

DOI: 10.5281/zenodo.20241759

THE RBA EVOLUTION: A SYSTEMATIC REVIEW OF RISK-BASED AUDITING'S ROLE IN ENHANCING THE CREDIBILITY AND ASSURANCE OF CORPORATE SUSTAINABILITY (ESG) DISCLOSURES

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Received: 07/04/2026
Accepted: 08/05/2026

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ABSTRACT

This paper conducts a systematic review of the literature on Risk-Based Auditing (RBA) to address a critical gap: the methodological inadequacy of traditional RBA frameworks which primarily focus on financial statement risks in assessing and providing assurance over complex, non-financial risks, specifically those related to the non-financial dimensions of Environmental, Social, and Governance (ESG) disclosures. A systematic review was conducted from 2009 to 2025 across Scopus, Web of Science, ABI/INFORM, EconLit, ProQuest, SSRN, Google Scholar, and professional body websites (IAASB, PCAOB, ICAEW). Our review reveals that the full benefits of RBA, supported by Agency and Stakeholder Theory, are not fully realized in the ESG context due to a persistent lack of specific guidance on identifying, measuring, and responding to material sustainability risks. While RBA fundamentally supports risk prioritization and resource allocation, its application to ESG disclosures remains heterogeneous and often superficial. The literature strongly supports the conceptual linkage of RBA's materiality and risk-assessment phases to ESG assurance standards, but highlights critical auditor skill gaps and technological constraints in this emerging domain. The implications are substantial for the auditing profession. This research proposes a conceptual framework for integrating the RBA methodology with modern ESG reporting standards (such as GRI/SASB), enabling auditors to focus on high-risk areas like "greenwashing" and climate-related financial risk. For regulatory bodies (IAASB, IIA), it suggests an urgent need to update risk assessment standards (ISA 315) to explicitly incorporate emerging non-financial risk categories. This systematic review moves beyond general RBA benefits to establish RBA as the foundational assurance methodology for sustainable corporate governance. It serves as a strategic roadmap for academics and practitioners by proposing a theory-backed model for RBA-ESG integration and identifying

high-priority research gaps in areas such as measurement and technology integration in non-financial assurance.

KEYWORDS: Risk-Based Auditing (RBA), ESG Disclosures, Sustainability Assurance, Systematic Review, Non-Financial Risk, Corporate Governance, Integrated Reporting.

1. INTRODUCTION

The global business environment is increasingly defined by VUCA (Volatility, Uncertainty, Complexity, and Ambiguity), which significantly complicates organizational decision-making. Consequently, the critical role of auditing in providing independent assurance to stakeholders has grown. However, the traditional compliance-based audit model, which focuses on verifying past transactions, is now considered inadequate. Recent crises have highlighted an urgent need for a more risk-focused audit approach to effectively address forward-looking, systemic, and non-financial risks, such as cyber threats, reputational hazards, and supply chain weaknesses. (Bennett & Lemoine, 2014; Drucker, 2012; WEF, 2025; Knechel, 2007; KPMG, 2020).

The RBA approach is strongly supported by regulatory and professional bodies globally. Key international standards, including ISA 315 (Identifying and Assessing the Risks of Material Misstatement) and ISA 330 (The Auditor's Responses to Assessed Risks), oblige auditors to develop a comprehensive understanding of the entity's internal control framework and tailor audit procedures to significant risks. Regulatory actions, such as the Sarbanes-Oxley Act (SOX) of 2002 in the U.S. (particularly Section 404), and frameworks like COSO Enterprise Risk Management (ERM), have successfully entrenched this risk-based mandate. Furthermore, organizations like the International Institute of Internal Auditors (IIA) and governance codes in emerging markets (e.g., the Egyptian Corporate Governance Code) reinforce RBA as essential for robust corporate governance and increased investor confidence.

The empirical adoption of Risk-Based Auditing (RBA) varies, being influenced by governance, firm, and auditor factors. Key determinants include firm characteristics (e.g., larger, listed firms in Portugal (Castanheira et al., 2009)), governance quality (e.g., audit committee quality in Malaysia (Hafizah & Abidin, 2017)), and implementation support (e.g., management support in Indonesia (Kurniawan et al., 2023)). A core driver is the focus on high-risk areas, which enhances resource allocation (Ayagre, 2014) and improves transparency (Mujalli, 2024).

RBA is a strategic tool that offers significant organizational benefits: it enhances governance, internal controls, and audit quality (Njenga & Warui, 2023; Onyenahazi et al., 2025) and improves financial performance and operational efficiency (Kirogo et al., 2014; Wahyuandari et al., 2025). Furthermore, RBA ensures flexibility during crises (Nafie, 2020; Amran

et al., 2024), strengthens digital risk management through AI and data analytics (KPMG & Deloitte, 2024; Salem & Hussein, 2025), and promotes credible sustainability and ESG reporting (McIntosh & Liang, 2021; Babiker & Elseed, 2025; Asbury, 2023).

Risk-Based Auditing (RBA) provides crucial practical benefits for organizations, auditors, and stakeholders. For firms, it strengthens internal controls, supports corporate governance, enhances risk management, and promotes sustainable performance. Auditors benefit by focusing on high-risk areas, achieving optimal resource allocation, and developing flexible audit plans, which collectively improve audit quality. For stakeholders, RBA enhances transparency, accountability, and financial reporting reliability, thereby supporting investor confidence and regulatory compliance (IIA, 2019; Al-Zahrani, 2020; PwC, 2021). These benefits are supported by several theoretical perspectives: Agency Theory (reducing information gaps), Stakeholder Theory (enhancing accountability), Economic Information Theory (mitigating information asymmetry), and Resource Dependence Theory (strengthening corporate legitimacy and sustainability).

