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## THE INFLUENCE OF ENVIRONMENTAL AUDITS AND AUDITOR PROFESSIONAL ETHICS ON COMPANY TRANSPARENCY AND PERFORMANCE

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#### Abstract:

The purpose of this study is to evaluate the relationship between environmental audit and auditor professional ethics on transparency and corporate performance. Environmental audit is seen as a strategic tool to encourage companies to comply with environmental regulations and take social responsibility. Meanwhile, professional auditor ethics serves as an important foundation for maintaining credibility, objectivity, and audit quality. In writing this scientific article using the literature review method, namely this method involves reviewing and analyzing various literature or library sources that are relevant to the topic of discussion. This study uses quantitative methods and data analysis using multiple linear regression. To obtain data, questionnaires were distributed to internal and external auditors in various industrial sectors. The results of the study indicate that, especially in terms of operational efficiency and public reputation, environmental audits benefit business performance. In addition, professional auditor ethics helps improve the transparency of financial reporting by increasing professional skepticism and auditor independence. The results show how important environmental audits and strengthening auditor professional ethics are to support accountable and sustainable corporate governance.

**Keywords:** Environmental Audit, Auditor Professional Ethics, Transparency, Company Performance, Audit Quality

## INTRODUCTION

In the era of globalization and increasingly complex business world, companies must not only achieve optimal financial results, but also run their businesses in an environmentally friendly, ethical and responsible manner. Therefore, both academics and business practitioners have begun to pay attention to environmental audits and the ethics of the auditor profession. The importance of information transparency and public awareness of environmental sustainability have encouraged companies to be more transparent in submitting their performance reports, both financial and non-financial.

Environmental audit is a form of independent supervision that aims to evaluate an organization's compliance with regulations and standards for sustainable environmental and natural resource management. This audit helps managers assess environmental risks and create appropriate mitigation strategies to reduce adverse impacts on the ecosystem. A study conducted by (Luayyi, 2023) found that effective environmental audits can improve business performance, especially in terms of operational efficiency, stakeholder relations, and corporate reputation.

To ensure the integrity of the financial reporting process and the quality of audit results, the auditor's professional ethics are very important. In carrying out their work, professional auditors are required to adhere to ethical principles such as integrity, objectivity, independence, and



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professional skepticism. Auditors who comply with the professional code of ethics can provide reliable audit opinions and maintain the information conveyed by the company to the public (Kuntadi & Akbar, 2024). Research by Ziah & Kuntadi, 2023 also shows that regular application of professional ethics can increase the transparency of financial reports and reduce the possibility of fraud and manipulation of information by management.

Transparency and Corporate Performance are two main indicators for assessing the quality of corporate governance. Transparency shows that the company is open to providing honest, complete, and timely information to all its stakeholders. Meanwhile, business performance shows how easy it is to achieve strategic goals through good resource management. These two elements are supported by environmental audits and the auditor's professional ethics, as both encourage businesses to act responsibly, comply with regulations, and be socially and environmentally accountable. (Ritonga, 2024). (Padang, 2023)

Many studies have discussed the ethics of the auditor profession and environmental audit separately towards corporate governance aspects. However, there are still few empirical studies that examine both simultaneously towards transparency and corporate performance, especially for companies in Indonesia. However, environmental supervision with the application of ethical principles in audit practice is the key to building a reliable reporting and decision-making system. Based on this description, this study aims to empirically analyze the influence of environmental audit and auditor professional ethics on transparency and corporate performance. This study is also expected to provide theoretical contributions to the development of accounting and auditing research as well as practical implications for the business world in improving the quality of supervision, data transparency, and sustainable performance.

**Environmental Audit.** Environmental audit. is a systematic evaluation process that aims to evaluate the extent to which business operations comply with applicable environmental regulations and sustainability standards. This audit is very important to ensure that businesses are not only pursuing profits but also responsible for their impacts on the environment. According to Luayyi (2023), environmental audits help businesses find possible environmental risks, create preventive policies, and increase transparency in reporting social and environmental responsibilities. Environmental audits can improve overall business performance, including operational efficiency, legal compliance, and investor confidence. In addition, environmental audits can improve a company's relationship with the government and surrounding communities and reduce the possibility of conflict or detrimental legal sanctions..

