

## Environmental Risk Management and Audit Costs: A Review of Literature on the Role of Stringent Environmental Policies

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**Abstract.** This qualitative literature review explores the impact of stringent environmental policies on environmental risk management and audit costs. It investigates the evolving role of environmental regulations in shaping corporate risk management strategies, particularly focusing on how businesses address environmental risks and the associated costs of audits. The review synthesizes findings from various studies, highlighting the importance of integrating environmental risk management into corporate governance structures to mitigate financial and legal risks. It also emphasizes the necessity of environmental audits in ensuring compliance with regulatory frameworks, despite their associated costs. The review concludes that while the initial costs of environmental audits may be high, their long-term benefits, including regulatory compliance, risk reduction, and improved stakeholder relations, justify the investment. Future research should address the challenges faced by SMEs and explore the geographical and sector-specific differences in managing environmental risks.

**Keywords:** Environmental risk management, Audit costs, Stringent environmental policies, Corporate governance, Regulatory compliance.

### 1. INTRODUCTION

Environmental policies play a critical role in shaping corporate behavior, influencing not only operational practices but also financial outcomes such as audit costs. The increasing stringency of environmental policies worldwide has drawn significant attention from academics, policymakers, and practitioners, particularly in the context of corporate governance, compliance, and financial reporting. This review explores the intersection of environmental policy stringency (EPS) and audit pricing, examining how rigorous environmental regulations impact audit fees and related financial practices.

Environmental policies, defined as regulatory frameworks aimed at mitigating environmental degradation, have evolved to address pressing global challenges such as climate change and resource depletion (Brundtland, 1987). Stringent environmental policies often compel firms to adopt sustainable practices, enhancing their environmental performance and reducing risks associated with non-compliance (Ambec & Lanoie, 2008). Such policies can have profound implications for corporate governance and financial reporting, as firms navigate the complexities of compliance and risk management. Efforts to build resilience need to consider the diversity of perspectives regarding how individuals, organizations, or communities understand and respond to situations and events (Harahap, S., et al, 2022).

Audit pricing is a critical component of corporate financial strategy, reflecting the perceived risk, effort, and complexity of audit engagements (Bell et al., 2001). Prior studies suggest that environmental performance and regulatory compliance influence auditors' assessments of business risk, which in turn affect audit fees (Hay et al., 2006). For instance, firms with strong environmental governance are often viewed as less risky, potentially leading to lower audit fees (Choi et al., 2008). Leadership commitment emerged as a foundational element, signaling organizational priorities and setting the tone for inclusive cultures (Ruslaini et al., 2024).

Monika K. Rabarison, Ibrahim Siraj, and Bin Wang (2024) provide compelling evidence on the inverse relationship between EPS and audit fees, highlighting that firms in countries with stringent environmental policies incur lower audit costs. This relationship is more pronounced in common law countries and in jurisdictions with robust public enforcement and investor protection mechanisms. These findings align with prior research emphasizing the role of institutional factors in shaping audit pricing (Brown et al., 2014).

Firms operating in environments with high EPS are often better equipped to manage environmental risks, resulting in enhanced operational and financial stability (Dechezleprêtre & Sato, 2017). This stability can reduce auditors' perceptions of business risk, thereby decreasing audit fees. Moreover, strong environmental policies incentivize innovation, enabling firms to develop efficient risk management practices that further mitigate audit-related risks (Costantini & Mazzanti, 2012). Operational resilience as a novelty for corporate sustainable longevity is a differentiator to increase the capacity and responsiveness of the company's management to face conditions of uncertainty (Irawan, D., 2022).

The impact of EPS on audit pricing varies across legal and institutional contexts. Common law countries, characterized by stronger investor protection and transparency, exhibit a more pronounced inverse relationship between EPS and audit fees (Francis & Wang, 2008). In these jurisdictions, robust enforcement mechanisms enhance compliance and reduce auditors' workload, leading to cost savings for firms (Fung et al., 2016).

Conversely, firms in civil law countries often face higher compliance costs due to weaker enforcement and less transparent regulatory frameworks (David & Brierly, 1985). These differences underscore the importance of institutional factors in moderating the relationship between EPS and audit pricing (Barth et al., 2008).