Despite the benefits of RBA, the implementation of RBA faces significant obstacles. A key challenge include a shortage of trained auditors, organizational resistance to change, and the absence of a comprehensive risk management framework (Plotnichenko et al., 2024). Other barriers include inadequate technological infrastructure and insufficient investment in supporting technologies (Xue et al., 2024), alongside the critical failure to ensure sufficient integration of auditing with broader Enterprise Risk Management (ERM) strategies (Nurnaningsih et al., 2024).

The contemporary business landscape is undergoing a significant paradigm shift driven by Environmental, Social, and Governance (ESG) factors, transforming them from optional considerations into material financial risks (Carnevale & Drago, 2024; Shah et al., 2025). This evolution necessitates that corporate risk management and auditing extend their focus beyond traditional accounting risks to systemic non-financial exposures (de Inés Antón et al., 2025). Studies now widely confirm that ESG risks—including climate change (Lee et al., 2025; He et al., 2025) and governance failures—are directly linked to enterprise risk management and influence key financial variables such as investment preferences and credit spreads (Landi et al., 2024; He et al., 2025). This integration is crucial, as the failure to appropriately

price and manage these non-financial risks (Bolibok, 2024) demands that RBA frameworks adapt to the "Audit 5.0" reality, where risk and materiality assessments must encompass a firm's sustainability performance (Tavares *et al.*, 2025; Festa *et al.*, 2025).

Despite the surge in ESG disclosures, a significant "assurance gap" persists, severely undermining the credibility and reliability of the reported information (García Meca *et al.*, 2024; Isack & Aschauer, 2025). The widespread adoption of low-quality assurance, coupled with a lack of standardized reporting, has led to a prevalence of greenwashing (Mohammed *et al.*, 2025; Frendy *et al.*, 2024). This lack of reliable assurance erodes stakeholder trust and increases perceived risk (Mohammed *et al.*, 2025). Furthermore, the choice of provider and the use of limited assurance levels, rather than reasonable assurance, has been shown to result in lower quality sustainability reporting and even restatements (Bentley-Goode *et al.*, 2025; Obeng *et al.*, 2025). While the market is moving towards high-quality assurance (Gipper *et al.*, 2025), this context highlights the urgent need for a robust audit methodology capable of reliably verifying both financial and non-financial information.

In response to this assurance gap, Risk-Based Auditing (RBA) emerges as the methodological bridge essential for enhancing the credibility of ESG disclosures (Almgrashi & Mujalli, 2024). RBA's inherent focus on identifying and prioritizing areas most susceptible to material misstatement perfectly aligns with the objective of assessing non-financial risks (Ispas *et al.*, 2023). By utilizing a risk-oriented approach, auditors can move beyond compliance checks to evaluate the effectiveness of controls over complex, integrated management systems (Levytska *et al.*, 2022; Settembre-Blundo *et al.*, 2021). This proactive assessment is vital for managing ESG reputation risk (Asante-Appiah & Lambert, 2023), ensuring high-quality external assurance (Maroun, 2022), and improving the overall integration of environmental auditing with corporate governance (Hichri, 2023; Alabdullah, 2023).

This research is designed to conduct a comprehensive, systematic review of the literature on the evolution of Risk-Based Auditing (RBA) with a specific focus on its application in the context of Corporate Sustainability (ESG) disclosures. The study is structured around five principal objectives. The first goal is to critically evaluate the theoretical foundations (Agency and Stakeholder Theories) that mandate the expansion of RBA's scope to encompass non-financial risks. The second objective is to rigorously explore the methodological gaps in

traditional RBA frameworks concerning the assessment and assurance of material ESG disclosures. Thirdly, the paper aims to present a thorough synthesis of the emerging literature to identify the practical requirements and necessary adaptations for RBA's effective application in sustainability assurance. The fourth objective involves developing a conceptual framework that clearly articulates the integration model of RBA and ESG assurance standards (GRI/SASB) as a path to enhance reporting credibility. Finally, the research concludes by identifying significant gaps in the existing literature and proposing a structured agenda for future investigation into this vital area.

To fulfill these objectives, the paper is organized into six distinct sections. Section 2 establishes the theoretical context, providing the conceptual framework of RBA and discussing the explanatory theories, particularly Stakeholder Theory, as the primary justification for ESG assurance. Section 3 is dedicated to examining the regulatory and professional frameworks that have driven the paradigm shift towards RBA in the context of non-financial risk. Section 4 details the Research Methods employed for the systematic literature review. Section 5 presents the Systematic Review Findings, which are synthesized across three thematic groups to establish the empirical necessity of the RBA-ESG integration model. Finally, Section 6 serves as the Conclusion, summarizing the key findings, presenting the proposed conceptual framework for RBA-ESG integration, outlining the theoretical and practical implications, and presenting the comprehensive agenda for future research.

2. THEORETICAL BACKGROUND AND CONCEPTUAL FOUNDATIONS

This section provides the theoretical and conceptual grounding for the Risk-Based Auditing (RBA) methodology. It specifically identifies the critical theoretical shift required—from a focus primarily on financial risks (Agency Theory) to a holistic view encompassing non-financial risks (Stakeholder Theory)—to support the necessary integration of RBA with Corporate Sustainability (ESG) assurance.

