WHY SUSTAINABILITY RISKS FAIL TO ENTER AUDIT PLANNING?

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Abstract

Financial auditors increasingly encounter sustainability-related information that may influence financial audit risk, yet little is known about how such information is incorporated into audits in developing countries. This study examines how Indonesian auditors apply sustainability risks within the audit risk model and introduces the concept of the risk translation gap—the disconnect between recognizing sustainability risks and integrating them into audit procedures. Using an interpretive qualitative approach, the study draws on 15 interviews with auditors from Big Four and non-Big Four firms to explore how mandatory disclosures under the Financial Services Authority Regulation No. 51 (POJK 51) are operationalized. Findings reveal persistent audit decoupling: auditors acknowledge that sustainability risks can affect going concern, impairment, and misstatement risk, but struggle to translate these risks into substantive testing due to weak regulatory enforcement, low-quality disclosures, and limited methodological guidance. Big Four firms show more structured proceduralizing, while non-Big Four auditors rely heavily on *ad-hoc* judgment, creating inconsistency across the profession. The study advances auditing theory by showing how the risk translation gap prevents sustainability risks from entering audit planning in weak enforcement contexts, contrasting with practices in developed countries (Chiang & Northcott, 2012; Tuo et al., 2023), and provides guidance for standard setters to strengthen sustainability-related audit work.

Keywords: Sustainability Risk, Risk Translation Gap, Auditing, Coercive Isomorphism, Institutional Void

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1. INTRODUCTION

Mandatory sustainability reporting regimes are reshaping the information environment in which financial auditors conduct risk assessments and plan audit engagements (Otoritas Jasa Keuangan [OJK], 2017). In Indonesia, the Financial Services Authority Regulation No. 51 (POJK 51) obliges financial institutions and listed companies to disclose sustainability-related information, creating expectations that auditors consider whether environmental and social risks have financial implications requiring audit attention (Adhariani & du Toit, 2020).

As sustainability issues increasingly influence business continuity, asset valuation, and going concern assessments, financial auditors—as long-standing gatekeepers of financial reporting reliability (Velte & Issa, 2019; Kausar & Lennox, 2017)—must evaluate whether such risks contribute to material misstatement, including impairment, regulatory exposure, and reputational risk (Asante-Appiah & Lambert, 2023; Susilo, 2023).

Regulators and standard setters have signaled that sustainability risks should be incorporated into the audit risk model, yet empirical evidence shows that financial auditors continue to struggle with how such information should be evaluated and applied in

practice, particularly in developing-country contexts where sustainability disclosures remain inconsistent, weakly enforced, and of variable quality (Adhariani & du Toit, 2020).

While sustainability reporting and assurance have been widely examined (del Mar Alonso-Almeida et al., 2014; Ruiz-Barbadillo & Martínez-Ferrero, 2022), far less is known about how financial auditors integrate sustainability risks into financial audit risk assessments. Existing research highlights challenges such as inconsistent sustainability metrics (Suhardjo et al., 2024a, 2024b), greenwashing (Kathan et al., 2025; Lashitew, 2021), and the complexity of assessing qualitative sustainability information (Engelbrecht et al., 2018).

Studies in developed economies show that financial auditors increasingly consider sustainability risks in their judgments (Chiang & Northcott, 2012; Moroney & Trotman, 2016; Tuo et al., 2023), yet guidance for integrating sustainability factors into financial audit methodologies remains limited. Çalişkan's (2014) review and recent theoretical frameworks (Appelbaum et al., 2025; Asante-Appiah & Lambert, 2023) call for a deeper examination of how financial auditors operationalize sustainability risks, particularly in contexts where reporting is mandatory, but institutional support structures are weak.

Indonesia offers a distinctive setting to examine this emerging audit responsibility. POJK 51 mandates sustainability reporting for financial institutions and listed companies, creating a formal expectation that financial auditors will consider sustainability-related information when assessing financial reporting risk (OJK, 2017). However, the coexistence of mandatory disclosure and weak enforcement creates the same tension observed in prior studies—symbolic compliance rather than substantive integration of sustainability risks into financial audits (Moroney & Trotman, 2016; Susilo, 2023).

Limited guidance, low-quality sustainability information, and uneven technical expertise contribute to uncertainty about how financial auditors should interpret sustainability risks and whether these risks warrant adjustments to audit planning, substantive testing, or documentation. This stands in contrast to evidence from developed economies, where stronger regulatory enforcement supports more substantive incorporation of environmental and social risks into audit judgments (Chiang & Northcott, 2012; Tuo et al., 2023).

Despite growing expectations for financial auditors to engage with sustainability-related information, whether such involvement leads to meaningful improvements in audit quality remains underexplored, particularly in developing country contexts characterized by inconsistent disclosures and institutional capacity constraints (Adhariani & du Toit, 2020; Fernandez-Feijoo et al., 2018).

This study addresses this gap by examining how Indonesian financial auditors understand and apply sustainability risks within the audit risk model. Drawing on coercive isomorphism (DiMaggio & Powell, 1983; Baker et al., 2014) and evidence of institutional voids in developing country audit environments (Moroney & Trotman, 2016; Susilo, 2023), the study introduces the risk translation gap: the disconnect between financial auditors' recognition of sustainability risks and their ability to translate these risks into audit procedures. The study is guided by three research questions:

RQ1: To what extent do financial auditors in Indonesia possess knowledge about sustainability risks relevant to financial audit assessments?

RQ2: How do financial auditors perceive the importance and materiality of sustainability risks within audit planning and risk assessment?

RQ3: What strategies could strengthen financial auditors' capacity to evaluate sustainability risks within financial audit engagements?

By examining financial auditors operating under a mandatory reporting regime with weak enforcement, this study contributes to auditing research in three ways. First, it advances audit theory by introducing the risk translation gap, a mechanism explaining why sustainability risks fail to enter the audit risk model when disclosure quality is inconsistent and comparability is limited (Adhariani & du Toit, 2020; Rudyanto, 2021; Suhardjo et al., 2025). Second, it provides empirical evidence on how institutional pressures and organizational constraints—shaped by Indonesia's uneven enforcement of POJK 51 and audit-quality differences between Big Four and non-Big Four firms (Francis & Yu, 2009; Comprix & Huang, 2015)—influence auditors' judgments in a developing country setting. Third, it offers practical insights for regulators, standard setters, and audit firms seeking to strengthen auditors' capacity to evaluate sustainability-related risks in an environment characterized by significant environmental exposure and institutional complexity (Anis et al., 2023; Setyowati, 2023).