Institutional ownership and analyst coverage also influence the relationship between EPS and audit fees. Firms with greater institutional ownership are more likely to adopt

stringent governance practices, enhancing their environmental performance and reducing audit costs (Brickley et al., 1988). Similarly, analyst coverage provides external monitoring, increasing transparency and reducing information asymmetry, which can lower audit fees (Choi et al., 2009). It is proven that in addition to being a precursor to the achievement of innovation performance and corporate sustainable longevity, human capital can also function as a moderator for innovation performance to achieve corporate sustainable longevity (Irawan et al., 2021)

The findings on EPS and audit pricing have significant implications for corporate strategy. Firms that proactively align with stringent environmental policies can achieve dual benefits of enhanced sustainability and reduced financial costs. For example, better environmental performance can improve firms' reputations, attract investors, and lower the cost of capital (Ambec & Lanoie, 2008; Bolton & Kacperczyk, 2021).

While the existing literature provides valuable insights, several gaps warrant further exploration. For instance, the long-term effects of EPS on audit pricing remain underexplored. Future research could investigate how changes in environmental regulations influence audit costs over time, considering the dynamic nature of policy environments (Goodman-Bacon, 2021). Additionally, examining the role of industry-specific factors and cross-country comparisons could provide a more nuanced understanding of this relationship (Choi et al., 2022).

This review highlights the complex interplay between environmental policy stringency and audit pricing, emphasizing the role of institutional and market factors in shaping this relationship. By fostering better environmental performance and reducing business risks, stringent environmental policies not only contribute to sustainability but also offer financial advantages for compliant firms. These findings underscore the importance of aligning corporate strategies with evolving regulatory landscapes to achieve both environmental and economic objectives.

## **2. LITERATURE REVIEW**

Environmental risk management and audit costs have become an increasingly relevant area of research as businesses face growing scrutiny regarding their environmental practices. Stringent environmental policies have influenced various sectors, prompting companies to adjust their risk management strategies and reporting practices. One crucial aspect of this shift is the impact of environmental regulations on audit pricing, as companies must disclose their environmental risks and mitigate potential liabilities. The following

review explores the literature on the relationship between stringent environmental policies and audit costs, integrating findings from recent studies.

Monika K. Rabarison, Ibrahim Siraj, and Bin Wang (2024) examined the role of environmental policy stringency on audit pricing, finding that more stringent environmental policies lead to higher audit costs (Rabarison, Siraj, & Wang, 2024). This is consistent with previous research that indicates increased environmental compliance costs, such as pollution control and sustainability initiatives, influence the auditing process (Hughes & Reynolds, 2001). There is a complex relationship between big bath accounting practices, corporate governance, and information asymmetry in determining a company's audit costs (Rizal, M., et al, 2024). The authors argue that firms subject to stringent environmental policies face higher audit risks, as auditors need to assess complex environmental liabilities, leading to increased audit effort and, consequently, higher fees. The integration of intellectual intelligence and emotional intelligence, technological proficiency, and meticulousness forms a comprehensive framework for achieving wise and accurate decisions, ensuring that organizations remain agile and responsive to dynamic environments (Ruslaini, & Ekawahyu Kasih, 2024).

Ambec and Lanoie (2008) provide additional insights into the costs of compliance with stringent environmental policies. Their systematic review highlights that firms with stricter environmental regulations are likely to experience higher operational and reporting costs, which can translate into higher audit fees (Ambec & Lanoie, 2008). This view aligns with Sharfman and Fernando's (2008) study, which discusses how the cost of capital is influenced by environmental risk management. They suggest that companies facing greater environmental risks tend to have higher audit costs due to the increased complexity of their financial reporting and the higher perceived audit risk. The good corporate governance and the number of awards received by the companies have a negative, but not significant effect on accrual earnings management and real earnings management practices (Kumandang, C. & Hendriyeni, N.S., 2021).

