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ESG Disclosure, Financial Reporting Quality and Investment Efficiency

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ABSTRACT

This research discusses the relationship between environmental, social and governance disclosure (ESG Disclosure), financial reporting quality and investment efficiency. This research aims to analyze the influence of ESG disclosure and financial reporting quality on investment efficiency with audit quality as a moderating variable. This research uses quantitative methods with secondary data, companies listed on the BEI ESG Index for 2018 – 2022. These findings also show that the impact of FRQ on investment efficiency decreases with shorter maturities. Research shows good ESG disclosure contributes to investment efficiency by reducing information asymmetry between companies and investors. However, high-quality financial reporting can have a negative impact on investment efficiency because quality financial reports do not necessarily reflect the actual condition of the company. Audit quality factors do not significantly influence the relationship between ESG disclosure, financial reporting quality, or investment efficiency.

1. INTRODUCTION

Investment activities are an essential aspect of a country's progress. Investment can encourage a country's economic activities, increase output, achieve foreign exchange savings or even increase incoming foreign investment (Aulia & Siregar, 2018). Competitive investment, which obtains maximum profits along with the company's long-term growth, will positively impact the company's survival (Choiriah, 2019). Therefore, it is hoped that companies can utilize their resources to achieve investment efficiency or avoid conditions of investment inefficiency. It can be done if information asymmetry is reduced. According to Harymawan (2020), there should be no information asymmetry between managers and investors to optimize investment in profitable projects, such as investments with positive net present value (NPV), and avoid unprofitable investment projects. Investment efficiency is an investment activity where industry expectations carry out investment. Investment can be referred to as a mechanism used by industry to generate income in the future. An investment is effective if the expected level of industry investment has no deviation, meaning that the industry is expected to be able to invest optimally so that the industry can be free from situations of overinvestment or underinvestment.

Throughout 2019, the level of investment efficiency in Indonesia's processing or manufacturing sector experienced a decline; this can be seen from one of the companies listed on the Indonesian stock exchange, namely one of the automotive market leaders, PT Astra International Tbk (ASII), pocketing net income of IDR 237. Seventeen trillion throughout 2019 (kontan.co.id, 2020). This income fell slightly by 0.86% from net income in 2018 of IDR 239.21 trillion. President Director of Astra International (ASII) Prijono Sugiarto said that the Astra Group's Performance last year was affected by weakening domestic consumption and low commodity prices. ASII's net income in the automotive segment reached IDR 104.84 trillion, down 2.31% annually. ASII revealed that the automotive division's net profit fell 1% to IDR 8.4 trillion, mainly due to decreased car sales volume and increased production costs. That can also be interpreted as if the level of investment efficiency carried out by PT Astra International Tbk shows a negative level of investment efficiency, meaning that the company made an investment lower than the expected investment, so the company experienced underinvestment.

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Investment efficiency requires financial reports that present information about the financial position to make appropriate decisions (Bushman & Smith, 2013). Companies are better prepared to face uncertainty if equipped with quality financial reports (Edvandini., et al., 2014). High-quality financial reports can be a good guide or reference for determining and then making optimal investment decisions. Due to these conditions, company management is obliged to prepare quality financial reports because they are the ones who are given full authority from the shareholders (principals) to manage the company's performance. Presenting quality financial reports means that they show the actual condition of the company so that it can reduce information asymmetry (Wang et al., 2015). Companies are required to produce quality financial reports.

In recent years, ESG disclosures have played an essential role in meeting investors' increasing demand for non-financial information, and investors consider them to be strong evidence of a company's compliance with non-financial disclosure best practices (including GRI, IIRC and SASB). Companies need to maintain their image and credibility in society through social and environmental responsibility, including disclosing the implementation of green accounting (Choiriah & Lysandra, 2023). However, compared to accounting information, such as profits, whose performance can be anticipated and measured, non-accounting information, such as sustainability disclosures, is more difficult to interpret (Rubin et al., 2017). Mandatory sustainability disclosure benefits investors by increasing company value, improving the information environment, increasing stock liquidity, and reducing investment risk (Ioannou & Serafeim, 2019; Caglio et al., 2020; Krueger et al., 2023).