This study positions the risk translation gap as a distinct mechanism that extends existing concepts such as decoupling and symbolic compliance. Whereas decoupling describes a broad separation between formal structures and practice, the risk translation gap refers to the point at which auditors recognize sustainability risks but cannot translate this recognition into audit procedures, documentation, or substantive testing. This mechanism explains why sustainability risks remain absent from audit planning even when coercive pressures formally require their consideration (Adhariani & du Toit, 2020; Rudyanto, 2021; Suhardjo et al., 2025).

Within this context, the study extends coercive isomorphism theory (DiMaggio & Powell, 1983) to a mandatory sustainability reporting regime in a developing country. While evidence from developed economies shows that strong regulatory enforcement supports substantive integration of sustainability risks into audit practice (Chiang & Northcott, 2012; Tuo et al., 2023), our findings demonstrate that weak enforcement in Indonesia leads to partial or symbolic compliance. This challenges assumptions that mandatory disclosure alone is not sufficient to change audit behavior and illustrates how coercive pressures operate differently in environments with limited regulatory capacity.

More specifically, the study contributes to the literature through its three research questions. *RQ1* provides empirical evidence on financial auditors' sustainability risk knowledge in a developing country setting. In contrast to developed-economy evidence of knowledge gaps in assessing environmental and social risks (Hartlieb &

Eierle, 2024; Moroney & Trotman, 2016), our findings show these gaps are intensified in Indonesia by low-quality disclosures and weak institutional support, reinforcing patterns of symbolic rather than substantive compliance (Bethlendi et al., 2020).

RQ2 examines financial auditors' perceptions of the relevance and materiality of sustainability risks. In contrast to the growing recognition observed in developed countries (Tuo et al., 2023), Indonesian auditors exhibit more cautious and inconsistent assessments. This reflects how institutional pressures, resource constraints, and professional norms shape audit judgments in low-enforcement contexts (Bethlendi et al., 2020), reinforcing the dynamics underlying the risk translation gap.

RQ3 identifies strategies to strengthen financial auditors' capacity to integrate sustainability risks into financial audits. Prior studies highlighted the need for training, clearer standards, and improved reporting quality (Causholli et al., 2021; Schaltegger & Zvezdov, 2015), yet few offer recommendations grounded in developing country realities. Our findings suggest that regulatory clarification, national training programs, and curriculum reform could enhance auditors' ability to operationalize sustainability risks.

These insights align with arguments that traditional functional learning approaches are insufficient for emerging sustainability challenges (Sisaye, 2011) and mirror evidence that financial auditors often lack the skills needed to engage meaningfully with sustainability information (Soh & Martinov-Bennie, 2015). All these contributions deepen understanding of how financial auditors in a developing country navigate mandatory sustainability reporting requirements and extend sustainability auditing theory beyond assumptions derived from developed economy contexts.

The rest of this paper is structured as follows: Section 2 examines the theoretical framework. Section 3 reviews literature on financial auditors and sustainability risk. Section 4 outlines the methodology. Section 5 presents findings on financial auditors' knowledge and perceptions. Section 6 discusses these findings in relation to existing literature. Section 7 concludes with contributions, limitations, and future research directions.

2. THEORETICAL FRAMEWORK

Understanding how financial auditors respond to mandatory sustainability reporting requires a theoretical lens that captures both the institutional pressures they face and the structural constraints that shape their ability to act. This study draws on coercive isomorphism and institutional voids to explain why sustainability risks are increasingly visible in the regulatory environment, yet remain weakly integrated into financial audit practice.

2.1. Coercive isomorphism theory

Coercive isomorphism (DiMaggio & Powell, 1983) explains how organizations conform to external pressures—such as regulations, legal mandates, and professional standards—to maintain legitimacy. These pressures often lead organizations to adopt formal structures that signal compliance, even when substantive change is limited (Beckert, 2010; Tuttle & Dillard, 2007). In the sustainability domain, regulatory frameworks such as the Global Reporting Initiative (GRI) and Indonesia's POJK 51/2017 impose expectations for firms to disclose environmental and social information (del Mar Alonso-Almeida et al., 2014; OJK, 2017; Rahmaniati & Ekawati, 2024). However, research consistently shows that mandatory sustainability reporting frequently results in symbolic compliance—organizations meet disclosure requirements without embedding sustainability into core decision-making (Hahn et al., 2023; Leong & Hazelton, 2019).

Financial auditors operate under similar coercive pressures. Professional standards, regulatory oversight, and legal accountability shape how auditors assess risks, document procedures, and justify their judgments (Boolaky et al., 2019; Dowling et al., 2018; Baker et al., 2014). As sustainability disclosures become mandatory, auditors are expected to consider whether environmental and social risks have implications for material misstatement, going concern, or asset impairment. Regulatory mandates like POJK 51 introduce new audit-relevant expectations, yet the extent to which auditors integrate sustainability information into audit planning depends on the strength of coercive pressures and the clarity of available guidance.

Evidence from developing contexts shows that when enforcement is weak, financial auditors often adopt partial or symbolic isomorphism, acknowledging sustainability risks superficially without embedding them into audit risk models or procedures (Asiri et al., 2020). This dynamic reflects the broader pattern in which organizations comply formally with regulatory requirements while substantive integration remains limited.

Coercive isomorphism, therefore, provides a useful lens for understanding how Indonesian financial auditors respond to externally imposed sustainability disclosure requirements. Indonesia's regulatory environment—marked by mandatory reporting but limited enforcement—creates conditions where auditors may document compliance without fully incorporating sustainability risks into their assessments, consistent with research on symbolic compliance in developing economies (Beckert, 2010; Hahn et al., 2023).

Unlike legitimacy theory, which focuses on maintaining societal approval, or institutional work theory, which emphasizes actors reshaping institutions, coercive isomorphism directly explains how regulatory pressures shape auditors' knowledge, perceptions, and practices. It thus offers the most appropriate theoretical foundation for analyzing auditors' responses to sustainability-related risks within financial audits.

2.2. Institutional voids

Institutional voids refer to gaps in regulatory enforcement, technical guidance, professional infrastructure, and market-level support systems that limit organizations' ability to implement mandated practices effectively (Khanna & Palepu, 1997). In developing country contexts, these voids are particularly pronounced and shape how regulatory expectations are interpreted and enacted.