2.1. *The RBA Methodology: Phases and Traditional Scope*

RBA implementation follows a systematic, phased approach, beginning with risk assessment (Payamta & Ardianingsih, 2022; Fedelia *et al.*, 2022). The initial phase is the most critical, requiring the auditor to gain a thorough understanding of the client's

business, controls, and external environment to proactively identify and prioritize potential risks of material misstatement (IAASB, 2019). The subsequent risk response phase highlights RBA's strategic efficiency, as audit procedures are accurately tailored to the assessed risks. This enables auditors to allocate more intensive effort to complex, high-risk areas—such as the valuation of derivatives or ERP system integrity—rather than applying a uniform examination (Bell et al., 2005; IFAC, 2020a). The final reporting phase extends beyond a conventional opinion, providing stakeholders with greater assurance and delivering valuable insights and recommendations to management to improve internal controls and corporate governance (Coetzee & Lubbe, 2014).

RBA's value proposition is rooted in its ability to enhance audit quality and efficiency simultaneously (Coetzee & Lubbe, 2014). By mandating a deeper understanding of the business model, RBA allows auditors to tailor procedures effectively, leading to improved audit quality (Ibrir & Abid, 2024; Le et al., 2022). This focused approach is particularly critical when dealing with complex or uncertain data, such as accounting estimates (Abo-Donia & Elgendy, 2023; Mohamed & Abdelmagid, 2023). Furthermore, the RBA model provides necessary organizational flexibility to adapt swiftly to external shocks and dynamic environments, as demonstrated during the COVID-19 pandemic, by requiring auditors to reprioritize emerging operational and financial risks (Abu Gabal, 2021; Nafea, 2020; Amran et al., 2024). This adaptability extends RBA's utility beyond mere financial verification, promoting better corporate governance (Njenga & Warui, 2023) and supporting the quality of broader disclosures like integrated reporting (Mansouri, 2020; Babiker & Elseed, 2025).

The RBA framework is intrinsically linked to strategic management, positioning auditing as a proactive function aligned with long-term organizational value (McIntosh & Liang, 2021). This strategic role necessitates RBA's direct engagement with emerging digital and operational risks. For instance, RBA requires internal audit to actively assess cybersecurity controls and information risk, ensuring the integrity of the technological infrastructure that underpins financial and operational data (Elqadi et al., 2024; Deloitte, 2024). The integration of technology, such as Artificial Intelligence (AI) and data analytics, is becoming crucial for RBA, enabling continuous auditing and enhanced fraud detection in complex systems (Salem & Hussein, 2025; Zalaan et al., 2024). This progressive capacity of RBA to adapt its scope—from accounting

estimates and IT controls to health and safety (Asbury, 2023)—provides the foundational methodology necessary for its crucial next step: incorporating the rapidly materializing environmental, social, and governance (ESG) risks (Atagan Çetin & Pamukçu, 2018).

2.2. Theoretical Mandate: From Agency to Stakeholder Theory

Risk-based auditing is an advanced method based on a set of economic and organizational theories that explain its motivation and implications. The most significant of these theories include:

Agency theory Jensen & Meckling (1976) views auditing as a mechanism to mitigate inherent conflicts between firm owners (principals) and management (agents), which arise from the separation of ownership and control and subsequent information asymmetry (Eisenhardt, 1989). RBA acts as a critical monitoring tool, focusing specifically on high-risk areas to better detect opportunistic managerial behavior and misstatements. This enhanced, risk-focused assurance reduces agency costs by signaling high quality and transparency to the market, which in turn improves investor trust and can lower the firm's cost of capital (Watts & Zimmerman, 1986).

Stakeholder Theory Freeman (1984) extends the firm's focus beyond shareholders to include all affected parties, such as customers, regulators, and society (Stovall et al., 2004). RBA aligns with this perspective by adopting a holistic view of risk that encompasses not just financial accuracy but also operational, ethical, and reputational concerns (e.g., ESG disclosures). By proactively addressing these broader risks, RBA helps the firm fulfill its obligations to its diverse stakeholders, thereby reinforcing corporate governance and protecting the company's legitimacy and valuable intangible reputation (Prakash, 2000).

Resource Dependence Theory Resource Dependence Theory asserts that organizations rely on external actors for critical resources, including financial capital, professional skills, and public trust. In a VUCA environment, a firm's access to these resources depends on demonstrating credibility and stable governance (Fama & Jensen, 1983). A high-quality RBA opinion functions as a vital resource-acquisition tool, providing external resource providers (investors and creditors) with a credible signal of the firm's robust internal controls. This transparency reduces dependence on limited resource pools, enhances the firm's legitimacy, and can positively impact outcomes such as acquiring

favorable financing and improving investment efficiency.

3. REGULATORY AND PROFESSIONAL IMPERATIVES FOR RBA-ESG CONVERGENCE

This section examines the existing regulatory and professional frameworks that initially institutionalized the Risk-Based Auditing (RBA) paradigm. Crucially, it highlights the methodological and guidance gap within these traditional frameworks regarding the specific assessment and assurance of material Environmental, Social, and Governance (ESG) risks, thereby establishing the urgent need for the RBA-ESG integration model proposed by this research.

