The Impact of Environment, Social and Governance (ESG) Rating Differences on Audit Opinions

Jieyi Wu[1*], and *Yixuan* Wu[2]

[1]School of Accounting and Finance, Xiamen University Tan Kah Kee College, Zhangzhou, 363105, China
[2]School of Finance, Tianjin University of Finance and Economics, Tianjin, 300222, China

Abstract. In recent years, Environment, Social and Governance (ESG) rating has gradually become a new trend in the market investment evaluation. The differences in ESG rating lead to the increase of mom-standard audit opinions issued by auditors, which causes losses to the investment market and enterprises. This issue has attracted much attention, but previous studies on this aspect are relatively lacking. Therefore, this study uses the literature method to summarize recent studies that verify the economic consequences of ESG rating divergence from the perspective of auditor audit delay and information disclosure quality. The research finds that multiple documents prove that ESG rating differences affect audit opinions through two paths which are enterprise information transparency and audit risk perception. Both paths will force auditors to conduct more in-depth investigation and supervision of enterprise, thus reducing the probability of auditors issuing non-standard audit opinions. In addition, this study looks forward to the future development of ESG rating and audit opinions, and three aspects need to be coordinated and reformed, including rating system, audit practice and regulatory policy.

1 Introduction

With the continuous development and expansion of global economic activities, the ESG concept proposed by the United Nations Global Compact in 2004 has become the mainstream consensus of international development as the core framework to evaluate the non-financial performance of enterprises. Third-party ESG rating agencies have the advantages of independence. Individual investors can obtain enterprise ESG information from third-party institutions to avoid the risk of conflicts of interest between enterprises and traditional institutions. The key factor found in the divergence of ESG ratings between China and foreign countries is the degree of information disclosure. In the research of Florenicio and Hongjun Wu, the differences information sources of different audit institutions lead to serious differences in ratings. As an important participant in market supervision, the audit opinion issued by the audit is an important basis for investors to evaluate the investment risk of

* Corresponding author: bnk22137@stu.xujc.com

enterprises [1-2]. When the ESG rating reports of multiple rating agencies differ greatly, the probability that audit institutions will issue non-standard audit opinions is greater [3]. This phenomenon is easy to cause investors to doubt the reliability of information or cause market cognitive bias, and reduce the acceptance of audit reports.

Most of the existing literature reviews at home and abroad focus on the impact of ESG performance on corporate financing effect and the impact of ESG rating divergence on audit fees, while ignoring the overall effect of rating divergence on audit opinions [2, 4]. Building on existing research on rating divergence and audit opinions, recent studies have expanded the scope of this topic by examining the economic consequences of ESG rating divergence from the perspectives of auditor audit delays and information disclosure quality, which reveals the mediating role of information disclosure quality, highlights the importance of audit opinions in corporate information disclosure, and calls for governments to establish mandatory standards for corporate information disclosure quality [5-8].

This paper systematically summarizes the current situation of ESG rating differences and their specific impact mechanism on enterprise audit opinions. Attention should be focused on the auditor's understanding of enterprise risk, the collection of audit evidence and the issuance of audit opinions. By collating domestic and foreign literature, this paper discusses the positive and negative impact of ESG rating divergence on auditors' issuance of audit opinions, improves the literature review in this field, and looks forward to the future development of ESG ratings and audit opinions, while also putting forward corresponding suggestions.

