Sustainability Reporting and the Future of the Audit Market

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Abstract:

This paper discusses the links between sustainability reporting and the future of the audit market in terms of how the growing use of environmental, social, and governance (ESG) disclosures is transforming audit practices, market structure, and assurance demand. The rationale behind the study is the increasing institutionalization of sustainability reporting as a central element of corporate accountability due to the increasing demands of stakeholders, the level of regulation, and the necessity of reporting non-financial information transparently. A qualitative research design was adopted, where a systematic review of the academic and professional literature available was applied. Content and thematic analysis were used in the study to determine the important patterns, trends, and issues in the literature. The legitimacy theory led the analysis and offered a framework of how organizations employ sustainability reporting and assurance to be in line with the expectations of society and ensure credibility. The results indicate that sustainability reporting has greatly extended the audit market by enhancing demand of sustainability assurance services. To meet the complexities of ESG verification, audit firms are changing towards multidisciplinary and technology-oriented practices. Nevertheless, the analysis also mentions the essential problems, such as the high concentration of the market in the hands of big audit companies, the lack of independence between auditors and consultants caused by the overlap of their functions, and the lack of unity in the measurement and reporting standards across ESG. Also, the threat of greenwashing points to the importance of strict and plausible mechanisms of assurance. The paper concludes that even though sustainability reporting can increase transparency and accountability, the effectiveness of such reporting is determined by the quality of assurance practices and regulation. Much of the future of the audit market will also be determined by whether it can adjust to changing reporting standards, remain independent, and acquire the skills needed to make reliable and meaningful disclosures on sustainability.

Keywords: *Sustainability reporting, Audit market, Sustainability assurance, Auditor independence, Market concentration, Greenwashing, Legitimacy theory*

1.1 Introduction

Sustainability reporting has become a fundamental component of modern corporate disclosure, driven by increasing investor, regulatory, and broader stakeholder expectations for transparent and comprehensive information on environmental, social, and governance (ESG) performance. Although financial statements have traditionally been viewed as the main indicator of firm performance in the context of corporate reporting, the increasing importance of climate risk, social inequality, and corporate governance failures has led to the necessity to introduce a wider reporting framework that accommodates non-financial measures in decision-making (International Sustainability Standards Board, 2023). As recent global evidence suggests, sustainability reporting is not a luxury anymore but is becoming more institutionalized, with a high percentage of large companies releasing ESG disclosures as part of their annual reporting cycles (KPMG, 2023). This change is a shift from a shareholder-based reporting to a more stakeholder-based accountability model (Christensen, Hail, and Leuz, 2021).

This development has far-reaching consequences for the audit market, as it has fundamentally changed the nature and the extent of assurance services. Historically, auditors focused on examining and expressing an opinion on financial statements in accordance with established accounting standards and verifiable, quantifiable financial data. However, with the emergence of sustainability reporting, audit work has been extended into the verification of qualitative, forward-looking, and frequently non-standardized ESG information. Consequently, auditors are increasingly expected to offer assurance over sustainability disclosures, thus expanding the professional mandate of conventional financial audits (Simnett, Vanstraelen, and Chua, 2009; Velte, 2023). This change brings about new issues associated with audit methodology, knowledge, and interpretation of intricate ESG indicators, most of which do not have uniform measurement frameworks.

The further evolution of the audit market is thus closely connected with the further evolution and standardization of the sustainability reporting frameworks. Convergence of ESG disclosures and the need to seek credible assurance services are being accelerated by regulatory initiatives, including those proposed by the International Sustainability Standards Board and regional regulations like the Corporate Sustainability Reporting Directive (European Commission, 2023). With increased regulation of sustainability disclosures to become more decision-useful to investors, high-quality independent verification is likely to grow in importance (Christensen et al., 2021). This has significant growth potential to audit firms but it also reveals structural issues in the market.

One of the most critical issues relates to market concentration. Large international firms, also known as the Big Four, continue to dominate the audit market due to their technical expertise, global reach, and reputational capital to provide complex assurance services (DeFond & Zhang, 2014). Nevertheless, this hegemony brings up apprehensions regarding less competition, systemic riskiness, and the marginalization of smaller audit firms that might not have the resources to compete in the sustainability assurance market (Velte, 2023). Moreover, the growth of non-audit services, such as ESG consulting, poses some risks to auditor independence, especially when the same companies offer advisory and assurance services to the clients.

Most importantly, sustainability reporting brings in an element of complexity as compared to conventional financial auditing. The subjectivity of ESG data, uncertainty of its estimation, and absence of universally agreed measurement criteria can make the verification process difficult and raise audit risk (Cho et al., 2015; Michelon, Pilonato, and Ricceri, 2015). Moreover, there is the threat of greenwashing, where companies only report good sustainability news and hide the bad news, which further questions the validity of sustainability reporting and explains the necessity of having stringent assurance measures. Therefore, to be able to assess sustainability disclosures, auditors will need to acquire new skills such as proficiency in environmental science, social impact evaluation, and sophisticated data analysis.