In Indonesia, mandatory sustainability reporting exists alongside weak enforcement, inconsistent disclosure quality, and limited technical guidance (Adhariani & du Toit, 2020; Rudyanto, 2021; Suhardjo et al., 2025).

These institutional weaknesses create uncertainty about how sustainability information should be evaluated, how its financial implications should be assessed, and how it should be incorporated into audit methodologies. Prior research has shown that such voids often lead to symbolic rather than substantive compliance, as organizations lack the institutional capacity to operationalize regulatory requirements (Hahn et al., 2023).

For financial auditors, institutional voids manifest in several interconnected ways. Low-quality sustainability disclosures reduce the reliability of information available for risk assessment, while limited guidance from regulators and professional bodies leaves auditors uncertain about how to evaluate sustainability-related risks.

Weak enforcement further diminishes the perceived consequences of not integrating sustainability information into audit planning, and insufficient training restricts auditors' technical ability to interpret environmental and social data. All these conditions explain why coercive pressure alone does not translate into substantive integration of sustainability risks within financial audits.

Both coercive isomorphism and institutional voids provide a coherent explanation for the risk translation gap—the disconnect between recognizing sustainability risks and applying them within the audit risk model. While coercive isomorphism creates formal expectations for financial auditors to consider sustainability risks, institutional voids limit their capacity to operationalize these expectations. Consequently, financial auditors may acknowledge the sustainability risks conceptually yet struggle to translate them into audit procedures, documentation, or substantive testing. This dual theory framing captures both the pressure to integrate sustainability risks and the structural constraints that prevent meaningful integration, offering a robust foundation for analyzing financial auditors' responses to mandatory sustainability reporting in Indonesia.

3. LITERATURE REVIEW

3.1. Auditor expertise and financial audit risk assessment

Financial auditors play a central role in safeguarding the credibility of financial reporting by providing independent assurance on the accuracy and reliability of financial statements (Velte & Issa, 2019). Their effectiveness depends on a combination of technical competence, professional judgment, and tacit knowledge developed through education, training, and experience (Bol et al., 2018; Causholli et al., 2021). This expertise enables financial auditors to maintain objectivity and independence, particularly when navigating client pressures or complex reporting environments (Daoust & Malsch, 2020).

Audit practice is shaped by regulatory and professional standards that impose structured methodologies and documentation requirements. These coercive pressures—emanating from bodies such as the International Auditing and Assurance Standards Board (IAASB)—promote consistency and legitimacy in audit processes (Baker et al., 2014; Johnson et al., 2019). The International Standards on Auditing (ISA), for example, institutionalize expectations around audit quality, risk assessment, and independence, reinforcing standardized professional practices across jurisdictions (Boolaky et al., 2019).

Risk assessment is a foundational component of financial auditing, guiding financial auditors in identifying and evaluating risks of material misstatement through inherent, control, and detection risk considerations (Haskins & Dirsmith, 1995). Regulatory oversight and mandated methodologies constrain auditor judgment while ensuring consistent application of risk assessment frameworks (Schultz et al., 2010; Susilo, 2023). As sustainability-related issues increasingly affect financial performance—through asset impairment, going concern uncertainty, regulatory penalties, or reputational damage—financial auditors are compelled to consider sustainability risks within traditional audit risk models.

Recent studies show that sustainability risks are increasingly financially material and are shaping audit planning and pricing. Climate-related risks, for instance, are linked to higher audit fees due to greater complexity and uncertainty (Hartlieb & Eierle, 2024; Tuo et al., 2023). Regulators are also signaling that financial auditors must incorporate sustainability information into risk assessments (Pramukti, 2024). Firms with stronger sustainability performance are also less likely to receive qualified audit opinions (Dimitropoulos, 2025), and environmental, social, and governance (ESG) performance has been linked to lower perceived audit risk and reduced audit fees (Gidage & Bhide, 2025). Together, this evidence underscores the growing relevance of sustainability information for financial auditors.

However, integrating sustainability considerations into financial audit risk assessment remains challenging, particularly in developing countries. Weak enforcement, inconsistent regulatory expectations, and limited auditor training create uncertainty about how sustainability risks should be evaluated within financial audits (Ruiz-Barbadillo & Martínez-Ferrero, 2022). Understanding how Indonesian financial auditors navigate these evolving expectations is therefore essential for assessing the extent to which sustainability risks are substantively incorporated into audit planning and risk assessment.

3.2. Sustainability risk and its relevance to financial auditing

Sustainability risks—encompassing ESG factors—have become increasingly relevant to business performance and financial reporting. These risks can affect operational continuity, asset valuation, regulatory compliance, and stakeholder trust (Lenssen et al., 2014). Yet scholars argue that sustainability risk measurement often reflects symbolic or legitimacy-driven practices rather than robust risk management systems (Boiral et al., 2020). This aligns with institutional perspectives suggesting that organizations adopt sustainability practices to meet external expectations rather than to drive substantive change.

Regulatory frameworks worldwide, including GRI Standards, International Sustainability Standards Board (ISSB) requirements, and Indonesia's POJK 51, have introduced mandatory sustainability disclosures that require organizations to report sustainability risks (Lashitew, 2021; OJK, 2017). However, disclosure quality varies widely, with significant inconsistencies even among firms operating under the same regulatory regime (Dumay & Hossain, 2019). These inconsistencies create challenges for financial auditors who must interpret sustainability information that may be incomplete, non-standardized, or strategically constructed.

Although sustainability assurance has grown as a mechanism to enhance the credibility of sustainability disclosures (Fernandez-Feijoo et al., 2018), this study does not examine sustainability assurance practices. Instead, the focus is on how financial auditors interpret sustainability-related information when assessing risks of material misstatement. This distinction is critical: while assurance engagements evaluate sustainability reports directly, financial auditors must determine whether sustainability risks affect financial statement assertions such as valuation, completeness, or going concern.

Research shows that sustainability risks increasingly influence financial audit judgments. For examples: 1) climate-related risks have been linked to higher audit fees and expanded audit procedures (Hartlieb & Eierle, 2024), 2) environmental legislation, such as New Zealand's AGS 1010, has prompted financial auditors to incorporate environmental matters into financial audit planning (Chiang & Northcott, 2012), and 3) financial auditors often struggle to assess the materiality of sustainability information due to inconsistent metrics and limited guidance (Moroney & Trotman, 2016).