**Auditor Professional Ethics.** Auditor professional ethics. consists of a set of moral and behavioral principles that auditors must adhere to while carrying out their functions. Integrity, objectivity, independence, professional competence, confidentiality, and professional behavior are ethical principles. Strong ethics enable auditors to carry out their duties fairly, objectively, and free from external influences that can damage audit quality (Kuntadi & Akbar, 2024) (Ziah & Kuntadi, 2023). This shows that professional ethics plays an important role in shaping an attitude of professional skepticism, namely the auditor's thoroughness and caution in evaluating audit evidence. According to Lastri et al. (2022), auditors who maintain ethical principles tend to make transparent and accountable reports. The auditor's professional ethics also influences the auditor's decision-making process. It also helps balance professionalism with moral responsibility to the public and others who use financial statements.

**Company Transparency.** Corporate Transparency. Transparency is when an organization is open and provides complete, honest, and accountable information to all parties involved. Not only financial information, transparency includes social, environmental, and corporate governance



aspects (Ritonga, 2024). According to Padang, 2023, good transparency shows management accountability and is the basis for investor and regulator decisions. Audits that are carried out independently and ethically can help organizations maintain and improve transparency in their reports. A high level of transparency will improve the company's reputation, reduce the risk of fraud, and build trust with the public, shareholders, and strategic business partners.

**Company performance.** Company performance. refers to the achievement of organizational goals in both financial and non-financial aspects. In the context of sustainability, it is measured not only by financial profits but also by how well they manage resources well, comply with regulations, and carry out social and environmental responsibilities (Luayyi, 2023). According to Luayyi (2023), environmental audits are one of the components that influence performance achievement because they provide an objective basis for operational evaluation and strategic decision making. In addition, business results show how well management handles external issues, such as ESG (Environmental, Social, Governance) disclosure demands, which are now important indicators in evaluating corporate sustainability.

**Previous Research.** Several studies have examined the effect of environmental audits on company performance, including a study by (Luayyi, 2023) which found that environmental audits have a significant impact on increasing operational efficiency and company reputation. Environmental audits also contribute to reducing legal risks and increasing compliance with environmental regulations. Meanwhile, (Kuntadi & Akbar, 2024), (Ziah & Kuntadi, 2023), and (Latri et al., 2022) found that auditor professional ethics play an important role in increasing financial reporting transparency and audit quality. Ethical auditors are better able to detect violations, convey opinions independently, and maintain objectivity in audit decision making. However, there is still limited research that simultaneously tests the effect of these two variables on transparency and company performance at the same time, especially in the Indonesian context. Therefore, this study is important to fill this gap and contribute to the literature and practice of corporate governance.

**Theoretical Framework.** Two main theories are used in this study, namely Legitimacy Theory and Agency Theory. Legitimacy Theory explains that companies try to gain recognition or support from society in order to survive. In this case, (Luayyi, 2023) states that environmental audits are a way for stakeholders to fulfill social and environmental responsibilities (Manuhara, 2017). They also say that environmental audits allow management to ensure operational sustainability while complying with government regulations. Audits conducted with a transparency and accountability approach also help strengthen the institutional legitimacy of the company and society. However, Agency Theory begins with the problem of the relationship between management (agent) and capital owners (principals), which are vulnerable to conflicts of interest and information imbalances. In this case, the audit functions as a monitoring tool designed to protect the interests of the principal. Studies show that the auditor's professional ethics increases professional skepticism, which is important for revealing information hidden or disguised by management. Other studies (Wulandari et al., 2022) and (Ziah & Kuntadi, 2023) show that ethics strengthens auditors' independence and objectivity, so that they can produce more accurate and reliable audit reports. Therefore, audits that are carried out in an ethical manner and in accordance with organizational values will reduce the possibility of retention and increase the trust of capital owners in the audited financial statements.

**Research Hypothesis.** The focus of the research hypothesis is to see how the two independent variables of auditor professional ethics and environmental audits have a direct effect on the two dependent variables, transparency and company performance. This hypothesis is supported by theoretical foundations (Legitimacy Theory and Agency Theory), as well as empirical evidence from relevant previous studies. Companies can utilize environmental audits to better manage





environmental risks, improve resource efficiency, and improve compliance with applicable regulations (Ziah & Kuntadi, 2023); (Luayyi, 2023). Environmental audits are also considered to be able to increase external transparency because environmental-based reporting is a way for companies to communicate with the public, regulators, and stakeholders.