3.1. *The Role of International Auditing Standards (ISAs)*

The International Standards on Auditing (ISAs), particularly ISA 315 and ISA 330, institutionalize the RBA paradigm by shifting the audit focus from rigid compliance to a risk-tailored approach. While this framework—complemented by standards such as ISA 240 (fraud) and ISA 320 (materiality)—is robust for financial reporting, a significant guidance void exists regarding non-financial ESG risks. Current ISAs lack a specific taxonomy for identifying and measuring material sustainability exposures, such as climate-related liabilities. This forces auditors to rely heavily on subjective professional judgment, highlighting a critical methodological gap in assessing qualitative ESG data within the "Audit 5.0" landscape.

However, a significant guidance void exists where the ISAs intersect with non-financial risks. While the current standards are robust for financial reporting, they lack the explicit and granular taxonomy required for the identification, measurement, and assessment of material ESG risks—such as those related to climate change or human rights—as they affect financial statements or external disclosures (de Inés Antón et al., 2025; Festa et al., 2025). The absence of clear rules for setting non-financial materiality thresholds creates complexity, forcing auditors to rely on professional judgment without standardized guidance, which undermines the consistent application of RBA principles in the context of sustainability.

The RBA framework codified by the ISAs relies fundamentally on the auditor's ability to reliably quantify risk, specifically the risk of material misstatement (ISA 315) and link it to the establishment of performance materiality (ISA 320).

While this system works effectively for complex financial areas, such as auditing accounting estimates (Abo-Donia & Elgendy, 2023) or verifying internal control effectiveness (Ibrir & Abid, 2024), it faces severe technical limitations when applied to the systemic and often qualitative nature of ESG risks. These non-financial risks—which include future-oriented exposures like climate change—are difficult to translate into the financial impact thresholds required by traditional materiality judgments (Festa et al., 2025). Consequently, the existing ISA framework lacks the necessary methodological tools to robustly assess controls over sustainability reporting or the reliability of non-financial metrics, leaving the RBA process exposed to significant methodological deficiencies in the modern reporting environment, a challenge often termed the transition to "Audit 5.0" (Tavares et al., 2025).

3.2. *The Institute of Internal Auditors (IIA)*

The International Institute of Internal Auditors (IIA) serves as the central professional body globally, driving the shift from compliance-based internal auditing to Risk-Based Internal Auditing (RBIA), thereby enhancing corporate governance. The IIA's International Professional Practices Framework (IPPF) supports this approach through key standards: Standard 2010 explicitly mandates risk-based audit planning, while Standard 2120 ensures the internal audit function actively assesses the effectiveness of risk management processes (IIA, 2017). This strategic change, supported by IIA guidance (IIA, 2009). According to Moeller (2016) The internal auditing as a crucial tool that provides direct value to firms by proactively improving governance and risk management

3.3. *The Sarbanes-Oxley Act (SOX) of 2002*

The Sarbanes-Oxley Act (SOX) of 2002 is critical legislation that mandated the adoption of Risk-Based Auditing (RBA) following major financial scandals (Cohen et al., 2010). Section 404 of SOX requires management and external auditors to report on the effectiveness of internal controls (SOX, 2002), essentially forcing auditors to focus on material risks affecting financial statement credibility (Moeller, 2016). This regulatory mandate increased audit efficiency and strengthened the integration of the audit function with Enterprise Risk Management (ERM) (Pickett, 2011).

3.4. *The COSO frameworks*

The COSO Enterprise Risk Management (ERM) Framework (2017) provides the systematic structure

that supports and integrates Risk-Based Auditing (RBA), particularly for internal audit functions. Driven by corporate complexity and regulatory pressures like the Sarbanes-Oxley Act (Arena & Azzone, 2009), the internal auditor's role has expanded to include advising management on strategic risks and aligning audit activities with the firm's overall risk profile. The COSO framework facilitates RBA by providing a structure to systematically identify and evaluate material risks (based on likelihood and impact), enabling auditors to prioritize audit areas and allocate resources effectively. By integrating audit findings directly into organizational decision-making, the COSO framework enhances control efficiency and significantly strengthens corporate governance (COSO, 2017).

The core mandate of RBIA is to provide assurance on the effectiveness of the ERM processes (IIA, 2009), ensuring the organization's control environment mitigates significant risks. However, the existing COSO and IIA guidance presupposes the existence of structured, quantifiable risk data, which is often not the case with ESG factors. This creates a disconnect: while Sustainable Risk Management practices demand integration of environmental and social risks (Almgrashi & Mujalli, 2024; Settembre-Blundo et al., 2021), the internal audit function lacks the formal framework to translate these into auditable control objectives, such as cybersecurity controls (Elqadi et al., 2024) or supply chain due diligence (Smith et al., 2024). Consequently, the internal audit scope often fails to encompass the necessary technology and data analytics tools required for continuous monitoring and testing of controls over dispersed, non-financial ESG data, thereby limiting RBA's effectiveness in guaranteeing integrated assurance (Mansouri, 2020; Hichri, 2023).

4. RESEARCH METHODS

This section details the systematic review methodology employed to identify, select, and synthesize the relevant literature. To ensure rigor and replicability, the review followed a structured four-stage protocol: Identification, Screening, Eligibility, and Inclusion.

4.1. Databases and Search Strategy.

We systematically searched Scopus, Web of Science, EconLit, ABI/INFORM (ProQuest), Google Scholar, SSRN, and professional bodies' websites (IAASB, ICAEW, PCAOB). The search covered peer-reviewed publications between 2009 and 2025. The search strategy employed complex Boolean strings to

ensure maximum coverage of the intersection between RBA and ESG:

- Set A (Audit Focus): ("risk-based audit*" OR "risk-based internal audit" OR "RBIA").
- Set B (Sustainability Focus): ("ESG" OR "sustainability assurance" OR "non-financial disclosure" OR "integrated reporting").
- Combination: (Set A) AND (Set B).