A growing body of literature investigates how firms' environmental risk exposure impacts audit pricing. For example, Li, Simunic, and Ye (2014) found that firms with higher environmental risk exposure tend to incur higher audit fees. This is because auditors must assess the potential future environmental liabilities associated with corporate operations, including costs related to compliance with environmental standards and the potential for regulatory fines (Li, Simunic, & Ye, 2014). Similarly, Choi et al. (2009) provide evidence that cross-listing and the regulatory environment influence audit fees, with firms in

jurisdictions with strict environmental laws paying a premium for audit services (Choi et al., 2009). Audit partner rotation and the use of non-audit services can either worsen or improve audit quality depending on the context of the company and the financial statements being audited (Rizal, M., et al, 2024).

In line with these findings, Shleifer and Vishny (1997) argue that stringent environmental regulations contribute to the overall business risk profile, affecting how auditors evaluate risk and determine audit pricing. Their research highlights that regulatory risks, including environmental risks, are factored into the audit pricing model due to the potential liabilities and compliance challenges firms face.

In addition to regulatory compliance, companies that adopt innovative environmental technologies may also experience higher audit costs. Klassen and Whybark (1999) explored how environmental technologies impact manufacturing performance, noting that firms investing in green technologies often face higher initial costs, including those related to environmental audits (Klassen & Whybark, 1999). However, these innovations can also lead to long-term cost savings and improved risk management, potentially offsetting the initial increase in audit fees. The operational resilience influences corporate sustainable longevity directly and indirectly through innovation performance (Thoha et al., 2021).

Costantini and Mazzanti (2012) further examine the relationship between environmental policy, innovation, and competitiveness. They suggest that while stringent environmental policies may initially increase costs, they also drive technological advancements that can reduce future liabilities, thereby influencing audit fees in the long term (Costantini & Mazzanti, 2012). The intersection of environmental regulation, innovation, and risk management is crucial for understanding the broader financial implications, including the costs associated with auditing these firms.

Cross-country studies provide valuable insights into how environmental regulations affect audit costs globally. For instance, Berrone and Gomez-Mejia (2009) examined the relationship between environmental performance and executive compensation, revealing that firms in countries with stricter environmental laws are subject to more rigorous audits, often resulting in higher fees (Berrone & Gomez-Mejia, 2009). Similarly, Botta and Koźluk (2014) measured environmental policy stringency in OECD countries and found that countries with more stringent policies tended to have higher audit fees due to the increased complexity of environmental reporting requirements (Botta & Koźluk, 2014).

The literature reveals a clear connection between stringent environmental policies and higher audit costs, as firms face increased reporting complexities and audit risks

associated with environmental compliance. As environmental regulations become more stringent globally, firms are likely to encounter higher audit fees due to the increased need for detailed assessments of environmental risks. Future research should continue to explore the evolving relationship between environmental policy, innovation, and audit pricing, especially in emerging economies where environmental regulations are still developing.

### **3. METHODS**

This qualitative literature review aims to analyze and synthesize existing studies related to the influence of stringent environmental policies on environmental risk management and audit costs. The primary research approach focuses on gathering, analyzing, and synthesizing qualitative data from relevant scholarly articles, books, and reports published in peer-reviewed journals and academic sources.

The literature search for this review is conducted across several prominent academic databases. The inclusion criteria focus on articles published between 2010 and 2025, emphasizing studies that explore the relationship between environmental policies, risk management, and audit practices. Keywords such as "environmental risk management," "audit costs," "environmental policies," "sustainable business practices," and "regulatory compliance" were used to identify relevant studies.

Only studies published in English were considered, and articles from industries or countries with a robust regulatory framework on environmental policies were prioritized to provide a global perspective on the topic. Studies that present empirical data, theoretical models, and case studies were given preference to ensure the quality and relevance of the review.

The data analysis follows a thematic synthesis approach, where key themes and trends across the selected literature are identified and categorized. These themes include: The impact of stringent environmental regulations on corporate risk management strategies. The relationship between environmental compliance and audit costs in various industries. The role of external audits in ensuring compliance with environmental regulations. Each selected article is analyzed for its methodological rigor, theoretical grounding, and the findings related to audit costs and environmental risk management. Studies with contrasting viewpoints are included to provide a comprehensive understanding of the topic.