2 The impact of ESG as a non-financial indicator on audit opinions

2.1 The impact of ESG rating reports on audit

Different from traditional financial indicators, ESG rating reports have their innovative value and can reflect the performance and risks related to corporate sustainability, social responsibility and long-term value creation. Under the traditional audit model, auditors evaluate financial statements, issued by internal finance departments, which including balance sheets, income statements, cash flow statements, and their notes. Guided by International Accounting Standards (IAS) and Generally Accepted Auditing Standards (GAAP), they focus on analyzing historical quantifiable monetary transactions to assess whether these documents accurately and fairly reflect a company's financial operations. Among them, it is inevitable that the traditional audit completely relies on the information issued by the enterprise itself for review, which has a strong risk of fraud. However, ESG rating reports are from independent third- party institutions and have externalities. They can reduce the internal fraud of the audited enterprisesi finance, build a defense line against financial fraud, and improve the authenticity of audit opinions [9]. At the same time, differences in ESG ratings will seriously affect the information of audit opinions. Auditors need to reexamine the accuracy of information, verity the rating basis and evidence sources of various rating agencies, and evaluate whether ESG rating agencies have interests as a third party, which increases the difficulty of audit work.

2.2 The impact of ESG factors on audit opinions

In the ESG rating report, the three pillars of environment, society and corporate governance have an impact on specific items such as assets, liabilities and income in the financial

statements. Therefore, the consistency between ESG rating report and traditional financial statement information will have an impact on the judgement of audit opinions.

In terms of environment, the emergence of new environmental laws and regulations, technological changes and irresistible climate and environmental risks will lead to the price fluctuations of production resources in high-carbon industries, and even cause asset impairment of such enterprises, which requires the provision for asset impairment in financial statements [10-11]. Major environment accident may even threaten the operation ability of enterprises and affect the accuracy of audit evaluation. When the rating report discloses that the enterprise needs to undertake environmental remediation obligations, the financial statements of the enterprise need to confirm the corresponding liabilities. Take the cial statements of the enterpriseSuguang Group in 2023 as an example. In November 2023, Shanghai Lujiazui Company filed a lawsuit with Jiangsu Provincial High People's Court over soil pollution caused by the transfer of land by Suguang Group. During the court hearing, although Suzhou Steel Group disclosed the investigation results and full reports of partial pollution of its land in a third-party evaluation agency, it failed to complete the restoration and treatment in accordance with the law in 2019 on the grounds of its land in a third-party evaluation agencydustriesoperations information disclosure quality, of enterprises.nt mark, resulting in distorted transactions [12]. When an environmental rating report discloses significant remediation obligations but the enterprises of its land in a third-party evaluation agencydustriesoperations inf, it affects the audit opinion. Auditors reasonably issue a qualified opinion or even a disclaimer of opinion regarding the underestimation of liabilities.

In terms of social aspects and corporate governance, issues such as damaged corporate reputation, labor disputes, and ineffective governance all affect the auditors' assessment of the enterprises' disclosed information and operational capabilities, thereby causing errors in the audit opinions.

3 The current situation of ESG rating discrepancies

As the global economic entities increasingly pay attention to environmental protection, social responsibility and sustainable development, ESG has gradually become an important reference factor for investors. In 2014, the EU issued Directive 2014/95, which mandated that all large companies in the EU disclose ESG information. As the result, the demand for professional third-party rating agencies by enterprises soared, leading to the emergence of numerous ESG rating agencies, such as MSCI, S&P Global, and Moody's. With the rapid expansion of the ESG rating industry, structural imbalances have emerged in the sector. Some rating agencies, driven by commercial interests, have lagged behind in their professional capabilities, resulting in a loss of professional authority in the rating market [13].

As an emerging indicator, ESG does not have a completely unified assessment method and evaluation standard among various rating agencies. Different agencies have different rating judgments for the same enterprise, resulting insignificant differences in ESG rating results. Berg et al. conducted a study involving five international rating agencies including MSCI and S&P Global, and found that the main reasons for the differences in ESG ratings can be decomposed into Measurement divergence (56%), Scope divergence (38%),Weight divergence(6%)[14]. Measurement divergence indicates that there are significant differences among different rating agencies regarding the rating method standards. For instance, MSCI divides the rating results into three levels: industry-leading, industry-average, and industry-behind, with specific sub-levels ranging from 7 grades. Meanwhile, S&P Global CSA uses a percentage-based scoring method to categorize the results. Scope divergence indicates that different ESG rating agencies have different choices regarding the sources of data. For instance, MSCI ESG Ratings initially receives information during the rating assessment stage from publicly available sources of information. However, S&P Global CSA's data