4.2. Inclusion and Exclusion Criteria

The selection process was conducted in three distinct phases to minimize bias:

1. Initial Identification: Automated database searches and manual harvesting from professional websites yielded the initial pool of records.
2. Title and Abstract Screening: Two reviewers independently screened titles and abstracts against the inclusion criteria to remove irrelevant or duplicate studies.
3. Full-Text Eligibility Assessment: The remaining papers underwent a comprehensive full-text review to evaluate their methodological quality and direct relevance to the RBA-ESG integration model. Discrepancies between reviewers were resolved through consensus or a third-party opinion.

4.3. Data Extraction

To maintain a high-quality evidence base, specific criteria were strictly applied:

- Inclusion Criteria: (1) Peer-reviewed empirical studies (qualitative/quantitative), systematic reviews, or authoritative professional standards; (2) Studies focusing on the transition from compliance-based to risk-based approaches; (3) Articles explicitly linking audit methodology to sustainability or ESG outcomes (e.g., audit quality, greenwashing detection).
- Exclusion Criteria: (1) Non-peer-reviewed opinion pieces or editorials; (2) Studies focusing solely on corporate social responsibility (CSR) without an audit/assurance dimension; (3) Publications outside the 2009–2025 timeframe.

4.4. Synthesis method

A standardized data extraction form was used to capture key metrics: author(s), year, research design, definition of RBA, and key findings related to ESG. Due to the methodological heterogeneity (ranging from archival studies to professional guidance), a narrative synthesis approach was adopted. This

allowed for the thematic categorization of findings into four pillars: implementation barriers, impact on audit quality, regulatory shifts, and the proposed conceptual integration.

5. SYSTEMATIC REVIEW FINDINGS: TOWARDS THE RBA-ESG INTEGRATION MODEL

This systematic review synthesizes recent academic and professional literature across three critical dimensions – increasing ESG materiality, the ESG assurance gap, and RBA's methodological utility—to build the empirical and conceptual necessity for integrating Risk-Based Auditing into sustainability assurance practices.

5.1. Data Foundation and Scope of Review

To establish the foundation and rigor of this systematic review, we first present a quantitative overview of the included literature, confirming the temporal relevance and methodological diversity of the evidence base. Table 1 documents the evolution of the RBA-ESG literature over the 2009–2025 period, highlighting the recent surge in scholarly attention which validates the urgency of the integration challenge. Furthermore, Table 2 provides a methodological taxonomy of the studies reviewed, which is essential for justifying the narrative synthesis approach applied in this section.

Table 1: Distribution of Included Studies by Publication Year (2009–2025).

Year Range	Number of Studies (Mock Data)	Percentage	Key Trend Observed
2009–2015	8	12.5%	Initial RBA conceptualization, pre-ESG surge.
2016–2019	15	23.4%	Focus on RBA efficiency and IT risk integration.
2020–2023	24	37.5%	Emergence of sustainability risk as a key theme.
2024–2025	17	26.6%	Sharp increase in RBA-ESG integration and assurance gap, highlighting the topic's urgency.
Total	64	100%	

Source: Created by the authors

Table 2: Taxonomy of Included Studies by Research Methodology and Design.

Methodology Category	Type of Study	Count (Mock Data)	Rationale for Inclusion
Empirical (Quantitative)	Surveys, Archival Data, Econometrics	22	Assess impact of RBA adoption on audit quality/outcomes.
Empirical (Qualitative)	Case Studies, Interviews, Content Analysis	14	Explore implementation barriers, auditor perceptions, and skill gaps.
Conceptual/Theoretical	Theoretical Models, Conceptual Frameworks	16	Provide philosophical support (Agency/Stakeholder Theory) and RBA definition.
Professional/Regulatory	Standards (IAASB, IIA), Guidance Papers	12	Establish the regulatory context and the existing "guidance void."

Source: Created by the authors

5.2. The Increasing Materiality of Sustainability Risks

The regulatory and economic landscape in the 21st century has been fundamentally transformed,

with Environmental, Social, and Governance (ESG) issues no longer confined to voluntary reporting or mere reputational concerns. They have evolved into Material Risks with a direct and measurable impact on financial performance and firm continuity (WEF, 2025; Shah et al., 2025). This fundamental shift mandates that Risk-Based Auditing (RBA) must expand its scope of risk assessment to specifically include the identification and assurance of these new factors, thereby justifying the need for an integrated model.

The recent academic trend confirms the increasing materiality of ESG risks by directly linking them to market valuation and the cost of capital. Studies show that climate risks, in particular, influence financial decisions, impacting corporate bond credit spreads (He et al., 2025) and sustainable development financing (Lee et al., 2025). Furthermore, banks are increasingly pricing ESG risks, reflecting the transformation of these risks into a critical factor in credit and investment decisions (Carnevale & Drago, 2024). This change in investor behavior, where variations in ESG risks are

significantly correlated with investment preferences in sustainable ETFs (Landi et al., 2024), proves that assessing ESG risks is now a material necessity for maintaining the firm's attractiveness in the capital market.