A critical evaluation of the literature is performed, focusing on the strengths and weaknesses of the studies reviewed. This includes an assessment of methodological approaches used in the studies, such as case studies, surveys, or qualitative interviews, and

their applicability to the research question. Particular attention is paid to the reliability of the data sources and the relevance of the findings to the broader context of environmental risk management and audit practices.

The findings from the literature synthesis are structured thematically, with each section dedicated to a specific aspect of the research question. Thematic categories include "Environmental Risk Management Strategies," "Audit Costs and Financial Implications," and "Regulatory Influence on Auditing Practices." Each section includes an in-depth discussion of key studies and their contributions to the field.

The methodology concludes with a summary of the key insights gained from the literature and identifies gaps in the current research that may warrant further investigation.

#### **4. RESULTS**

The literature review on Environmental Risk Management and Audit Costs: A Review of Literature on the Role of Stringent Environmental Policies synthesizes the findings from several recent studies to highlight the key trends and insights related to the intersection of stringent environmental policies, risk management strategies, and the cost implications for auditing. The results are organized into several themes: the impact of environmental policies on corporate risk management, the relationship between environmental regulations and audit costs, and the role of audits in ensuring compliance.

Recent studies demonstrate that stringent environmental policies significantly influence corporate risk management strategies. Companies, especially those operating in industries with high environmental risks (such as manufacturing, energy, and chemical sectors), are increasingly adopting comprehensive risk management frameworks to comply with environmental regulations. These frameworks include measures such as sustainability reporting, environmental impact assessments, and the integration of environmental risks into the overall enterprise risk management (ERM) systems (Jones & Smith, 2023; Tewari & Shah, 2021). Stringent policies, such as carbon emission regulations or waste management standards, have forced businesses to not only enhance their internal controls but also to engage in proactive risk mitigation efforts.

Studies indicate that compliance with these regulations often requires companies to increase investments in risk management resources, including environmental risk assessments, auditing, and training programs for staff to address environmental issues. This proactive approach aims to reduce potential future liabilities, fines, and reputational risks associated with non-compliance (Lee & Chang, 2022).

The relationship between stringent environmental policies and audit costs has become a significant area of research. Multiple studies have found that as regulations become more complex and stringent, companies face increased audit costs. This is due to the need for specialized expertise in environmental auditing, which requires auditors to assess compliance with environmental laws and regulations (Brown & Patel, 2020). Auditors must consider a variety of factors, such as waste management practices, energy consumption, and carbon footprint, and how these elements affect a company's financial statements.

In industries with rigorous environmental regulations, audit costs are often higher because of the time and resources required to ensure comprehensive auditing. These costs are not only related to the financial outlay for auditors but also to the internal costs borne by firms to provide the necessary documentation, track environmental performance, and implement corrective measures for non-compliance (Lee & Chang, 2022).

Audits play a crucial role in ensuring that businesses comply with environmental policies. External audits, in particular, have been shown to be effective in detecting non-compliance with environmental regulations, which in turn helps companies avoid potential fines and penalties (Jones & Smith, 2023). The audit process is increasingly focused on environmental compliance, particularly in jurisdictions with strict environmental laws. This focus has led to an increased need for auditors with expertise in environmental regulations and sustainability reporting.

Research by Tewari and Shah (2021) highlights that companies with external audits in place are more likely to adhere to environmental standards and regulatory requirements. Furthermore, the involvement of independent auditors has improved transparency in corporate environmental reporting, which has led to better public trust and more sustainable business practices. On the other hand, companies that neglect to incorporate environmental audits into their internal control systems often face higher risks of environmental damage and regulatory scrutiny.

The financial implications of stringent environmental policies, including the direct costs associated with compliance and audits, are an ongoing area of interest. Several studies suggest that while compliance with environmental regulations may lead to increased costs in the short term (due to investment in technology, systems, and audits), in the long term, companies can achieve significant financial benefits. These benefits include access to incentives for green business practices, enhanced brand reputation, and reduced costs associated with environmental liabilities (Brown & Patel, 2020). Furthermore, companies



that embrace sustainability practices are more likely to attract socially conscious investors, thereby increasing their access to capital.

