify errors and potential fraud, thereby increasing the credibility of the financial statements. The coefficient value of 0.3986 indicates that audit quality is one of the factors that has a significant contribution in improving the quality of financial reporting compared to other variables in the research model.

The results of this study align with Baharom's (2025) research, which states that audit quality plays a crucial role in enhancing the credibility of financial reporting through a more comprehensive financial information verification process. This finding is also consistent with Ningsih and Maryanti's (2025) research, which found that audit quality positively impacts financial reporting quality by increasing the reliability of accounting information used by investors in decision-making. Research by Pramono et al. (2023) also explained that effective audits can strengthen a company's control system, thus improving the quality of financial information. Furthermore, Judijanto et al. (2023) demonstrated that the implementation of digital audits supported by auditor competence significantly improves the accuracy of financial reports. Thus, this study's results strengthen empirical evidence that audit quality is a key mechanism in ensuring the quality of financial reporting in manufacturing companies listed on the Indonesia Stock Exchange.

The Influence of Digital Transformation on Financial Reporting Quality through Audit Quality (H_6)

The results of the mediation analysis using the Sobel Test indicate that audit quality is able to mediate the relationship between digital transformation and financial reporting quality with a Z value of 4.32, a probability of 0.0000, and an indirect effect value of 0.1739, thus the sixth hypothesis is accepted. These results indicate that digital transformation not only has a direct impact on financial reporting quality but also improves financial reporting quality through improved audit quality. The implementation of digital technology allows auditors to obtain more complete, accurate, and real-time data so that the audit process becomes more effective. Higher quality audits ultimately produce more transparent, relevant, and reliable financial reports. Because the direct effect of digital transformation on financial reporting quality remains significant after including mediating variables, audit quality acts as a partial mediator.

The findings of this study support the research of López-Lluch et al. (2024), which explains that digital transformation improves audit quality through the use of modern audit technology, thus improving the quality of financial reporting. Research by Singhania et al. (2025) states that corporate digitalization creates a more integrated information system, thereby increasing audit effectiveness and resulting in higher-quality financial reporting. These findings are reinforced by research by Kerrouche and Belouadah (2025). who found that digitalization improves the quality of financial reports by increasing the effectiveness of internal controls and audit processes. Furthermore, Nugrahanti et al. (2023) This study demonstrates that the application of big data technology in the audit process enhances auditors' ability to detect risks and improves the quality of financial reporting. Thus, audit quality is proven to be a crucial mechanism explaining how digital transformation can improve the quality of financial reporting in manufacturing companies in Indonesia.

The Influence of ESG Disclosure on Financial Reporting Quality through Audit Quality (H_7)

The results of the mediation test indicate that audit quality is able to mediate the effect of ESG disclosure on financial reporting quality with a Sobel Z value of 3.56, a probability of 0.0004, and an indirect effect of 0.1267, thus the seventh hypothesis is accepted. These results indicate that more comprehensive ESG disclosure will improve audit quality, which in turn has an impact on improving the quality of financial reporting. ESG information provides a broader picture of the company's environmental, social, and governance aspects so that auditors have additional information in evaluating the company's risks, compliance, and operational sustainability. This more comprehensive audit process results in financial reports that are more credible and can be trusted by stakeholders. Because the direct effect of ESG on financial reporting quality remains significant, audit quality plays a partial mediation role in this relationship.

The findings of this study are in line with the research of Lulaj and Brajkovic(2025) explained that ESG implementation increases corporate transparency, thereby simultaneously supporting improvements in audit quality and financial reporting. Research by Lu et al. (2024) also found that companies with high levels of ESG disclosure tend to produce higher-quality financial reports because they are supported by a more effective audit process. This research finding is also supported by Baharom (2025), who stated that ESG reporting is an important part of increasing the credibility of financial reporting through a quality audit mechanism. Furthermore, Almalita and Kusuma (2025) demonstrated that substantive sustainability reporting can improve corporate transparency and the quality of financial information presented to investors. Therefore, this research result confirms that audit quality is a mechanism that strengthens the influence of ESG disclosure on financial reporting quality. Therefore, companies need to integrate sustainability practices with a quality audit process to produce increasingly reliable financial reporting that meets stakeholder needs.

5. Conclusion

This study aims to analyze the effect of digital transformation and Environmental, Social, and Governance (ESG) disclosure on financial reporting quality, with audit quality as a mediating variable, in manufacturing companies listed on the Indonesia Stock Exchange for the 2023-2025 period. Based on the results of panel data analysis using the Fixed Effect Model approach, all research hypotheses are empirically supported. Digital transformation has been shown to have a positive and significant impact on audit quality, indicating that the implementation of digital technology can improve the effectiveness of control systems, the transparency of business processes, and the ease of auditors in obtaining audit evidence. ESG disclosure also has a positive effect on audit quality because companies with high levels of sustainability transparency tend to implement better governance.

Digital transformation, ESG disclosure, and audit quality have each been shown to have a positive and significant impact on financial reporting quality. These results indicate that digitalization of business processes and increased transparency of sustainability information can produce more reliable, relevant, and accurate financial reports that meet stakeholder needs. Furthermore, improved audit quality strengthens the credibility of the financial information provided by companies.

The results of the mediation test indicate that audit quality partially mediates the relationship between digital transformation and financial reporting quality, as well as the relationship between ESG disclosure and financial reporting quality. This finding indicates that audit quality is an important mechanism in strengthening the benefits of digital transformation and ESG disclosure practices towards improving financial reporting quality. Therefore, manufacturing companies need to integrate digital transformation strategies, improve ESG disclosure quality, and strengthen audit quality as a continuous effort to improve financial reporting quality and strengthen investor and stakeholder confidence.

Acknowledgment

The author would like to express his gratitude to all parties who provided support throughout the research process, particularly to institutions, academic colleagues, and various parties who provided access to research data and references. He hopes that the results of this research will benefit the development of accounting science, auditing, and sustainable corporate governance practices.

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