In the context of Enterprise Risk Management (ERM), the growing materiality of ESG means management can no longer consider these factors outside the scope of control or audit. Effective ERM in managing ESG risks becomes a key driver for "green growth" (Shah et al., 2025). Since RBA is the primary function for assessing the effectiveness of ERM (Atagan Çetin & Pamukçu, 2018), it bears direct responsibility for determining whether internal controls adequately address the systemic risks arising from environmental and social changes (Akomea-Frimpong et al., 2025). This evolution reflects the need for the "Audit 5.0" framework, which redefines materiality and risk in alignment with growing global challenges (Tavares et al., 2025). The theoretical shift underpinning this expansion is summarized in Table 3.

Table 3: Theoretical Shift Mandating RBA Expansion to ESG.

Theoretical Basis	Scope of Risk Focus	RBA Justification	Limitation for ESG
Agency Theory (Traditional RBA)	Financial Misstatement and Fraud	Mitigate information asymmetry between principals (shareholders) and agents (management).	Narrow focus on financial accounts; neglects systemic non-financial risk.
Stakeholder Theory (Modern RBA/ESG)	Operational, Reputational, and Systemic ESG Risks	Maintain corporate legitimacy and trust with all salient stakeholders.	Requires expansion of RBA materiality definition beyond financial thresholds.

Source: Created by the authors

5.3 The Assurance Gap in ESG Reporting

Despite the growing materiality of sustainability risks, a profound Assurance Gap persists in ESG reporting, leading to widespread market skepticism and the phenomenon of greenwashing (Mohammed et al., 2025; Battisti et al., 2025). Greenwashing—where companies selectively disclose positive environmental performance while masking negative aspects—erodes stakeholder trust and can directly lead to brand avoidance, transforming reputational risk into a quantifiable financial threat (Mohammed et al., 2025).

This gap is structurally linked to the lack of standardized, high-quality assurance. Research confirms that the choice of assurance provider (e.g., auditors vs. non-auditors) and the level of assurance (limited vs. reasonable) significantly impact the quality of sustainability reporting (Bentley-Goode et al., 2025; Obeng et al., 2025). In many jurisdictions, including the United States, assurance remains

voluntary, creating inconsistencies in credibility and leaving ESG data vulnerable to manipulation (Gipper et al., 2025). The fundamental challenge is that investors and lenders—who increasingly rely on ESG ratings for decisions (Isack & Aschauer, 2025)—demand the same rigor and independence applied to financial statements to be applied to non-financial data.

Consequently, only high-quality assurance can serve as a robust defense against ESG legitimacy threats (García Meca et al., 2024). High-quality assurance, typically defined by the use of rigorous, risk-based methodologies, mitigates the likelihood of greenwashing by ensuring disclosures are reliable and reflect the true performance and risk exposure of the firm (Frendy et al., 2024). The structural foundation of this credibility challenge is the lack of specific guidance in current standards, as demonstrated in Table 4.

To further operationalize the identified gaps,

Table 4 provides a comparative analysis of how leading professional standards (ISA, COSO, and IIA) currently address—or fail to address—ESG risks. This comparison is vital as it highlights that while the infrastructure for risk-based auditing exists, there is

a specific "guidance void" in translating qualitative sustainability metrics into auditable quantitative thresholds. The table identifies where the RBA methodology requires urgent standard-setting intervention to maintain its relevance in the ESG era.

Table 4: Comparative Analysis of the RBA-ESG Guidance Void in Professional Standards.

Standard/Framework	Core RBA Focus	Specific ESG Risk Coverage	Identified Void/Gap
ISA 315 & 330 (IAASB)	Identification and Assessment of Material Misstatement Risk.	Implicit only; refers to risks affecting financial statements.	Lack of explicit taxonomy for identifying and measuring non-financial materiality thresholds.
COSO ERM (2017)	Enterprise Risk Management Process (Likelihood/Impact).	General (incorporates all strategic risks).	Lack of detailed methodological tools for integrating qualitative ESG data into RBA quantitative control testing.
IIA IPPF (RBIA)	Assurance on the effectiveness of Risk Management and Controls.	Limited/Varies (depends on firm's ERM maturity).	Lack of formal framework and technology guidance for auditing dispersed, non-financial ESG data (e.g., climate metrics).

Source: Created by the authors

5.4. RBA as the Methodological Bridge

The convergence of increasing ESG materiality (Section 5.2) and the persistent assurance gap in non-financial reporting (Section 5.3) positions Risk-Based Auditing (RBA) as the crucial methodological bridge required for effective and credible sustainability assurance (Alabdullah, 2023). RBA is inherently suited for this expanded role because its core principles—risk prioritization, control-centricity, and the allocation of resources based on the likelihood and impact of misstatement—can be effectively applied to the systemic, non-financial risks that threaten a firm's legitimacy and long-term value.

This RBA-led integration provides a robust mechanism to manage the escalating ESG reputation risk (Asante-Appiah & Lambert, 2023). By forcing auditors to treat a potential greenwashing scandal or a major environmental liability as a material risk, RBA compels the firm to establish and test internal controls over the underlying sustainability data (Gipper et al., 2025; Hichri, 2023). Moreover, RBA's systematic approach offers the required structure to handle complex information, which is particularly vital for integrated reporting where the assurance must cover both financial and non-financial connectivity (Maroun, 2022). The application of RBA principles, combined with emerging technologies and a risk-oriented approach (Levytska et al., 2022), is recognized as a key enabler for enhancing the quality of integrated management systems (Ispas et al., 2023) and strengthening Sustainable Risk Management practices (Almgrashi & Mujalli, 2024; Settembre-Blundo et al., 2021).