These challenges are even greater in developing countries, where sustainability regulations are less mature, and enforcement is weaker. Sustainability metrics such as ESG scores are often unreliable and may not reflect actual performance (Kathan et al., 2025; Suhardjo et al., 2024b), creating uncertainty for auditors assessing financial reporting implications. This is consistent with broader risk management research showing that sustainability factors increasingly shape organizational risk profiles and require integrated assessment approaches (Jagoda & Wojcik, 2019).

Overall, the literature highlights a growing expectation for financial auditors to integrate sustainability risks into audit planning and risk assessment, but also reveals substantial gaps in guidance, training, and regulatory enforcement. These tensions underscore the importance of examining how Indonesian financial auditors understand and respond to sustainability risks within the financial audit process.

4. RESEARCH METHODOLOGY

This study adopts a qualitative interpretive methodology to examine how coercive isomorphic pressures and institutional voids shape Indonesian financial auditors' knowledge, perceptions, and practices regarding sustainability risks within financial audit planning and risk assessment. An interpretive approach is appropriate because the research seeks to understand how auditors construct meaning around mandatory sustainability disclosures, how they interpret regulatory expectations, and how they navigate structural constraints arising from weak enforcement and limited institutional support. These processes are inherently subjective, socially embedded, and context dependent, making qualitative inquiry well-suited to capturing the nuances of auditors' reasoning and decision-making (Parker & Northcott, 2016).

Consistent with Lukka and Vinnari's (2014) distinction between domain theory and method theory, coercive isomorphism and institutional voids serve as the domain theories guiding this study. They provide the conceptual lens through which financial auditors' interpretations of regulatory mandates and institutional constraints are examined. This theoretical positioning informs the research design by directing attention to how financial auditors perceive external pressures (e.g., POJK 51, ISA requirements, firm-level expectations) and how institutional weaknesses—such as low-quality disclosures, limited guidance, and weak enforcement—shape their ability to operationalize sustainability risks within the audit risk model.

4.1. Research design

Semi-structured interviews were selected as the primary data collection method because they enable in-depth exploration of auditors' experiences while allowing flexibility to probe how coercive pressures and institutional voids manifest in practice. This approach aligns with prior auditing research on professional judgment, institutional pressures, and evolving audit responsibilities (Power & Gendron, 2015). Fifteen interviews were conducted with senior auditors, managers, and partners from Big Four and non-Big Four firms in Indonesia (Tables 1 and 2). Interviewees were recruited through the authors' professional networks using a purposive sampling strategy to ensure that participants had substantial experience in audit planning and risk assessment. This design enabled the study to capture informed perspectives on how sustainability risks are—or are not—incorporated into financial audit processes.

Table 1. Interviewee demography

Characteristic	*Classification*	*Number of interviewees (n = 15)*	
Type of audit firm	Big Four	6	40.0%
	Non-Big Four	9	60.0%
Position in an audit firm	Senior Auditor	2	13.3%
	Manager	4	26.7%
	Partner	9	60.0%
Years of experience in an audit firm	> 3 up to 5 years	2	13.3%
	>5 up to 10 years	4	26.7%
	More than 10 years	9	60.0%

Source: Author's elaboration.

Although the sample size may appear modest, qualitative research shows that code saturation typically occurs within 6–12 interviews for relatively homogeneous professional groups using semi-structured interviews and focused research questions (Hennink & Kaiser, 2022). This is consistent with Crouch and McKenzie's (2006) argument that smaller samples enhance the validity of in-depth inquiry, and with Malterud et al.'s (2016) emphasis on information power, where rich and relevant participant insights reduce the number of interviews required. In this study, interviews continued until theoretical saturation was reached, indicated by the absence of new themes in the final interviews.

Interviews were conducted via Zoom between October 2024 and January 2025, a format well-suited for geographically dispersed participants while still enabling rapport through visual interaction (Oliffe et al., 2021). Interview durations ranged from 31 to 67 minutes (Table 2), providing sufficient depth to explore auditors' interpretations of sustainability risks within financial audit contexts. All interviews were audio-recorded and transcribed verbatim, and those conducted in Indonesian were coded in the original language and translated into English to preserve meaning and contextual nuance.

Participants were selected based on professional role, experience level, and firm type. Only auditors directly involved in audit planning, risk assessment, and engagement decisions were included to ensure alignment with the study's focus on financial auditing (Bol et al., 2018). Senior auditors, managers, and partners with at least three years of experience were targeted to ensure familiarity with audit methodologies and regulatory expectations (Power & Gendron, 2015). Including auditors from both Big Four (Francis and Yu, 2009) and non-Big Four firms (Comprix & Huang, 2015) enhanced analytical depth by capturing variation in institutional capacity, training resources, and exposure to global audit methodologies, enabling examination of how different organizational contexts shape responses to coercive pressures such as POJK 51.

Table 2. List of interviewees, interviewees' position, undergrad graduation year, number of years after graduation, and interview duration

Interviewee	*Interviewee's position*	*Graduation year*	*Numbers of year after graduation*	*Interview duration (minutes)*
AUD01	Manager	2009	> 10–20 years	67
AUD02	Partner	1989	> 20 years	46
AUD03	Manager	2010	> 10–20 years	46
AUD04	Partner	1991	> 20 years	37
AUD05	Partner	1996	> 20 years	33
AUD06	Manager	2019	5–10 years	31
AUD07	Partner	2003	> 20 years	51
AUD08	Senior Auditor	2019	5–10 years	52
AUD09	Partner	1995	> 20 years	45
AUD10	Partner	1994	> 20 years	35
AUD11	Senior Auditor	2018	5–10 years	47
AUD12	Manager	2011	> 10–20 years	54
AUD13	Manager	2012	> 10–20 years	53
AUD14	Manager	2011	> 10–20 years	42
AUD15	Partner	1999	> 20 years	39

Source: Author's elaboration.

4.2. Data analysis and interpretation

The interview data were analyzed using Braun and Clarke's (2006) thematic analysis, a flexible method well-suited for identifying patterns in how financial auditors interpret regulatory pressures, sustainability risks, and audit responsibilities. The analysis followed six stages: familiarization, initial coding, theme development, theme review, theme definition, and narrative synthesis. Coding was both inductive—allowing themes to emerge from auditors' lived experiences—and theoretically informed by coercive isomorphism and institutional voids, enabling the analysis to capture how regulatory pressures and structural constraints shape auditors' interpretations and behaviors.