information not only comes from publicly available sources but also includes data obtained through independent research, for instance, the questionnaires for the general public and the feedback from enterprises, as well as the materials provided by the enterprises. Weight divergence indicates that different rating agencies have varying emphases on different ESG dimensions and the assessment items also vary depending on the industry. In most cases, due to the objectivity of enterprises' environmental disclosures, the environmental dimension has the lowest degree of divergence in the overall ESG rating, while the social and corporate governance dimensions have a higher degree of subjective divergence [15]. Zhu' s study selected 195companies from the CSI 300 Index in 2019, comparing the ESG rating results issued by 4 Chinese rating agencies and 3 international agencies. It was found that among the results issued by 7 rating agencies, only 35% of the companies ranked in the top 100. This confirmed the significant differences in the current ESG rating result [16].

4 The impact of ESG rating discrepancies on the audit opinions issued by auditors

4.1 The impact on the among of information disclosure regarding the audit matters

ESG rating disagreement has a significant impact on amount of information disclosed on audit matters in terms of quality, environmental pressures and auditor competence. Scholars have found that the degree of rating divergence increases as the information quality of ESG disclosures becomes lower; as companies disclose more fragmented information, the more significant the divergence in information assessment results among rating agencies under different rating criteria diverge [15]. Increased disclosure forces auditors to seek fairness of disclosure sources and transparency of calculation methods when reviewing matters, thus reducing the risk of information when reviewing matters, thus reducing the risk of information asymmetry between ESG reports and corporate financial statements. Significant divergence in ESG rating raise question among stakeholders shock a company's ESG performance, exacerbates stock market volatility and creates external market pressure on management and auditor to synchronize and enhance the transparency and credibility of disclosures [17]. Management can take the initiative to publicly disclose independent ESG report and increase the detail of disclosure through the establishment of a top-down and long-term mechanism strategic position of the enterprisegencies, onlyand management. Auditors should not only require companies to disclose more detailed information reports during corporate assessment, but also strengthen their own ability to understand the ESG decision-making process, deal with ESG diversified data and analyze ESG assessment risks, maintain high sensitivity when the rating divergence is significant, and make a reasonable audit opinion after raising professional suspicion on the disclosure of information, in order to enhance the trust of stakeholders in the disclosure of information.

4.2 Impact on issuance of auditors' opinions

4.2.1 Association between ESG performance and standard opinion

Most scholars believe that corporate ESG performance is positively associated with standard audit opinions. Asente-appiah first systematically explored the relationship between negative corporate ESG reputation and audit effort and audit quality. Based on an empirical analysis of all U. S. public companies in the re-assess risk database of non-financial companies in the

U. S. for the fiscal years 2007-2014, it was found that corporate ESG rating performance is significantly and positively related to standard audit opinion[6]. As a result, scholars have conducted research on the divergence of corporate ESG rating based on the auditor's perspective, which is broadly categorized into three perspective:the impact on corporate operations, the degree of ESG disclosure and audit delays. In terms of corporate operation, further research by Xue YAO reveals that good ESG performance indirectly increase the probability of obtaining a standard audit opinion by reducing operational risk [17]. In the information disclosure perspective, Jiang et al. Used increasing company transparency as an intermediary variable, and the mechanism of good ESG performance indirectly improves the probability of obtaining a standard audit opinion by reducing operational risk [18]. In audit delay perspective, ESG disagreement on the auditor to play a push effect, will prompt the auditor to extend the audit time of the enterprise ESG information more in-depth discovery, which in turn improves the accuracy of the enterprise ESG rating, ESG ratings accuracy the higher the probability of issuing a standard audit report is greater [5,6].