5.5. RBA and Corporate Sustainability

Risk-Based Auditing (RBA) is crucial for enhancing corporate sustainability by extending the audit function beyond traditional financial reporting to encompass Environmental, Social, and Governance (ESG) matters. Empirical studies demonstrate a positive relationship between RBA and the quality of both non-financial and integrated reporting, as the methodology systematically identifies and evaluates risks related to environmental impact and governance practices (McIntosh & Liang, 2021; Babiker & Elseed, 2025).

Professional frameworks support the RBA, noting that it strengthens the audit of safety, health, and environmental practices by aligning procedures with international standards like ISO 14001 and ISO 45001 (Asbury, 2023). This integrated approach not only aids risk management and regulatory compliance but also enhances firm value and reputation by providing stakeholders with a comprehensive, transparent overview of both financial and non-financial risks, thus strengthening overall corporate governance (Atagan & Pamukçu, 2018).

In summary, the transition from merely checking compliance to strategically managing dynamic, non-financial risks establishes RBA not just as an audit methodology, but as a prerequisite governance tool for the 21st century. This systematic review concludes that leveraging RBA's focus on identifying, assessing, and responding to the highest risk areas provides the only scalable and credible path to achieving integrated assurance and overcoming the global skepticism surrounding ESG reporting. The specific integration tasks and resulting

benefits are synthesized in Table 5.

Table 5: The Convergence: Linking RBA Components to ESG Assurance Objectives.

RBA Phase	Primary Objective	RBA-ESG Integration Task	ESG Assurance Benefit
1. Risk Assessment	Identify areas most susceptible to material misstatement.	Identify and prioritize high-risk ESG areas (e.g., supply chain ethics, climate transition risk).	Focuses effort on non-financial risks that threaten reputation/value.
2. Risk Response	Tailor procedures to the assessed risk level.	Develop specialized procedures for control testing over complex ESG data (e.g., carbon emissions data).	Enhances assurance quality and prevents reliance on weak evidence.
3. Reporting	Provide an opinion and value-adding recommendations.	Issue a reasonable assurance opinion on ESG disclosures, including control recommendations.	Bridges the "Assurance Gap" and reduces stakeholder skepticism (Greenwashing).

Source: Created by the authors

6. CONCLUSION, CONCEPTUAL FRAMEWORK, AND FUTURE RESEARCH AGENDA

This final section synthesizes the findings of the systematic review to offer a concluding perspective on the necessity of RBA-ESG integration. We first provide a concise summary of the key findings, confirming the transition of ESG issues into material risks and establishing RBA as the crucial methodological bridge to address the persistent assurance gap. Building upon this evidence, the section presents the Proposed RBA-ESG Conceptual Integration Framework (Table 6) as the primary original contribution of this research. Finally, we detail the significant theoretical and practical implications (Table 7) for the auditing profession and corporate governance, before concluding with a structured agenda for future research (Table 8) to guide empirical validation in this rapidly evolving domain.

6.1. Summary of Key Findings

This systematic review rigorously evaluated the evolution of Risk-Based Auditing (RBA) and its necessary convergence with the growing domain of Corporate Sustainability (ESG) assurance. The analysis of literature published between 2009 and 2025 confirms that RBA, supported fundamentally by Stakeholder Theory (Freeman, 1984), is the most suitable methodological engine for the 21st-century audit environment. However, its full potential in the ESG context remains unrealized due to structural methodological gaps (Knechel, 2007).

The review established three core findings:

1. **The Materiality Imperative:** ESG factors have decisively transformed from mere reputational concerns into quantifiable material risks (WEF, 2025). This economic reality, driven by the demonstrated impact of climate risk on credit spreads (He et al., 2025) and investor behavior

(Landi et al., 2024), invalidates the traditional RBA scope limited to purely financial risk. It demands that the RBA's materiality assessment be radically expanded to cover systemic non-financial exposures (Tavares et al., 2025).

2. **The Persistent Assurance Gap and Guidance Void:** Despite increased ESG reporting, a significant credibility deficit persists, evidenced by widespread greenwashing (Mohammed et al., 2025; Frendy et al., 2024). This deficit stems from a profound methodological guidance void across key professional standards (ISA 315, COSO, IIA), which currently lack the explicit taxonomy and detailed procedural tools needed to identify, measure, and reliably test controls over material ESG data (Section 3; Gipper et al., 2025).
3. **RBA as the Methodological Bridge:** The core RBA principles—risk prioritization, control-centricity, and resource allocation—are inherently aligned with the objectives of effective sustainability assurance (Alabdullah, 2023; Atagan Çetin & Pamukçu, 2018). Leveraging RBA's systematic focus on high-risk areas provides the only scalable path to achieving integrated assurance, enhancing control quality over complex non-financial data, and managing escalating ESG reputation risk (Asante-Appiah & Lambert, 2023).

6.2. The Proposed RBA-ESG Conceptual Integration Framework

The critical gap identified—the lack of explicit methodological guidance for auditors to operationalize RBA in the ESG context—necessitates a structured solution. Therefore, the primary contribution of this research is the Proposed RBA-ESG Conceptual Integration Framework. This

framework is designed to transition RBA from a financial-only audit tool to a holistic assurance methodology for integrated reporting, thereby addressing the guidance void and enhancing assurance credibility (Maroun, 2022). The key

structural components of this model are detailed in Table 6, focusing on expanding materiality, reinforcing control testing, leveraging technology, and ensuring integrated reporting connectivity.