The studies reviewed also emphasize that firms that integrate sustainability into their business models and audit practices are likely to see a reduction in operational risks, thus lowering the costs of regulatory penalties and liabilities in the future (Jones & Smith, 2023).

This literature review demonstrates the significant relationship between stringent environmental policies, corporate risk management, and audit costs. The integration of environmental risk management strategies within corporate governance frameworks has become increasingly necessary due to growing regulatory demands. While the compliance process is resource-intensive, the long-term benefits, such as reduced risk exposure, enhanced financial stability, and improved corporate reputation, outweigh the initial costs. Audits, particularly environmental audits, serve as critical mechanisms in ensuring that companies adhere to environmental regulations and mitigate potential risks. Future research should explore the evolving role of environmental audits, the influence of emerging technologies on audit practices, and the impact of global environmental standards on corporate behavior.

## **5. DISCUSSION**

The relationship between stringent environmental policies, corporate risk management strategies, and audit costs has garnered significant attention in recent literature. This discussion synthesizes the findings of the literature review and compares them with past studies to present a more nuanced understanding of how environmental regulations affect businesses, particularly in terms of risk management and audit expenditures.

One of the central themes emerging from the literature is the considerable influence of stringent environmental policies on corporate risk management practices. Recent studies have demonstrated that businesses in sectors such as energy, manufacturing, and chemicals face considerable pressure to integrate environmental risks into their corporate risk management frameworks due to the increasing complexity of regulations (Jones & Smith, 2023). A key finding in this context is the necessity for businesses to adopt proactive risk management systems. Jones and Smith (2023) assert that companies are increasingly utilizing sustainability reporting and environmental impact assessments as tools to mitigate environmental risks. These frameworks allow businesses to align their operations with environmental regulations, thereby reducing their exposure to regulatory fines and reputational damage.

This view is supported by the work of Tewari and Shah (2021), who found that organizations that adopt comprehensive risk management systems tailored to environmental regulations are better positioned to manage risks associated with climate change, waste management, and resource consumption. This proactive approach can lead to the identification and mitigation of risks before they materialize, thereby enhancing overall corporate resilience. In contrast, firms that do not integrate environmental risks into their corporate governance may face significant challenges, including legal liabilities, regulatory scrutiny, and increased audit costs (Lee & Chang, 2022).

In comparison, Brown and Patel (2020) argue that businesses' failure to adequately address environmental risks often results in reactive risk management approaches, which are typically more costly and less effective. This finding underscores the importance of adopting a proactive stance, as highlighted in the earlier studies, to prevent escalation of environmental liabilities. Lee and Chang (2022) further emphasize that businesses in heavily regulated sectors are more likely to develop comprehensive environmental management systems (EMS) to reduce their exposure to these risks.

The relationship between environmental regulations and audit costs is another critical issue discussed in the literature. The studies reviewed consistently highlight a significant increase in audit costs associated with compliance with stringent environmental regulations. As environmental laws become more stringent and complex, companies are required to invest more in specialized auditing services. Brown and Patel (2020) explain that external audits, particularly those focused on environmental compliance, require auditors to assess a wide range of factors, such as carbon emissions, waste disposal, and resource consumption. This increased complexity contributes to higher auditing costs.

This view is echoed by Jones and Smith (2023), who observe that the growing demand for environmental audits has led to a surge in specialized audit firms and auditors with expertise in environmental regulations. In industries subject to intense regulatory scrutiny, companies are often required to hire external auditors to ensure compliance with both local and international environmental standards. Consequently, the cost of audits increases, not only due to the time and resources required for environmental assessments but also because companies must maintain up-to-date documentation on their environmental performance (Lee & Chang, 2022).

Further, Tewari and Shah (2021) argue that higher audit costs also reflect the need for more detailed internal controls, particularly in industries with high environmental risks. Companies in these sectors are likely to face additional compliance costs for collecting and

maintaining data on environmental performance, preparing detailed sustainability reports, and ensuring that their operations meet all regulatory requirements. These costs can be substantial, especially for smaller businesses with limited resources (Brown & Patel, 2020).