Data analysis combined deductive codes informed by institutional theory with inductive codes emerging from the transcripts. Initial coding focused on how auditors described sustainability risks, regulatory expectations, and audit methodologies, while subsequent coding examined how coercive pressures (e.g., regulatory mandates, firm policies, professional standards) interact with institutional voids (e.g., weak enforcement, low-quality disclosures, limited guidance) to influence auditors' ability to translate sustainability risks into audit procedures. This iterative approach enabled the study to trace how auditors navigate the tension between formal expectations and practical constraints, thereby illuminating the mechanisms underlying the risk translation gap.

Initial codes were refined into broader themes such as "knowledge gaps", "regulatory pressures", and "symbolic compliance", reflecting the challenges auditors face when integrating sustainability risks into financial audit processes (Morgan & Nica, 2020; Peel, 2020). Throughout the analysis, alignment with the theoretical framework was maintained by examining how coercive pressures and institutional voids shaped auditors' knowledge, judgments, and practices. The final themes were synthesized into a coherent narrative addressing the research questions and supported by illustrative quotations.

To strengthen reliability, a proofreader independently reviewed the interview transcripts and coding decisions, and discrepancies were discussed until consensus was reached. Throughout the analysis, we reflected on how our institutional theory framing might shape interpretation and mitigated potential bias by documenting analytic decisions, revisiting negative cases, and considering alternative explanations. Overall trustworthiness was ensured through established qualitative criteria: credibility through sustained engagement with the data and iterative theme refinement;

dependability through transparent documentation of analytical procedures; transferability through detailed contextual description of Indonesia's regulatory and audit environment; and confirmability by grounding interpretations in participants' accounts and maintaining reflexive awareness. Together, these strategies reinforce the rigor and contextual validity of the study's findings.

5. FINDINGS

The findings reveal how Indonesian financial auditors navigate the tension between coercive pressures created by mandatory sustainability reporting and the institutional voids that limit their ability to operationalize sustainability risks within financial audit planning. To explore this dynamic, the study examined how auditors understand, evaluate, and respond to sustainability-related information throughout the audit process. As summarized in Table 3, the thematic analysis identifies three interconnected themes: 1) financial auditors' limited and fragmented sustainability risk knowledge, 2) narrow financial lenses and inconsistent perceptions of materiality, and 3) emerging aspirations and capacity-building needs.

Table 3. Summary of themes based on thematic analysis

RQ	*Theme*	*Key findings*	*Institutional interpretation*
1	Limited and fragmented sustainability risk knowledge	• Superficial awareness of sustainability risks. • Misconceptions on audit relevance. • Sustainability seen as CSR/reporting, not audit-relevant. • Knowledge gaps more pronounced in non-Big Four firms.	Training and guidance gaps produce symbolic awareness—auditors see sustainability risks but cannot translate them into audit assessments, sustaining the risk translation gap.
2	Narrow financial lens and inconsistent perceptions of materiality	• Sustainability risks considered only when quantifiable. • Reframed through financial logic (impairment, going concern). • Low-quality POJK 51 disclosures limit audit use. • Weak enforcement reduces incentives for integration.	Weak disclosure and enforcement mean coercive pressures trigger only selective integration of sustainability risks, resulting in partial isomorphism and sustaining the risk translation gap.
3	Emerging aspirations and capacity-building needs	• Recognition of the future importance of sustainability risks. • Need for clearer regulatory guidance. • Demand for national training and curriculum reform. • Desire for improved reporting quality.	Future coercive pressures and current institutional voids produce conditional isomorphism—auditors expect sustainability risks to matter more but lack the infrastructure to integrate them, allowing the risk translation gap to persist.

Source: Author's elaboration.

All these themes show how coercive pressures heighten financial auditors' awareness of sustainability risks, while institutional voids—such as weak enforcement, low-quality disclosures, and limited guidance—constrain their ability to integrate such risks into audit planning and procedures. This interaction between regulatory expectations and structural constraints reinforces patterns of symbolic compliance and procedural decoupling, illustrating the mechanisms underlying the risk translation gap.

5.1. Limited and fragmented sustainability risk knowledge

This theme captures financial auditors' limited and fragmented understanding of sustainability risks within financial audit assessments. Across interviews, auditors described sustainability as "non-financial", "qualitative", or "outside the audit scope," often associating it with POJK 51 reporting rather than with financial statement assertions such as impairment, provisions, contingent liabilities, or going concern.

As one auditor admitted, "*Honestly, I do not know much; I have only a basic understanding*" (AUD05, personal communication, October 30, 2024), while another noted, "*I have definitely heard about it… since it is already a hot issue nowadays*" (AUD06, personal communication, October 31, 2024).

These comments show that coercive pressures have raised awareness but not substantive competence.

Although some auditors recognized that sustainability issues could affect business operations. One participant observed, "*If the entity itself does not commit properly, it can damage the trust of various stakeholders… and… affect the entity's going concern*" (AUD08, personal communication, November 19, 2024).

Auditors struggled to translate such insights into audit-relevant risks. This reflects symbolic awareness: auditors acknowledge the sustainability risks conceptually but lack the technical knowledge to integrate them into the audit risk model, consistent with the risk translation gap.

Institutional voids in training and guidance were a central driver of this gap. Several auditors reported never receiving sustainability-related training: "*Based on my experience, I never attend formal training specifically related to sustainability*" (AUD01, personal communication, October 16, 2024); "*Our continuing professional development has not covered sustainability-related topics*" (AUD02, personal communication, October 18, 2024), and noted that universities had not incorporated sustainability into accounting curricula. These voids mean coercive pressures are not reinforced by the institutional infrastructure needed to build competence.

"*During my university years, sustainability was not even a discussion point*" (AUD02, personal communication, October 18, 2024), and "*It was not*

taught at all since there was no sustainability material back then…" (AUD06, personal communication, October 31, 2024).

A structural disconnect also emerged between sustainability and traditional audit functions. Many auditors viewed sustainability as a separate assurance domain rather than part of financial audits: "*I never thought that audit needs to consider sustainability risks…*" (AUD11, personal communication, December 3, 2024) and "*So far, we never have any audit program consider sustainability risks because our firm understanding is that it is only for sustainability assurance*" (AUD15, personal communication, January 28, 2025).