On the other hand, audit quality plays a role in moderating the influence of ESG disclosure and financial reporting quality on investment efficiency. Quality audits are based on professional standards, codes of ethics and applicable laws and regulations (Indonesian Public Accountants Association). (IAPI, 2018). Mappanyukki et al. (2023). A quality audit is an audit that complies with audit principles to ensure the results of the audited financial report follow guidelines and are free from material errors. High-quality audits can increase the credibility of a company's ESG disclosures and financial reports by assuring that the information presented is accurate and trustworthy (El-Deeb et al., 2023). Investor confidence and the company's commitment to sustainability and social responsibility have also increased. It can realize efficient investment in a company. Previous research on financial reporting quality and investment efficiency has focused on reducing information asymmetry between companies and external capital providers (Aulia & Siregar, 2018; Lambert et al., 2007). Higher-quality financial reporting allows companies to attract capital more easily by making their investment activities visible and reducing adverse selection in securities issuance. Investors can also monitor managerial investment activities and reduce incentives to make excessive investments (Zhong & Gou, 2017).

In line with the results of studies that suggest managers identify better investment opportunities because higher quality financial reporting increases investment efficiency (Biddle & Hilary, 2006; McNichols & Stubben, 2008; Biddle et al., 2009; Chen et al., 2010). Meanwhile, research by Ellili (2022) shows a positive relationship between Environmental, Social and Government disclosure, Financial Reporting Quality and Investment Efficiency, and this relationship is more critical in the sub-sample with low investment and high FRQ. The results show that ESG disclosure increases transparency, reduces information asymmetry and increases investment efficiency. The quality of financial reporting cannot mitigate the occurrence of overinvestment due to high levels of agency problems. However, the quality of financial reporting has a significant positive effect on underinvestment conditions, which means that the quality of financial reporting can reduce the occurrence of underinvestment because it can be used to attract external funds so that companies can avoid underinvestment conditions. Underinvestment (Aulia & Siregar, 2018; Pajunen, 2010; Zhong & Gao, 2017) suggests that there is a significant relationship between environmental disclosure and investment efficiency in a sample of companies with low financial disclosure quality, but not in a sample of companies with high financial disclosure quality.

Meanwhile, Cutillas & Sanczhes (2012) stated that Financial Reporting Quality (FRQ) reduces excess investment, while short-term maturity debt reduces excess investment and underinvestment. These findings also show that the impact of FRQ on investment efficiency decreases with shorter maturities. Meanwhile, research conducted by Assad and Alshurideh (2020) shows that audit quality cannot moderate the influence of financial reporting quality on investment efficiency. The research gap shor that while Yudha's (2024) research shows that ESG disclosure has no effect on Investment Efficiency. In addition, the results of Handayani et al's (2024) research found that Quality of Financial Reporting has no effect on Investment Efficiency. Furthermore, Wang's (2022) research found that Audit Quality does not moderate the influence of ESG Disclosure on Investment Efficiency. Chinhayu (2024) Audit Quality does not moderate the influence of Financial Reporting Quality on Investment Efficiency.

This research is quantitative; it aims to analyze the influence of ESG disclosure quality and financial reporting quality on investment efficiency with audit quality as a moderating variable. A sample of ESG-

indexed companies in Indonesia was used, which had never been done by previous research. That provides an opportunity for further research. Thus, this research will expand previous research and can be used as a reference for further research. The results of this research aim to: 1.) Does ESG disclosure have a positive effect on Investment Efficiency? 2.) Does Quality of Financial Reporting have a positive effect on Investment Efficiency? 3.) Does Audit Quality strengthen the influence of ESG Disclosure on Investment Efficiency? 4.) Does Audit Quality strengthen the influence of Financial Reporting Quality on Investment Efficiency

Types of Research

This research is quantitative, and the data used are annual financial reports and sustainability reports of companies in Indonesia listed on the 2019-2022 ESG Index. The type of data used in this research is secondary data. This research design uses a causal approach or cause-effect relationship (Sugiyono, 2017, p. 37). So, you will be able to find out the variables that influence and the variables that are influenced, as well as the variables that strengthen or weaken the relationship between the independent and dependent variables (moderation), where this is to test a hypothesis regarding the influence of one or several variables on other variables. This research aims to examine the influence of the independent variables ESG disclosure and financial report quality on the dependent variable, namely investment efficiency, which is moderated by audit quality in companies in Indonesia listed on the ESG Index for the 2019-2022 period.