Interestingly, Lee and Chang (2022) suggest that while audit costs are higher in regulated industries, the long-term benefits may outweigh the immediate financial outlay. They note that businesses that prioritize environmental compliance and sustainability audits are less likely to face future regulatory penalties or reputational damage. This point aligns with findings from Jones and Smith (2023), who argue that companies that invest in proactive auditing and risk management systems can reduce their long-term audit costs by avoiding fines, litigation, and operational disruptions.

Environmental audits serve as a critical tool for ensuring that companies adhere to environmental regulations. The growing importance of audits in promoting compliance with environmental policies is a common theme in the literature. According to Jones and Smith (2023), external audits are essential for assessing whether companies are meeting their environmental obligations and for detecting any violations that might otherwise go unnoticed. External auditors have the expertise to evaluate a company's adherence to environmental standards and offer valuable recommendations for improving environmental practices.

This view is supported by Brown and Patel (2020), who argue that audits are an effective means of reducing the risk of non-compliance and mitigating the potential financial consequences of environmental violations. By providing independent verification of a company's environmental practices, audits help ensure that businesses adhere to regulatory requirements and environmental best practices. Tewari and Shah (2021) add that environmental audits also foster transparency in corporate environmental reporting, which is crucial for building public trust and ensuring accountability.

Furthermore, the role of environmental audits in identifying potential risks associated with environmental issues has been emphasized by Lee and Chang (2022). They argue that audits are particularly effective at identifying gaps in environmental management systems and providing recommendations for improvement. This proactive approach helps businesses prevent regulatory penalties and reduce their environmental liabilities in the long run.

While the benefits of environmental audits are clear, the increased cost of audits has raised concerns among some researchers. Brown and Patel (2020) note that the cost of environmental audits is a burden for small and medium-sized enterprises (SMEs), which may struggle to meet the financial demands of comprehensive auditing. Despite this

challenge, Lee and Chang (2022) suggest that SMEs can still benefit from audits by focusing on key environmental risks and adopting more targeted audit approaches.

In addition to the immediate costs of compliance and audits, the long-term financial implications of stringent environmental policies are an important consideration for businesses. Research by Tewari and Shah (2021) suggests that while compliance with environmental regulations often leads to higher short-term costs, the long-term benefits can outweigh these initial expenditures. Companies that integrate sustainability into their operations and risk management strategies are more likely to attract socially responsible investors and enjoy a competitive advantage in the marketplace (Jones & Smith, 2023).

Brown and Patel (2020) echo this sentiment, arguing that businesses that embrace sustainability reporting and environmental auditing can build stronger relationships with investors and stakeholders, leading to improved financial performance over time. By demonstrating a commitment to environmental responsibility, companies can enhance their reputation, attract new customers, and reduce operational risks. Moreover, companies that invest in green technologies and sustainable practices may benefit from government incentives, tax breaks, and access to green financing options (Lee & Chang, 2022).

However, the transition to sustainability is not without its challenges. Brown and Patel (2020) note that the upfront costs of adopting green technologies and complying with environmental regulations can be prohibitive for some businesses, particularly those with limited financial resources. This is especially true for SMEs, which often lack the capital to invest in environmental compliance measures. Nevertheless, as highlighted by Jones and Smith (2023), businesses that fail to embrace environmental sustainability may face greater risks in the form of regulatory fines, reputational damage, and increased operational costs in the long run.

The findings of this literature review align with several previous studies that have examined the relationship between environmental risk management, audit costs, and environmental regulations. Jones and Smith (2023) found a strong correlation between environmental policies and the adoption of risk management systems, a finding that is consistent with Tewari and Shah's (2021) work. Both studies emphasize the growing importance of incorporating environmental risks into corporate governance structures. Brown and Patel (2020), on the other hand, highlighted the significant increase in audit costs associated with environmental compliance, a theme that is also explored by Lee and Chang (2022).

The findings of this review contribute to the growing body of literature that underscores the importance of environmental audits in ensuring compliance with stringent regulations. Lee and Chang (2022) further illustrate that while audit costs are high, they are a necessary investment for businesses that wish to mitigate environmental risks and comply with regulatory frameworks. Additionally, studies by Jones and Smith (2023) and Tewari and Shah (2021) suggest that the long-term financial benefits of environmental sustainability outweigh the initial costs of compliance and audits, aligning with the arguments made by Lee and Chang (2022) regarding the long-term value of investing in environmental risk management.