Firms reinforced this separation by training only sustainability-assurance staff: "*We only train sustainability to the personnel assigned to our sustainability assurance services*" (AUD09, personal communication, November 22, 2024), reflecting formal rather than substantive adaptation.

Knowledge gaps were more pronounced among non-Big Four auditors, who had limited exposure to global methodologies or sustainability training. Big Four auditors showed slightly higher awareness but still lacked clarity on how to operationalize sustainability risks. As one auditor summarized, "*The knowledge gap is clear… we have never been involved or trained in understanding sustainability risks. We have only ever focused on financial statements…*" (AUD01, personal communication, October 16, 2024).

Although both financial auditor groups acknowledged that sustainability risks may have financial implications, their ability to translate these risks into audit planning differed markedly. Table 4 summarizes these differences.

Table 4. Systematic differences between Big Four and non-Big Four auditors

Dimension	*Big Four auditors*	*Non-Big Four auditors*
Knowledge of sustainability risks	Higher baseline knowledge, exposure to international training, and familiarity with climate-related financial impacts	Limited conceptual understanding; knowledge varies by individual experience
Methodological guidance	Clearer internal methodologies; structured templates for risk assessment	Minimal or no formal guidance; reliance on partner judgment
Exposure to international standards	Regular updates from global networks; integration of ISSB/IFRS sustainability developments	Limited exposure; dependence on local regulatory cues
Ability to translate sustainability risks into audit procedures	More consistent translation into planning memos, risk matrices, and substantive testing	Translation often absent; risks acknowledged but not operationalized
Reliance on ad-hoc judgment	Lower; decisions supported by firm methodology	Higher decisions shaped by personal experience and client context

Source: Author's elaboration.

Big Four auditors translate sustainability risks more effectively because they have structured methodologies, international training, and clearer expectations. Non-Big Four auditors face limited guidance, weaker institutional support, and inconsistent disclosures, so even when they recognize sustainability risks, they lack the tools to operationalize them within the audit risk model. Only sustainability risks with clear, quantifiable financial effects—such as going concern, impairment, regulatory penalties, and reputational damage—tend to enter audit planning. More qualitative or forward-looking risks (e.g., climate transition, social license, long-term environmental exposure) are rarely translated into procedures, reinforcing the risk translation gap.

These insights show that institutional voids in education, training, and guidance prevent coercive pressures from translating into meaningful knowledge development. As a result, financial auditors' understanding of sustainability risks remains largely symbolic, reinforcing the first stage of the risk translation gap and limiting the potential for substantive integration into financial audit practice.

5.2. Narrow financial lens and inconsistent perceptions of materiality

This theme examines how financial auditors assess the materiality of sustainability risks. Across interviews, auditors consistently treated sustainability as secondary unless it had clear, quantifiable financial implications. Sustainability issues were reframed through a narrow financial logic—for example, climate risks mattered only when linked to impairment, and reputational risks only when they threatened going concern. As one auditor noted, "*Sustainability is still not one of the main concerns in financial audits...*" (AUD01, personal communication, October 16, 2024), while another noted, "*Honestly, we are not really focused on sustainability… it is only recently that it started to gain attention. But I think it is still relatively weak...*" (AUD03, personal communication, October 23, 2024).

Weak enforcement under POJK 51 reinforced this limited response. Many auditors viewed sustainability as a separate assurance domain rather than part of financial audits: "*Sustainability is a topic for our assurance services in our firm*" (AUD09, personal communication, November 22, 2024); "*So far, we never have any audit program consider sustainability risks because our firm understanding is that it is only for sustainability assurance*" (AUD15, personal communication, January 28, 2025).

This compartmentalization allowed firms to maintain legitimacy without altering established audit routines.

Materiality perceptions also varied across firms. Big Four auditors were more likely to see sustainability risks as potentially material due to global methodologies and client expectations. Non-Big Four auditors often described sustainability as "not yet relevant" or "not required", reflecting weaker institutional pressures. As one auditor explained, *"… there are no audit assignment and program requesting us* [financial auditors] *to measure company's sustainability risks*" (AUD11, personal communication, December 3, 2024).

When financial auditors did respond to coercive pressures, they tended to reinterpret sustainability risks through existing financial frameworks rather than adopting new paradigms. As one auditor stated, "*It is not entirely separate… even before POJK was issued, it was already inherent there… going concern indeed had to be assessed by financial auditors*" (AUD02, personal communication, October 16, 2024).

This illustrates how institutional pressures are absorbed in ways that preserve traditional professional identities.

Procedurally, sustainability was often addressed through checklist-style work or basic compliance reviews: "*When included in audit procedures, we mainly check document completeness without deeply assessing the content*" (AUD04, personal communication, October 25, 2024).

Others emphasized that their focus remained on traditional regulatory compliance: "*… we focus on client's compliance with regulations…*" (AUD11, personal communication, December 3, 2024).

Low-quality POJK 51 disclosures further discouraged integration, with auditors describing reports as generic or unreliable. As one auditor observed, "*… but the real motive is cost efficiency, not environmental concern*" (AUD07, personal communication, November 11, 2024).

Despite these limitations, some auditors acknowledged sustainability's growing importance "*… we should not just look at the numbers and see if everything is compliant*" (AUD02, personal communication, October 18, 2024). But emphasized the need for clearer regulatory direction and stronger enforcement: "*… It is better to ensure 100% compliance and stricter regulation from government before involving auditors…*" (AUD14, personal communication, January 21, 2025); "*The government has the highest authority to push for all of this*" (AUD03, personal communication, October 23, 2024); "*Seems our government needs to emphasize stronger sustainability implementation*" (AUD15, personal communication, January 28, 2025).

Taken together, these findings illustrate partial isomorphism: auditors integrate sustainability risks only when institutional pressures—such as global firm policies or sophisticated clients—are strong enough to compel action. In the absence of robust enforcement, reliable disclosures, and clear guidance, sustainability remains peripheral to financial audit practice, reinforcing symbolic rather than substantive compliance and sustaining the risk translation gap.

5.3. Emerging aspirations and capacity-building

Despite current limitations, financial auditors expressed a growing recognition that sustainability risks will become increasingly relevant to financial audits. Many interviewees anticipated that future standards, investor expectations, and global audit methodologies would require deeper integration of sustainability considerations into audit planning and risk assessment. This forward-looking orientation reflects conditional isomorphism: auditors anticipate stronger coercive pressures in the future but currently lack the institutional infrastructure, guidance, and competencies needed for substantive implementation.