Agency Theory

Agency theory is a theory that explains where there is a relationship between one or more parties (principal) and another party (agent) in a contract to do what the principal orders and gives authority to the agent to carry out the order in order to provide the best results for the company (Jensen & Meckling, 1976). Agency theory argues that each individual only focuses on his interests, giving rise to a conflict of interest between the principal and the agent. The results of research conducted by Liu and Tian (2021) support agency theory based on the direct impact of ESG disclosure on investment efficiency. They assert that companies that disclose ESG reports reduce agency problems and investment inefficiencies, especially in cases of overinvestment.

ESG Disclosure

ESG Disclosure is a commitment of the business world to contribute to sustainable economic development by working with employees, their families, local communities and society to improve their lives in ways that are good for business and development (World et al. for Sustainable Development, 2002). ESG disclosure can help stakeholders such as investors, creditors, employees, and potential customers understand how companies manage ESG risks and opportunities (Peterdy, 2023). ESG, or "Environmental, Social and Governance," is a set of standards that refers to three main criteria in measuring sustainability and is used in business as the main points to consider in making investment decisions and also serves as a reference for companies to report their business impact (esg.idx.co.id). According to Hammami & Zadeh (2019), high levels of ESG transparency have a significant economic impact on capital investment decisions (reflected through higher firm-level investment efficiency), which may be due to the increased visibility (reduced information asymmetry) enjoyed by stakeholders with greater ESG transparency. This research uses the 2021 Standard GRI as a proxy for ESG Disclosure, as reflected in research conducted by Ratri et al. (2021). This proxy uses a total of 147 ESG disclosure items. Data is taken from company sustainability reports published on each company's website. This measurement indicates whether the company has appropriately complied with the rules that must be implemented regarding ESG disclosure obligations in its operational activities.

Quality of Financial Reports

Financial reports are one of the accounting disciplines, and according to Roviyantie (2011), financial reports can summarize financial information. Therefore, it is essential to provide reliable financial reports. Financial reports are a financial management task in public or private companies (Jauhari, 2021). The main objective of financial reporting is to reveal the economic impact of the financial performance of commercial units (Asyik et. al., 2023). Quality financial reports will have an impact and help make investment decisions. The concept of quality financial reports contains financial information and non-financial information that is useful in making economic decisions (Herath et al., 2017; Kaawaase et al., 2021; Asyik et al., 2022). Valid decisions can be made if the information in the financial reports meets the quality of the information, including being presented accurately, relevant, comparable, understandable, timely, and verifiable (Asyik et al., 2023). According to Khotari et al. (2015), the indicator that can be used to measure the Financial Reporting Quality variable is the Accrual Quality Model with the following equation:

$$TA_{i,t} = \alpha_0 + \alpha_1[1/ ASSETS_{i,t-1}] + \alpha_2\Delta SALES_{i,t} + \alpha_3 PPE_{i,t} + \alpha_4 ROA_{i,t(or\ i,t-1)} + \varepsilon_{i,t...}$$

Investment Efficiency

Investment efficiency is a function of the investment management structure's risk, return, and total costs, subject to fiduciary and other constraints under which investors operate (Hodgson et al., 2011). That includes financial and non-financial elements such as the time available for investors to manage investment arrangements, accountability as holders, and statutory requirements (Hodgson et al., 2000). Efficient investment decisions are critical to determining company value and investor wealth (Assad et al., 2023). Investment efficiency is needed to identify how well a company will invest its assets, indirectly affecting its financial performance (Chen et al., 2017). For an investment to be efficient, the company should be able to avoid situations of overinvestment and underinvestment (Sari & Suaryana, 2014). In their research, Biddle et al. (2009) explained that investment is based on sales growth in the previous year. If sales increase in the previous year, the company must make further investments in the current year, both in capital and non-capital expenditure. In addition, when company management invests in projects with a positive net present value (NPV), they will avoid investing in projects with a negative NPV. That will create investment efficiency (IE) (Jensen & Meckling, 1976). For this reason, the proxy used to measure investment efficiency in this research is the investment model. Referring to Biddle et al. (2009), the following is the equation model for the investment model:

$$Investment_{i,t} = \beta_0 + \beta_1 SalesGrowth_{i,t-1} + \varepsilon i,t$$

Quality Audits

Auditing is the accumulation and evaluation of evidence about information to determine and report the level of conformity between the information and established criteria (Arens et al., 2017). DeAngelo (1981) defines audit quality as the possibility that the auditor will be able to find material errors in the financial statements and report these material errors. Audit quality must be determined based on auditing standards and professional quality (Baharuddin & Ansar, 2019). Audit quality Investors react strongly to companies that publish good financial performance but low audit quality. In contrast, investors react weakly to companies that publish high financial performance and high audit quality, low financial performance but high audit quality, low financial performance and low audit quality (Tarmidi et al. .al (2019). This research measures the audit quality variable using industry specialization (Zhou & Elder, 2004). This measure assumes that audit companies gain expertise and specialization through experience in an industry. The following formula is used:

Audit Quality = Industry Specialization

The Effect of ESG Disclosure on Investment Efficiency

ESG disclosure is a form of public reporting by an organization's management team regarding its performance on various Environmental, Social and Governance (ESG) issues. This disclosure aims to explain a company's ESG activities while increasing investor transparency and inspiring other organizations to do the same. Non-financial information companies disclose is essential in most capital markets, especially in valuation (Ellili, 2022). ESG disclosure determines how well a company meets these criteria by providing transparent reporting regarding its activities related to the environment, social interactions and internal control systems (Whitelock, 2015). Any factor contributing to reducing information asymmetry also increases investment efficiency. Therefore, disclosure of financial and non-financial information helps mitigate data uncertainty and improves the efficiency of corporate investments (Tawaran et al., 2009).

The Influence of Financial Reporting Quality on Investment Efficiency

Financial Reporting Quality emphasizes the transparency of financial reporting, which is assessed by the accuracy of the objectives and quality of the information disclosed in the company's financial reports (International Accounting Standards Board). Based on agency theory, quality in financial reporting is one of the control mechanisms used to reduce information asymmetry and information risk and enable better monitoring of managerial activities, which reduces managers' opportunistic behavior (Hope & Thomas, 2008). That can further reduce agency costs between managers and external investors. Higher quality Financial Reporting makes managers more accountable by allowing better monitoring, and this can reduce information asymmetry and adverse selection; this can reduce the problem of overinvestment and underinvestment and increase investment efficiency (Cutillas & Sánchez, 2012).

The influence of Audit Quality on the relationship between ESG Disclosure and Investment Efficiency

Disclosing ESG information and complying with environmental and sustainability requirements is expensive for companies, even though it is thought to help them gain better access to capital markets and has a beneficial influence on company value through increased openness with investors and lenders (El-Deb, 2023). In this case, audit quality is used as a moderating variable to increase the transparency of sustainability reports. Audit independence and objectivity can provide guarantees for the quality of ESG disclosures. Audit oversight has positively impacted ESG development (Iatridis, 2011). This process ensures the authenticity and reliability of the information disclosed by the company, thereby promoting overall consistency between ESG information and financial information. By disclosing ESG information, companies disseminate non-financial information to outside parties, reduce information asymmetry, and increase investment efficiency (Lins et al., 2017; Chih et al., 2008; Dhaliwal et al., 2012).

The Influence of Audit Quality on the Relationship between Financial Reporting Quality and Investment Efficiency

By disclosing ESG information, companies disseminate non-financial information to outside parties, reduce information asymmetry, and increase investment efficiency (Lins et al., 2017; Chih et al., 2008; Dhaliwal et al., 2012). High-quality accounting information can increase transparency (Biddle & Hilary, 2006; Biddle et al., 2009). Audits assure the quality of accounting information and have significant reference value for stakeholders (Wang et al., 2022). The audit has insurance and supervision functions (Chen H. et al., 2011). The existence of a quality audit can be a guarantee for investors of the quality of a company's financial information. Furthermore, Bushman & Smith (2001) and Biddle et al. (2009) found that high audit quality reduces information asymmetry and avoids insufficient investment caused by high funding costs, thereby increasing investment efficiency.