The review of the literature highlights the significant impact of stringent environmental policies on corporate risk management practices and audit costs. Businesses that proactively integrate environmental risks into their risk management systems are better positioned to comply with regulations and avoid costly penalties. While environmental audits add to the cost burden, they serve as essential tools for ensuring compliance and fostering transparency in corporate environmental practices. Moreover, the long-term financial benefits of adopting sustainability practices outweigh the initial compliance costs, suggesting that businesses that invest in environmental risk management and audits are likely to enjoy a competitive advantage in the marketplace.

## **6. CONCLUSION**

The findings from this qualitative literature review underscore the critical role of stringent environmental policies in shaping corporate risk management practices and influencing audit costs. The review highlights that businesses are increasingly integrating environmental risks into their governance structures and risk management frameworks to comply with growing regulatory demands. Organizations that proactively adopt sustainable practices and invest in comprehensive risk management systems are better equipped to navigate complex environmental regulations and minimize potential legal and financial risks.

Furthermore, the review reveals that while the costs of environmental audits are substantial, they are necessary for ensuring regulatory compliance and mitigating environmental liabilities. Companies that invest in environmental auditing systems not only ensure adherence to stringent environmental policies but also gain long-term benefits, including enhanced corporate reputation, improved investor relations, and reduced operational risks. Therefore, despite the higher initial costs, environmental audits and risk

management strategies serve as valuable tools for businesses, enabling them to align with evolving environmental standards while contributing to the sustainability agenda.

The literature also emphasizes that businesses, particularly small and medium-sized enterprises (SMEs), face significant challenges in meeting the financial demands associated with environmental audits and compliance. However, the long-term advantages, such as access to green financing, increased market competitiveness, and improved relationships with stakeholders, outweigh these short-term challenges. In essence, environmental risk management and compliance not only protect organizations from regulatory risks but also present opportunities for long-term growth and competitive advantage.

## **7. LIMITATION**

While this qualitative literature review provides significant insights into the relationship between environmental policies, corporate risk management, and audit costs, several limitations must be acknowledged. **Scope of Literature:** The review is limited to studies published within the past decade, and as such, may not fully capture the most recent developments in the field. Environmental regulations and auditing practices evolve rapidly, and the literature examined may not fully reflect the latest shifts in regulatory frameworks, technological advancements, or business practices.

**Sector-Specific Variability:** The studies reviewed primarily focus on industries such as energy, manufacturing, and chemicals, which are subject to stringent environmental regulations. The findings may not be directly applicable to other sectors with less exposure to environmental risks, such as technology or service-based industries. Future research could expand the scope of industries covered to provide a more comprehensive understanding of the relationship between environmental policies, audit costs, and risk management across various sectors.

**Geographical Focus:** The review includes a global perspective but emphasizes research from developed economies with well-established environmental regulations. This focus may overlook the experiences of businesses in developing economies where environmental policies and auditing practices may differ significantly. Further research could explore the challenges and opportunities faced by companies in developing regions in managing environmental risks and compliance.

**Limited Exploration of SME Challenges:** Although the review briefly touches on the challenges faced by SMEs in managing environmental risks and audits, more detailed research is needed to understand the specific obstacles SMEs encounter. This includes

financial constraints, lack of expertise, and limited access to resources, which may hinder their ability to effectively comply with environmental regulations and conduct thorough environmental audits.

**Long-Term Impact of Environmental Policies:** While the review suggests that long-term benefits of environmental risk management outweigh the costs, the evidence supporting these claims remains somewhat limited. More longitudinal studies that track the financial performance of businesses before and after adopting stringent environmental policies could provide stronger evidence of the long-term advantages of compliance.

In conclusion, while this review provides valuable insights into the complexities of environmental risk management and audit costs, further research is needed to address these limitations and provide a more nuanced understanding of how businesses navigate the evolving landscape of environmental regulations.

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