Auditors who adhere to ethical principles tend to be skeptical, independent, and objective when disclosing audit information (Wulandari et al., 2022); (Ziah & Kuntadi, 2023). Therefore, the professional ethics of auditors are considered very important to create transparency in financial reports. The effectiveness of high ethical audits will increase public and investor trust in the company's financial performance.

Referring to the literature review and theories that have been explained, the formulation of the hypothesis in this study is as follows: H1: Environmental audit has a positive effect on company performance. H2: Environmental audit has a positive effect on company transparency. H3: Auditor professional ethics has a positive effect on company transparency. H4: Auditor professional ethics has a positive effect on company performance.

## METHODS

In writing this scientific article using the literature review method, namely this method involves reviewing and analyzing various literature or library sources that are relevant to the topic of discussion. This method is used because the research is not conducted through primary data collection, but rather emphasizes an in-depth review of the results of previous studies related to the influence of environmental audits and auditor professional ethics on transparency and company performance. By using this method, the author can gain a deep theoretical and empirical understanding as a basis for creating their framework of thought and drawing conclusions about how the variables studied relate to each other.

**Types and Research Approaches.** Qualitative-descriptive and exploratory research are two approaches used in this study. Qualitative-descriptive research aims to systematically describe the characteristics or phenomena that occur, especially those related to environmental audits and the ethics of the auditor profession. While the exploratory approach is used to dig deeper into the relationships and influences between variables based on existing literature. There is no purpose of this study to test hypotheses statistically; instead, the purpose of the study is to build a conceptual basis and scientific arguments through a discussion of relevant scientific literature.

**Data source.** Secondary data used in this study were obtained from literature or written documents that can be academically accounted for. The types of literature reviewed include research reports, scientific journal articles, seminar proceedings, and official documents published by trusted institutions. Some include articles from (Luayyi, 2023), (Wulandari et al., 2022), (Ziah & Kuntadi, 2023), (Lastri et al., 2022), (Ritonga, 2024), and (Padang, 2023), which have been selected because they are directly related to the research variables. The literature was obtained from academic institution journal portals and national and international journal databases such as Google Scholar, DIAJ, and Garuda.

**Data collection technique.** Identifying, collecting, and managing documents related to the research subject is the documentation method used to collect data in this study. Data collection began by searching for journal articles with keywords such as "environmental audit", "auditor professional ethics", "corporate transparency", and "corporate performance". Furthermore, the following criteria were used by the authors to select articles for inclusion: (1) written in the last ten years (2015–2025), (2) discussing relevant variables, and (3) published or peer-reviewed by a credible

institution. Each literature was evaluated based on its background, methodology, results, and relevance to the research framework.

**Data Analysis Techniques.** The data analysis method used in this study is content analysis, which is a systematic technique used to evaluate and interpret the contents of scientific documents or literature in order to identify deep meanings, thematic patterns, and relationships between relevant concepts. The analysis procedure is carried out through the following strategic stages: (1) formulating main themes and categories that are in accordance with the variables studied, (2) classifying literature based on similarities in topics, contexts, and results presented, (3) conducting comparative analysis of findings from various studies to identify uniform tendencies or significant differences, and (4) compiling a comprehensive synthesis narrative to strengthen the argumentative basis in scientific discussions. The result of this process is a visualization or conceptual mapping between variables that is integrated with the theoretical framework used and the findings of the literature analyzed. The selection of this literature study method is considered relevant and strategic, because it provides space for researchers to formulate theoretical arguments in depth and compile academic syntheses from various valid scientific perspectives. This approach not only enriches the conceptual basis, but also opens up opportunities for the development of further research through both quantitative methods and qualitative approaches, thus producing meaningful theoretical and practical contributions in the study of issues surrounding auditing and professional ethics.

## RESULT AND DISCUSSION

In this study, no questionnaire was used directly to collect primary data. Therefore, the conclusion section consists of conclusions from the literature that has been discussed in the previous section. In this study, a number of reliable scientific journals were used to identify patterns of relationships between environmental audits, auditor professional ethics, transparency, and company performance.

The study (Luayyi, 2023) found that regular and periodic environmental audits improve operational efficiency and increase company compliance with environmental regulations. Environmental audits also show that the company's image is better in the eyes of the public and regulators, which ultimately has a positive impact on company performance.