The hypotheses of this research are:

H1. ESG disclosure has a positive effect on Investment Efficiency
H2. Quality of Financial Reporting has a positive effect on Investment Efficiency
H3. Audit Quality strengthens the influence of ESG Disclosure on Investment Efficiency
H4. Audit Quality strengthens the influence of Financial Reporting Quality on Investment Efficiency

2. METHODS

This research uses quantitative methods with secondary data, companies listed on the BEI ESG Index for 2018 – 2022. The data used in this study is quantitative data, namely data containing numerical information originating from secondary data. The data collection technique used in this study is a documentation study, namely documenting the financial statements of companies listed from 2018 - 2022. The sampling method in this study is purposive sampling with the following criteria: 1.) Companies listed on the Indonesia Stock Exchange. 2) Companies listed on the Indonesia Stock Exchange that attach consecutive financial report data throughout 2018-2022. 3.) Companies listed on the Indonesia Stock Exchange that distribute dividends consecutively throughout 2018-2022. Of the 30 companies, 25 were obtained that met the criteria for sample selection. Based on these predetermined criteria, this research left 125 data worth testing, namely 25 companies listed on the ESG Index listed on the Indonesia Stock Exchange (IDX) for five (5) consecutive years.

3. RESULTS AND DISCUSSIONS

Descriptive Statistics Test Results

The following is a table of descriptive statistical analysis results processed using the Eviews 12 application.

Table 1. Descriptive Statistics Test Results

	Y_EI	X1_ESG	X2_FRQ	Z_AQ
Mean	-0.052723	0.385902	0.366884	0.712000
Median	-0.040027	0.360656	0.294923	1.000000
Maximum	0.480300	0.811475	1.061687	1.000000
Minimum	-0.837498	0.163934	0.000467	0.000000
Std. Dev.	0.198641	0.136554	0.318035	0.454653
Skewness	-0.824954	0.674238	0.486190	-0.936331

Kurtosis	5.950777	3.163854	1.814037	1.876717
Jarque-Bera	59.52751	9.610600	12.25016	24.83663
Probability	0.000000	0.008186	0.002187	0.000004
Sum	-6.590375	48.23770	45.86045	89.00000
Sum Sq. Dev.	4.892834	2.312228	12.54213	25.63200
Observations	125	125	125	125

Partial Test (t-Test)

Table 2. Partial Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.173111	0.138469	1.250178	0.2142
X1_ESG	0.269584	0.129180	-2.086890	0.0395
X2_FRQ	-0.843670	0.124824	-6.758898	0.0000
Z_AQ	0.263662	0.173699	1.517926	0.1323

Based on the results of the partial test calculations contained in table 4.10, the following conclusions are obtained:

1. ESG Disclosure. The ESG Disclosure variable has a probability value of 0.0395, more diminutive than 0.05. And the Coefficient value is 0.269584 which is positive. That means that ESG Disclosure has a positive effect on Investment Efficiency.
2. Financial Report Quality. The Financial Report Quality variable has a probability value of 0.0000, more diminutive than 0.05. The Coefficient value is -0.843670, which is negative. That shows that Financial Report Quality Disclosure has a negative effect on Investment Efficiency.

Interaction Test Results or Moderated Regression Analysis (MRA)

Table 3. Results of Moderated Regression Analysis (MRA) 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.281041	0.201117	-1.397402	0.1655
X1_ESG	0.136178	0.340675	0.399729	0.6902
Z_AQ	0.531573	0.259941	2.044979	0.0436
X1_Z	-0.712464	0.380097	-1.874426	0.0639

It is known that the interaction variable (X1_Z) ESG Disclosure on Investment Efficiency has a probability value of 0.0639, more significant than 0.05. These results indicate that Audit Quality weakens the relationship between ESG Disclosure and Investment Efficiency.

