Summary of Paper: Comparing Auditors' and Users' Materiality Judgments for ESG and Traditional Financial Disclosures: The Roles of Disclosure Form and Valence

What is this study about?

This study examines whether auditors and financial statement users (such as investors) evaluate the importance (materiality) of environmental, social, and governance (ESG) disclosures differently than traditional financial disclosures. As ESG assurance becomes more common and regulators increasingly require independent assurance over ESG reporting, understanding these differences is essential. The researchers conducted an experiment involving 108 experienced auditors (86% CPAs with an average of 7.2 years of experience) and 190 financial statement users who evaluated eight disclosures that varied by whether they were ESG or financial, qualitative or quantitative, and positive or negative.

What are the major findings of the study?

The study found a consistent materiality gap between auditors and users, with auditors generally rating disclosures as less important than users. This gap was significantly larger for ESG disclosures than traditional financial disclosures. It also widened for qualitative disclosures and positive disclosures. Both groups viewed negative information as more important than positive information, but auditors discounted positive information much more than users. Importantly, quantitative and negative disclosures narrowed the materiality gap for traditional financial reporting, but these factors did not reduce the gap for ESG reporting.

Why is the study important?

As ESG assurance expands globally, auditors will increasingly need to exercise professional judgment over information that is often subjective and lacks established materiality benchmarks. The findings suggest auditors may unintentionally underemphasize ESG information that investors consider decision-useful, increasing the risk that significant ESG issues receive insufficient audit attention.

What is the impact on professional practice and society at large?

The results have important implications for audit quality, investor confidence, and regulatory policy. Firms may need additional ESG-specific materiality guidance, auditor training, and decision aids to better align assurance judgments with stakeholder expectations. Improved ESG

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assurance can help reduce greenwashing risk, enhance market transparency, strengthen corporate accountability, and support more informed investment decisions as global ESG assets are projected to exceed $40 trillion by 2030.

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