However, research (Kuntadi & Akbar, 2024) and (Kuntadi & Akbar, 2024) show that the application of auditor professional ethics such as professional skepticism, integrity, and objectivity has a significant impact on the transparency of the company's financial statements. Auditors who act in accordance with professional ethics can provide reliable and honest audit opinions, increasing stakeholder trust in the financial information provided. According to research (Latri et al., 2022), auditor competence and ethics are the main components in determining audit quality.

A literature review shows that auditor ethics and environmental audits have a significant impact on corporate transparency and performance. The agency and legitimacy theories explained earlier can be used to further explain these findings. In order to maintain support from society and stakeholders, companies must demonstrate social and environmental responsibility, according to legitimacy theory. According to Luayyi (2023), environmental audits are one of the proofs of a company's commitment to sustainability and operational legitimacy..

From an agency theory perspective, auditors with strong professional standards can help improve the balance of information between management (agents) and principals (owners or investors). The audit results will be delivered objectively by independent and ethical auditors, so that the resulting financial statements are more transparent and accountable (Kuntadi & Akbar, 2024). Therefore, it can be concluded from the literature review that there is a positive correlation



between environmental audits and auditor professional ethics on transparency and company performance. The results of the study support the research hypothesis and provide a strong basis for additional empirical testing. However, the findings and discussions of this study are still exploratory and theoretical because this study is only a literature review and has not collected primary data directly. As a result, to empirically test the relationship between the variables identified in this study, additional research is needed involving field data collection.

## CONCLUSION

This study aims to theoretically analyze how the role of environmental audit and auditor professional ethics can affect transparency and corporate performance. Previous studies have shown that auditor professional ethics and environmental audit complement each other to support sustainable, honest, and accountable corporate governance. There is evidence that environmental audits have a significant impact on corporate performance. By conducting environmental audits regularly and periodically, companies can identify and manage potential environmental hazards due to their operational activities. This audit not only improves compliance with environmental regulations, but also improves resource utilization, strengthens the company's relationship with its stakeholders, and improves the company's reputation in the eyes of the public and government. As a result, environmental audits are not only a legal obligation but also a strategic tool to gain competitive advantage..

On the other hand, the auditor's professional standards are the main basis for ensuring audit quality and the reliability of financial statements. Auditors have integrity, objectivity, independence, and professional skepticism to maintain audit quality and produce opinions that are free from personal interests. When auditors apply strict ethics, financial statements become more transparent. This increases the trust of investors, regulators, and the public in the company. Therefore, auditors not only act as external supervisors, but are also responsible for maintaining the integrity of data provided by the company.

According to the literature review that has been reviewed, it can be concluded that the ethics of the auditor profession and environmental audit are positively correlated with transparency and company performance. Both components are very important to create an accountable reporting system and help data-based decision making. However, this conclusion is still theoretical because it is not supported by direct field data. Therefore, to examine and ensure a deeper relationship between variables, it is highly recommended to conduct further research with a quantitative or qualitative approach based on primary data.

Overall, this study shows that improving environmental audit practices and implementing auditor professional ethics are strategic actions that impact corporate compliance with regulations and increase corporate value in the eyes of stakeholders. They also help maintain corporate sustainability in the long term.

The results of this study contain a number of implications which can be described as follows.

1. Theoretical Implications: This study strengthens the theoretical basis of legitimacy and agency theory in the context of audit practices and corporate governance, and adds to the academic literature by combining environmental audits and auditor professional ethics in a single framework of influence on transparency and corporate performance.
2. Practical Implications: For companies, these findings serve as encouragement to be more serious in carrying out periodic environmental audits and instilling ethical values in internal



and external audit practices. This is important for building reputation, increasing efficiency, and strengthening stakeholder trust.

3. Policy Implications: For regulators and professional associations, the results of this study provide a basis for tightening supervision of the implementation of professional ethics and encouraging more transparent and accountable sustainability reporting.

The results of this study contain a number of limitations which can be described as follows.

1. Research Method: This study uses a literature review approach without primary data collection, so the conclusions drawn are theoretical and have not been empirically tested.
2. Contextual Limitations: The literature used mostly comes from international studies and does not fully reflect the condition of companies in Indonesia, especially from various different industrial sectors.
3. Does Not Measure Quantitative Influence: The study does not measure the magnitude of the influence of each variable statistically, so it cannot be used as a basis for decision making based on quantitative data.

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