4.2.2 The positive impact of ESG rating divergence on audit opinion

Enterprises with higher ESG ratings tend to pay more attention to the completeness and accuracy of information disclosure, which helps auditor to more fully understand the enterpriseion to the c. It enhances the transparency of corporate information and reduces operational and audit risks [18]. Furthermore, ESG rating divergence will lead to mandatory regulation of enterprises by auditing agencies, which will force enterprises to disclose the masked information and improve the transparency of corporate information [5, 7].

4.2.3 The negative impact of ESG rating divergence on audit opinion

ESG rating divergence significantly increases the probability of an auditor issuing a non-standard audit opinion, increase the auditore significed level of risk, and may misestimate the enterpriseevel of riskt [3, 8]. Overall, ESG rating divergence can increase audit costs by requiring auditors to go through additional efforts to identify the truthfulness of financial and non-financial data [5, 19]. Therefore, auditors will increase audit pricing for firms with ESG rating divergence, which may not be sufficient for SMEs to support their fee costs, leading to a potentially biased audit opinion issuance.

5 Prospects and Challenges

5.1 Future Development Outlook

With ESG rating increasing its influences in the marketplace, its involvement in the market will only grow deeper. Therefore, minimizing the impact of ESG rating discrepancies on audit opinion is very important. Supervisory bodies and industry organizations need to use stronger strategy to harmonize ESG rating standard and corporate ESG disclosure norms can effective reducing divergence and improve audit efficiency and audit costs.

For the auditories and in, there is require to have a stronger accumulation of expertise, which may include learning about ESG rating methods, familiarity with the rating standards of different ESG rating agencies, promptly identifying the authenticity of information form third-party institutions. This allows the auditor to respond more effectively to the challenges posed by ESG divergence and to improve audit quality and efficiency.

5.2 Challenges of ESG ratings to audit opinions

Based on the future development trend, at this stage, the inability to harmonize ESG rating standards and the inconsistent quality of corporate are the core obstacles to decision-making of audit opinions. The geographical standardization of ESG rating standards and the differences in the quantitative standards of auditing agencies are the two major pain points of the lack of harmonization. For the issue of corporate ESG disclosure standardization, although the disclosure framework has been initially established in China (Guidelines in Sustainability Reporting for List Companies), the inconsistency in caliber among industries exposes auditors to the dual risk of information identification and fraud risk. Meanwhile, in Zhaolesistenc, it was found that iGreenwashing”reenwaserious behavior. Authentication of information faces a triple dilemma, including the difficulty of tracing non-financial data, technological bottlenecks in identifying fraud and serious regulatory lagging.

6 Conclusion

ESG rating divergence is one of the important challenges to audit opinion decision-making, which undermines the reliability of audit opinions. This paper summarize the impact of ESG divergence on corporate audit opinions and current situation, explains the intermediary role of information disclosure. It is pointed out that ESG rating divergence has multiple impacts on auditors’ audit opinions, including auditors’ perception of corporate risk, the transmission mechanism of audit efforts and audit costs on audit opinion. These effects lead to doubt about the impartiality the audit. Nonetheless, governments and agencies do not deny the value of ESG rating divergence as a non-financial measure for companies measurement. Therefore, ESG rating divergences need to be resolved so that ESG metrics play a better role in opinions, which is the primary goal of subsequent research.

The findings of the existing studies reveal the need for coordinated reforms in three areas: rating systems, auditing practices and regulatory policies. The government has established a mandatory disclosure mechanism, setting major indicators such as carbon emissions, energy consumption and corporate management as mandatory disclosure items. At the same time, major official institutions have standardized the weighting of rating measurements. The research institutions help auditing agencies establish big data models and blockchain systems as reduce information fraud. In the regulatory scope, the government should to more strictly regulate enterprises with serious rating divergences, realize information transparency, and improve regulatory efficiency. As well as the government should have set up a more active muscle policy, so that enterprises change form passive disclosure to active disclosure.

Authors contribution

All the authors contributed equally and their names were listed in alphabetical order.