A central theme across interviews was the need for continuous learning and professional development. Financial auditors emphasized that sustainability-related competencies must be developed through ongoing education to meet evolving regulatory expectations. As one financial auditor explained, "*Training, seminars, and workshops help financial auditors stay updated on regulations, professional developments, and knowledge-sharing with other professionals*" (AUD02, personal communication, October 18, 2024).

Another added, "*Training and seminars are important for us to learn about sustainability, but I suggest that regulators need to ensure a single sustainability standard like IFRS in accounting*" (AUD07, personal communication, November 11, 2024).

These reflections illustrate financial auditors' adaptive responses to emerging coercive pressures and their recognition that sustainability-risk assessment requires new knowledge beyond traditional audit training.

Financial auditors also identified specific cognitive and analytical skills needed to respond to intensifying regulatory demands. They acknowledged that stricter sustainability regulations would require greater technical competence: "*Stricter regulations in the future will mean more tasks for financial auditors, making it essential to follow the existing regulations, understand them, and stay up to date with all the current information*" (AUD05, personal communication, October 30, 2024).

Another financial auditor highlighted the importance of analytical capacity: "*Strong reading skills are crucial; financial auditors must analyze public information, summarize key points, and apply them effectively*" (AUD06, personal communication, October 31, 2024).

These insights demonstrate auditors' awareness that sustainability-risk assessment requires enhanced interpretive and evaluative capabilities—skills currently underdeveloped due to institutional voids in training and guidance.

A recurring concern among financial auditors was the lack of alignment between regulatory mandates and professional guidance. Several interviewees stressed that POJK 51's requirements are not accompanied by clear expectations for financial auditors, creating uncertainty and inconsistent practice. As one financial auditor noted, "*There should be alignment between the regulations issued by the government and what the auditor is expected to do… when regulations are issued, there should also be professional guidelines available to help with implementation*" (AUD08, personal communication, November 19, 2024).

Another emphasized the need for explicit mandates: "*Indonesian government must issue a clear regulation on auditor's responsibility to check client's sustainability practices and implementation*" (AUD10, personal communication, November 27, 2024).

These comments reflect DiMaggio and Powell's (1983) argument that coercive pressures are most effective when supported by clear implementation mechanisms and professional standards.

Financial auditors also expressed concern that without standardized guidelines, sustainability risk assessment would be inconsistently applied across firms. As one financial auditor stated, "*If there are no rules or guidelines to follow, each auditor might*

implement them differently, and it could lead to inconsistencies" (AUD05, personal communication, October 30, 2024).

Another added, "*When financial auditors are tasked with verifying something, there should also be standards for how to conduct that verification*" (AUD06, personal communication, October 31, 2024).

These observations highlight the need for synchronized regulatory and professional frameworks to ensure consistent practice and reduce interpretive ambiguity.

Beyond professional development and regulatory alignment, financial auditors emphasized the need for educational reform to prepare future practitioners for sustainability-related audit responsibilities. Several interviewees argued that sustainability topics should be embedded in university curricula: "*Topics or courses related to sustainability should be included in the curriculum… graduates will already know what to focus on when they become financial auditors*" (AUD03, personal communication, October 23, 2024).

Another echoed this need: "*The curriculum should definitely be reviewed to ensure it covers sustainability adequately*" (AUD09, personal communication, November 22, 2024).

Participants also stressed the importance of foundational knowledge: "*Universities should incorporate sufficient course credits and subjects related to sustainability from the start… so graduates will at least have foundational knowledge*" (AUD13, personal communication, January 14, 2025).

These insights reflect how coercive pressures cascade through the professional ecosystem, eventually reshaping educational structures to reproduce new institutional expectations.

Taken together, these findings show that financial auditors increasingly recognize the importance of sustainability risks and the need for capacity building across regulatory, professional, and educational levels. Yet institutional voids in enforcement, guidance, and training continue to limit substantive integration. As a result, responses remain largely aspirational—reflecting conditional isomorphism until stronger coercive pressures and supporting infrastructures emerge.

6. DISCUSSION

The findings show that Indonesian financial auditors acknowledge sustainability as an emerging issue, yet their understanding remains limited and fragmented. This reflects broader shifts in accounting practice, where sustainability expands reporting beyond traditional financial boundaries (Çalişkan, 2014). Although POJK 51 has introduced mandatory sustainability disclosures, weak enforcement has produced largely formal rather than substantive compliance, consistent with DiMaggio and Powell's (1983) argument that weak enforcement produces symbolic adoption.

Similar to findings in developed contexts (Hartlieb & Eierle, 2024; Kammoun & Khoufi, 2025; Moroney & Trotman, 2016), financial auditors recognized that sustainability risks may affect financial viability. However, unlike settings where sustainability increasingly shapes audit judgments (Tuo et al., 2023), Indonesian financial auditors interpret these risks narrowly through financial materiality. This gap is reinforced by the fact that many senior auditors completed their education before sustainability topics entered accounting curricula (Adhariani & du Toit, 2020), contributing to persistent knowledge limitations.

Theoretically, the study shows how coercive isomorphism operates differently in weak enforcement environments. Financial auditors strategically protect professional boundaries by reframing sustainability through established audit logics—impairment, going concern, and regulatory compliance—rather than adopting new methodological approaches. This aligns with Chiang and Northcott's (2012) insights into how professionals negotiate emerging institutional demands and extends Baker et al.'s (2014) institutional perspective by showing how weak coercive pressures lead to compartmentalization and symbolic compliance.

The study also advances institutional theory by introducing the risk translation gap as a micro-level mechanism explaining why sustainability risks fail to enter audit planning. Unlike decoupling or symbolic compliance, which describe broad misalignments between formal structures and practice, the risk translation gap captures the specific point at which auditors recognize sustainability risks conceptually but cannot convert this recognition into audit procedures, documentation, or substantive testing. This mechanism clarifies how institutional voids—training gaps, low-quality disclosures, and limited guidance—interrupt the translation of coercive pressures into audit practice (Adhariani & du Toit, 2020; Rudyanto, 2021; Suhardjo et al., 2025).