Table 4. Results of Moderated Regression Analysis (MRA) 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.048403	0.138772	0.348792	0.7280
X2_FRQ	-0.545327	0.397121	-1.373203	0.1729
Z_AQ	0.284192	0.177363	1.602323	0.1123
X2_Z	-0.386116	0.418279	-0.923106	0.3582

It is known that the interaction variable (X2_Z) Financial Report Quality on Investment Efficiency has a probability value of 0.3582, more significant than 0.05. These results indicate that Audit Quality weakens the relationship between Financial Report Quality and Investment Efficiency.

Based on the results of the t-statistical test between each independent variable and the dependent variable, as well as the MRA test on the moderating variable above, the discussion is as follows:

The Effect of ESG Disclosure on Investment Efficiency

The results of the hypothesis test show that ESG Disclosure, as proxied by the disclosure of the 2021 Standard GRI index, has a positive effect on Investment Efficiency. That means investments will become more efficient as ESG disclosure increases because ESG disclosure plays a role in mitigating information asymmetry (Allman & Won, 2022). ESG disclosure is valued because it helps stakeholders make better quality decisions (Zhang et al., 2020). ESG practices help increase stakeholder trust, obtain stakeholder support, and obtain strategic resources for corporate development, thereby increasing investment efficiency (Liu et al., 2021). More and better ESG disclosure can reduce underinvestment by reducing information asymmetry and increasing investment efficiency (Samet & Jarboui, 2017).

In addition, good ESG performance can ease funding constraints, be more conducive to the company's external financing, reduce agency costs, and effectively constrain management behavior (Liu et al., 2021; Lee & Kim, 2020). According to principal-agent theory, too much managerial power can give birth to short-term behavior, lead to neglect of the company's long-term interests, result in excessive investment, cause uneven and unreasonable distribution of resources, and ultimately lead to waste of company resources and increase risks. Company operations (Li, 2009; Chen et. al., 2018). Therefore, ESG investments play a role in reducing corporate free cash flow and curbing managerial short-sightedness, thereby reducing agency costs and increasing corporate investment efficiency (Samet & Jarboui, 2017).

That is in line with research conducted by Wang et al. (2022) that good ESG performance significantly increases investment efficiency. Likewise, research conducted by Lins et al. (2017) revealed good ESG performance and reduced information asymmetry between companies and investors. It provided more information for stakeholders to make decisions, reducing decision-making risks for investors and increasing investment efficiency.

The Influence of Financial Report Quality on Investment Efficiency

The t-test results on the Financial Report Quality variable show that Financial Report Quality, as proxied by the Accrual Quality Calculation Model, has a negative effect on Investment Efficiency, which is proxied by the Investment Model. That means that if the quality of financial reporting increases, investment efficiency will decrease, and vice versa. The researchers' findings prove that as many as 78 of the 125 sample companies are in an underinvestment position. According to Assad et al. (2023), underinvestment can be seen as a reflection of agency problems, as managers may prioritize their interests over those of shareholders because managers choose not to invest in risky projects with a positive future NPV or overinvest in projects with a negative present value.

In addition, the high quality of financial reports may not necessarily reflect the actual condition of the company. Based on agency theory, managers can tend to manipulate financial reports to achieve personal and company goals (Herbert & Harto, 2022). As a result, these reports are not transparent and cannot represent the financial condition of a company, thus adding to the problem of information asymmetry (Gomraiz & Sánchez Ballesta, 2013). The managers can sell their shares at a higher price, and they will also get additional money to finance projects with negative NPV. This condition makes investment inefficient.