References

1. F. Lopez-de-Silanes, J.A. McCahery, P.C. Pudschedl, Institutional investors and ESG preferences, Corp. Gov. Int. Rev. (2024) https://doi.org/10.1111/corg.12583
2. H. Wu, Y. Zhong, Y. Wu, Domestic and foreign performance, causes and countermeasures of ESG rating divergences, J. Nanhua Univ. (Soc. Sci. Ed.) **24**(5), 61–68 (2023) https://doi.org/10.13967/j.cnki.nhxb.2023.0071
3. P. Li, J. Wang, The impact of ESG rating divergences on audit opinion decisions, Stat. Decis. **41**(8), 177–182 (2025) https://doi.org/10.13546/j.cnki.tjyjc.2025.08.030

4. D. Zhang, S. Xie, The impact of ESG rating divergences on corporate audit fees, J. Hunan Univ. Financ. Econ. **41**(2), 28–38 (2025) https://doi.org/10.16546/j.cnki.cn43-1510/f.2025.02.003
5. S. Gao, X. Zhao, Z. Chen, et al., ESG rating divergences and audit efficiency: A perspective from audit delay, Financ. Commun. (7), 39–43 (2025) https://doi.org/10.16144/j.cnki.issn1002-8072.2025.07.008
6. B. Asante-Appiah, Does the severity of a client's negative environmental, social and governance reputation affect audit effort and audit quality?, J. Account. Public Policy **39**(3), 106713 (2020)
7. X. Wang, R. Li, Research on the dual-drive effect of external auditing on environmental information disclosure: Perspectives from high-quality auditing and corporate ESG performance, Environ. Manag. China **16**(6), 71–80 (2024) https://doi.org/10.16868/j.cnki.1674-6252.2024.06.071
8. Y. Tang, Key audit matter disclosure and ESG rating divergences: An analysis based on the quantity and textual similarity of key audit matters, Bus. Account. Mercant. Account. (23), 53–57 (2024)
9. G. Zheng, Z. Zhu, O. Chen, Does ESG performance inhibit corporate financial fraud?—Empirical evidence from A-share listed companies, J. Harbin Univ. Commerce (Soc. Sci. Ed.) (4), 45–63 (2024)
10. CICPA, China auditing standards for certified public accountants No.1631—Consideration of environmental matters financial statement audits (2022)
11. Y. Zhang, The impact of environmental tax on the achievement of sustainable development goals: A case study of carbon tax, Environ. Tax Rev. **18**(15), 19–21 (2024)
12. J. Song, Investigation into the 'toxic-land' incident in Suzhou, China Econ. Wkly. (22), 30–33 (2023)
13. J. Hao, Z. Rezaee, The impact of mandatory ESG disclosure on firms' graph disclosure quality: Evidence from the European Union Directive, Int. J. Account. (preprint) (2025)
14. F. Berg, J.F. Klöbel, R. Rigobon, Aggregate confusion: The divergence of ESG ratings, Soc. Sci. Electron. Publ. (2019)
15. H. Xiao, F. Ding, A review and prospect of research on ESG rating divergences, J. Dongbei Univ. Financ. Econ. (6), 40–57 (2024) https://doi.org/10.19653/j.cnki.dbcjdxxb.2024.06.004
16. Y. Zhu, H. Yang, M. Zhong, Do ESG ratings of Chinese firms converge or diverge? A comparative analysis based on multiple domestic and international ratings, Sustainability **15**(16), 12573 (2023) https://doi.org/10.3390/su151612573
17. X. Yao, An analysis of the impact of corporate ESG performance on audit opinions, Econ. Trade Times **22**(5), 122–127 (2025) https://doi.org/10.19463/j.cnki.sdjm.2025.05.026
18. Y. Jiang, J. Cheng, ESG information disclosure and audit opinions decisions, Friends Account. (11), 104–111 (2025)
19. Y. Shi, T. Yao, ESG rating divergence: Existence, driving factors, and impact effects, Sustainability **17**(10), 1–26 (2025)