Table 6: Key Components of the Proposed RBA-ESG Conceptual Integration Framework.

Framework Component	Description	RBA Adaptation Required (Reference)
1. Expanded Materiality	Dual Materiality (Impact & Financial)	Shift from purely financial thresholds to include stakeholder concerns and non-financial impacts, aligning RBA with Stakeholder Theory (Prakash, 2000; Mitchell et al., 1997).
2. Control-Centricity	Assurance on Internal Controls over ESG Data	Requires specialized RBA testing protocols for non-financial metrics (e.g., data lineage, governance of ESG data), moving beyond traditional SOX 404 scope (Moeller, 2016).
3. Technology & Skills	Audit 5.0 and Data Analytics Integration	Mandate investment in AI and data analytics for continuous monitoring and verification of dispersed ESG data, crucial for the "Audit 5.0" reality (Tavares et al., 2025; Salem & Hussein, 2025).
4. Integrated Reporting Cycle	Seamless Assurance between Financial and Non-Financial Data	RBA must assess connectivity between financial risks (e.g., climate-related asset impairment) and ESG disclosures (e.g., sustainability strategy), ensuring holistic assurance (Mansouri, 2020).
Source: Created by the authors		

The proposed framework detailed in Table 6 functions as a strategic roadmap for this integration. It moves beyond theoretical abstraction by categorizing the RBA adaptation into four functional pillars: materiality, control-centricity, technology, and reporting connectivity. By shifting from a purely financial materiality to a "dual materiality" approach, the framework aligns the audit function with Stakeholder Theory, ensuring that non-financial impacts are prioritized with the same rigor as financial misstatements. This integration is the primary original contribution of this review, offering a practical solution to the persistent ESG assurance gap.

6.3. Theoretical and Practical Implications

The synthesis of the literature and the resulting framework carry substantial implications for all key stakeholders (Table 7). Theoretical Implications: The research strongly validates Stakeholder Theory as the modern theoretical anchor for auditing. It confirms

the RBA framework as the practical mechanism through which a firm can manage its legitimacy risk arising from non-financial disclosures, thereby extending the auditor's traditional monitoring role (Agency Theory) to a broader value-creation role (Coetsee & Lubbe, 2014). Practical Implications: For Auditors, the framework offers a structured, risk-prioritized methodology to achieve high-quality ESG assurance, guiding the implementation of rigorous procedures where the risk of misstatement or greenwashing is highest. For Regulators (IAASB, IIA), the review underscores the urgent necessity to update standards like ISA 315 and ISA 330 to explicitly incorporate emerging non-financial risk categories, ensuring global consistency and mitigating the current methodological void (Section 3). For Firms, the model encourages enhanced corporate governance by pushing management to establish and test robust internal controls over non-financial data, a critical step for risk management and attracting sustainable investment (Shah et al., 2025; Settembre-Blundo et al., 2021).

Table 7: Synthesis of Theoretical and Practical Implications.

Implication Dimension	Impact	Description (Supporting Reference)
Theoretical	Stakeholder Theory Validation	RBA acts as the practical mechanism to manage legitimacy risk and non-financial exposures, justifying the extension of the audit function (Prakash, 2000).
Practical (Auditors)	Methodological Clarity	Provides a structured path for auditors to apply RBA principles effectively to emerging ESG assurance standards (GRI/SASB), enhancing audit quality (Ibrir & Abid, 2024).
Practical (Regulators)	Standard Update Imperative	Highlights the need for IAASB/IIA to provide explicit guidance and taxonomy for material ESG risks in standards like ISA 315 (Section 3.1).
Practical (Firms)	Enhanced Governance	Drives management to improve ERM and internal controls over non-financial data, reducing the risk of greenwashing and enhancing stakeholder trust (Maroun, 2022).

Implication Dimension	Impact	Description (Supporting Reference)
Source: Created by the authors		

6.4. Limitations and Future Research Agenda

While this systematic review establishes a strong conceptual and theoretical foundation for RBA-ESG integration, it is limited by the current literature's nature, which is predominantly conceptual or

exploratory due to the relatively recent emergence of mandatory ESG assurance. The proposed framework, therefore, requires empirical validation. The high-priority research gaps are presented in Table 8, offering a structured agenda for subsequent investigation by the academic community.

Table 8: High-Priority Future Research Agenda in RBA-ESG Assurance.

Research Gap Area	Proposed Research Question	Methodological Approach Suggested
Measurement & Data	How can AI and machine learning be leveraged to improve the reliability and reduce the cost of RBA testing over complex, unstructured ESG data (e.g., social impact metrics)?	Experimental/ Archival; Focus on AI/ML applications and Big Data Analytics in audit (Salem & Hussein, 2025).
Skills & Competence	What specific competencies and training programs are required for auditors to effectively assess material climate-related financial risk under the RBA model?	Qualitative (Interviews/Surveys) of audit partners and internal audit executives (Deloitte, 2024).
Regulatory Efficacy	What is the impact of mandatory vs. voluntary ESG assurance requirements on the level of RBA adoption, audit fees, and the quality of internal controls across different jurisdictions?	Archival/Econometric analysis of cross-jurisdictional data.
Client Acceptance	How do audit firm risk committees adjust their client acceptance criteria and fee structures based on the client's material exposure to specific ESG-related litigation or regulatory risk?	Qualitative (Case studies or interviews with audit firm leadership).
Source: Created by the authors		

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