The typology developed in this study illustrates a spectrum of auditor engagement—from passive awareness to aspirational alignment—showing how institutional pressures shape varying levels of integration. These findings reinforce evidence that knowledge gaps and limited guidance hinder sustainability-related audit work even in developed countries (Schaltegger & Zvezdov, 2015), but also show how such challenges are amplified in Indonesia's weak enforcement environment. They complement Appelbaum et al.'s (2024) double-materiality framework by illustrating auditors' difficulty in applying both financial and impact materiality under institutional constraints. Consistent with broader public-sector research (Bethlendi et al., 2020), weak enforcement leads to symbolic rather than substantive compliance.

Practically, the findings highlight the need for clearer regulatory guidance, stronger enforcement, and coordinated capacity building. Auditors noted that POJK 51 provides little direction for financial auditors, leading to inconsistent practice and limited integration of sustainability risks—echoing concerns in Indonesian sustainability reporting research (Adhariani & du Toit, 2020; Rudyanto, 2021; Suhardjo et al., 2025) and calls for stronger governmental leadership (Chiang & Northcott, 2012). Key needs include national training programs, updated audit methodologies, and curriculum reform.

These insights advance Causholli et al. (2021) and Bakarich et al. (2023) by showing that financial auditors are willing but not yet equipped to assess sustainability risks. They also reinforce Sisaye's (2011) argument that traditional accounting education is

inadequate and align with evidence that internal auditors lack sustainability-related skills (Soh & Martinov-Bennie, 2015). Strengthening training and professional development is therefore essential.

Contextually, the Indonesian setting reveals how institutional pressures cascade unevenly across the financial audit ecosystem. Differences between Big Four and non-Big Four firms, variability in disclosure quality, and the absence of sustainability-related training all contribute to fragmented responses. These dynamics align with Asiri et al.'s (2020) findings on regulatory pressures in developing regions and highlight the unique challenges of implementing sustainability mandates in environments with weak enforcement.

To synthesize the earlier three themes, Table 5 presents a typology of financial auditors' engagement with sustainability risks, illustrating how institutional pressures shape varying levels of integration within financial audit practice.

Table 5. Typology of financial auditors' engagement with sustainability risk

Engagement type	*Description*	*Connection to RQ*	*Institutional interpretation*	*Audit implication*
1. Passive awareness	Financial auditors recognize the sustainability conceptually but lack clarity on its financial audit relevance. Knowledge is superficial and fragmented.	*RQ1*: Reflects limited sustainability-risk knowledge and misconceptions about audit relevance.	Symbolic awareness driven by coercive pressure but constrained by institutional voids in training and guidance.	No integration into audit planning or risk assessment.
2. Compartmentalization	Sustainability is viewed as the responsibility of assurance teams, not part of financial audit work.	*RQ1* and *RQ2*: Shows knowledge gaps and narrow perceptions of materiality; sustainability is seen as 'outside audit scope'.	Symbolic compliance/parallel systems created by weak enforcement and fragmented institutional structures.	Sustainability risks excluded from risk matrices and audit procedures.
3. Financial reframing	Financial auditors consider sustainability risks only when they can be translated into financial terms (impairment, going concern, provisions).	*RQ2*: Demonstrates selective perception of materiality based on quantifiable financial impacts.	Partial isomorphism—integration occurs only when strong institutional pressures (Big Four methodologies, sophisticated clients) exist.	Selective integration into audit planning and substantive testing.
4. Aspirational alignment	Financial auditors express a desire to integrate sustainability risks more systematically but lack tools, guidance, and training.	*RQ3*: Highlights capacity-building needs and future-oriented expectations.	Conditional isomorphism—auditors anticipate future coercive pressures but face institutional voids that limit action.	Potential for future integration once standards, training, and reporting quality improve.

Source: Authors' elaboration.

7. CONCLUSION

This study examined how Indonesian financial auditors respond to mandatory sustainability reporting and why sustainability risks fail to enter the audit risk model in a substantive way. Using coercive isomorphism and institutional voids as dual theoretical lenses, the study shows that while POJK 51 has increased auditors' awareness of sustainability issues, weak enforcement, low-quality disclosures, and limited methodological guidance prevent these pressures from translating into meaningful changes in audit practice.

The findings reveal a persistent risk translation gap: auditors recognize the sustainability risks conceptually but struggle to operationalize them within audit planning, risk assessment, and substantive testing. This gap reflects the interaction between coercive pressures that generate formal expectations and institutional voids that constrain auditors' capacity to act.

Theoretically, the study advances institutional research in auditing by demonstrating how coercive isomorphism operates unevenly in developing country contexts. Financial auditors respond to sustainability mandates through symbolic awareness, compartmentalization, and selective financial reframing—patterns shaped by the absence of strong institutional supports.

By integrating institutional voids into this analysis, the study shows that weak regulatory enforcement, inconsistent disclosure quality, and limited professional infrastructure collectively undermine the transformative potential of sustainability regulation. This dual theory framing clarifies why mandatory reporting alone is insufficient to shift entrenched audit routines and contributes to a more nuanced understanding of how institutional pressures shape professional judgment in emerging regulatory fields.

Practically, the findings highlight the need for coordinated reforms across the regulatory and professional ecosystem. Clearer guidance on auditors' responsibilities, stronger enforcement of sustainability reporting requirements, improved disclosure quality, and national-level training initiatives are essential to support substantive integration of sustainability risks into financial audits.

Educational institutions also play a critical role in embedding sustainability competencies into accounting curricula to prepare future auditors for evolving expectations. Without these institutional supports, coercive pressures will continue to produce symbolic rather than substantive compliance, limiting the effectiveness of sustainability regulation.

While providing new insights into sustainability risk assessment, several limitations should be acknowledged. This evidence is drawn from Indonesian financial auditors, which may limit the transferability of findings to other regulatory and cultural contexts. The focus on financial auditors' perspectives also captures only part of the sustainability risk ecosystem, underscoring the need for future multi-stakeholder research that includes regulators, investors, and management. Finally, the analysis relies on self-reported practices rather than triangulated audit-file or client-side data, suggesting opportunities for future studies to combine interview evidence with documentary data.

Future research should pursue comparative studies across developing countries to identify common challenges and variations in sustainability risk assessment, employ mixed-method approaches combining qualitative interviews with quantitative analyses, and explore innovative research directions such as investigating technological innovations' role in sustainability risk assessment, examining professional education's impact on financial auditors' competencies, and analyzing the relationship between sustainability risk assessment and sustainability performance.

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