This is in line with the results of research conducted by Herbert & Harto (2022), which found that Financial Report Quality has a negative effect on Investment Efficiency. The quality of financial reporting is not the main indicator of investor decision-making because financial reports are prepared based on accounting standards, resulting in report manipulation. Finance is inevitable to achieve certain goals for the company

The Influence of Audit Quality on the Relationship of ESG Disclosure to Investment Efficiency

The Moderating Regression Analysis (MRA) test results on the interaction variable between ESG Disclosure and Audit Quality show that Audit Quality does not affect the relationship between ESG Disclosure and Investment Efficiency. Good audit quality will guarantee the quality of accounting information (Elaoud & Jarboui, 2017). However, the quality of a company's accounting information is relatively high. In that case, the marginal utility of ESG disclosure will be significantly reduced when financial information can better meet the needs of stakeholders (Wang et al., 2022). That is because when the information asymmetry between the company and its stakeholders is effectively filled with other information, the impact of ESG information disclosure on investment efficiency will be significantly reduced.

In addition, research conducted by Wang et al. (2022) shows that good ESG performance can increase investment efficiency only in samples with low accounting information quality, but this effect is not visible in samples with high accounting information quality. Audits influence the high and low quality

of information, so when audit quality is good, disclosure of ESG information will increase information asymmetry and reduce investment efficiency. That means that audit quality cannot influence ESG Disclosure on Investment Efficiency.

It is in line with research conducted by Zahid et al. (2022) that Audit Quality cannot moderate the influence of ESG Disclosure on Investment Efficiency. ESG policies, when combined with improvements in audit quality as demonstrated by the Big Four certification of corporate financial reports, will result in a decline in investment efficiency.

The Influence of Audit Quality on the Relationship of Financial Report Quality to Investment Efficiency

The Moderating Regression Analysis (MRA) test results on the interaction variable between Financial Report Quality and Audit Quality show that Audit Quality does not affect the relationship between Financial Report Quality and Investment Efficiency. External auditors are essential in ensuring financial statements are free from material misstatements. Financial reporting is an information indicator for outside parties, so increasing company transparency with audits is essential. Sipouridou (2012) argues that when users are unsure about the reliability of financial reports, they will look to the auditor's report. However, more than audited financial reports are needed to guarantee increased credibility and assurance of audited financial reports (Herbert & Harto, 2022). That is because stakeholders and investors must consider many other audit factors, such as audit period and opinion.

Meanwhile, according to Assad and Alshurideh (2020), the quality of audits provided by large and small audit companies is sometimes different. All auditors must follow the same audit procedures based on audit standards supervised by the regulator (Center for Supervision of the Financial Profession of the Ministry of Finance/Center for the Development of the Financial Profession of the Ministry of Finance). Both audit firms with industry specialization and those without have the same ability to provide quality audits.

In addition, the practice of manipulating financial reports cannot be avoided to achieve company goals. Management can hide some specific information from the auditor. If the auditor cannot find evidence, then this could be a risk in the audit, and the reliability of the financial reports cannot be trusted (Herbert & Harto, 2022). As a result, investors can invest in a state of underinvestment or overinvestment. Thus, Audit Quality cannot influence the influence of Financial Report Quality on Investment Efficiency. That is in line with the results of research conducted by Assad & Alshurideh (2020) that audit quality does not moderate the influence of Financial Report Quality on Investment Efficiency. This study focuses on ESG companies, it is expected that further research can expand the research object in order to obtain more general results. Further research can examine other moderating variables that are intended to increase the relationship between the direct influence of audit quality and ESG disclosure on Investment Efficiency, so that in practical terms, interested parties in determining decisions can consider certain steps for company efficiency. Thus, further research is needed to understand the interaction between these factors in the context of investment.

4. CONCLUSION

This article discusses the importance of investment in developing a country and how efficient investment can influence company performance. Investment efficiency is influenced by various factors, including the quality of financial reporting, ESG (environmental, social, governance) disclosures, and audit quality. Investment is a crucial aspect of a country's progress, with the potential to boost the economy, increase output and attract foreign investment. Investment efficiency is essential to maintaining company survival, with the role of financial reports and ESG disclosures in providing accurate information to investors. However, there are challenges, such as a decline in investment efficiency in the manufacturing sector in Indonesia, which can be caused by various factors, including weakening domestic consumption and low commodity prices. The quality of financial reports and ESG disclosures can influence investment efficiency, but only sometimes directly. Other factors, such as audit quality, also play a role in moderating the relationship between financial report quality and investment efficiency, although their influence is only sometimes significant.

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