To address these challenges, the audit market is experiencing a massive change, which is marked by innovation in assurance processes, adoption of digital technologies, and an interdisciplinary approach to auditing. The use of data analytics, artificial intelligence, and real-time monitoring tools is becoming increasingly regarded as the means of improving the quality of the audit and dealing with the intricacies of ESG reporting (Zhang & Liu, 2022). However, the success of such innovations will be based on the creation of strong regulatory systems and international standards.
Sustainability reporting is redefining the audit market in significant terms that affect its structure, competition, and credibility. Although it opens up new opportunities to value creation and professional development in the auditing profession, it also reveals serious issues regarding standardization, independence, and concentration of markets. This changing relationship is

critical to understanding where the audit market may be headed in the future, and whether it will be able to facilitate transparent, reliable, and decision-useful corporate reporting.

2 Literature Review.

2.1 Conceptual Review

2.1.1 Audit Market

The audit market involves the demand and supply of audit and assurance services, which traditionally focus on the checking of financial statements but are now expanding to non-financial and sustainability-related disclosures. Although the conventional role of auditors has been based on the increased level of credibility of financial reporting, the rise in the significance of ESG information has increased the variety of assurance services (DeFond & Zhang, 2014; Christensen, Hail, and Leuz, 2021). Formation-wise, the audit market is still a very concentrated sphere, and the Big Four companies hold a leading position because of their global networks, technical expertise, and reputational benefits, which can be applied to sustainability assurance engagements as well (Velte, 2023).

The accelerating growth of sustainability reporting is transforming the audit market greatly by establishing new service diversification and professional growth opportunities. Audit firms are now investing more in ESG capabilities, state-of-the-art data analytics, and cross-disciplinary skills to take into account the complexities of verifying non-financial information (KPMG, 2023). This development is part of a wider shift of auditing as a financial activity to a multidimensional service of assurance. Nevertheless, it also brings up serious issues of auditor independence, especially when companies offer consulting, as well as assurance services, to the same clients, which can lead to loss of objectivity and confidence among the population (Quick & Inwinkl, 2020; Velte, 2023).

In addition, the advent of non-accounting firms into the sustainability assurance market has further heightened competition, primarily by providing alternative views and experience. However, this has also brought about fears regarding discrepancies in assurance procedures and a lack of universally agreed standards (O'Dwyer, Owen, and Unerman, 2011). In turn, the sustainability and reliability of the audit market in the future will rely on enhanced regulatory frameworks, international standardization initiatives like those of ISSB, and the development of stringent assurance practices that can deal with the challenges of ESG reporting.

2.1.2 Sustainability Reporting

Sustainability reporting is the periodic reporting of environmental, social, and governance (ESG) performance of a firm, in addition to the conventional financial reporting, the purpose of which is to give stakeholders a more comprehensive perspective of corporate value creation and sustainability. This type of reporting has, in recent years, become more of a structured and increasingly regulated aspect of corporate accountability, relying upon a voluntary corporate social responsibility practice (Christensen, Hail, and Leuz, 2021). This increased topicality of ESG information indicates an increased interest in climate change, social equity, and governance transparency, which has redefined the expectations and choices of stakeholders and investment practices (International Sustainability Standards Board, 2023).

Voluntary frameworks and compulsory regulatory efforts have contributed to the development of sustainability reporting. The previous standards, like the ones created by the Global Reporting Initiative and the Sustainability Accounting Standards Board, helped to enhance the consistency of disclosure, but differences in reporting practices across jurisdictions and industries remained (Hahn & Kühnen, 2013). In more recent times, the international community has been striving to harmonize sustainability reporting through the establishment of unified standards to boost comparability, reliability, and decision usefulness to investors (IFRS Foundation, 2023). Such developments are an indication of a shift towards more standardized and enforceable ESG disclosures.

Despite these developments, sustainability reporting is still confronted with serious challenges. Lack of standardized measurement metrics, along with the subjectivity of ESG data due to its qualitative and forward-looking characteristics, introduces subjectivity and the risk of managerial bias (Cho et al., 2015; Velte, 2023). This opens up possibilities of selective disclosure and greenwashing, which will weaken the trust of stakeholders. As a result, external assurance has gained greater significance in the improvement of credibility and integrity of sustainability reports to guarantee that the information disclosed is reliable and verifiable in a dynamic reporting environment.

2.1.3 Theoretical Anchor/Underpinning

The relationship between sustainability reporting and the audit market can be effectively explained using legitimacy theory. Legitimacy theory argues that organizations continually seek to ensure that their activities are perceived as consistent with the values, norms, and expectations of the society in which they operate (Suchman, 1995). In this context, sustainability reporting functions as a strategic communication tool through which firms demonstrate their commitment to environmental protection, social responsibility, and ethical governance, thereby maintaining societal approval (Deegan, 2019).

As public awareness of environmental and social issues increases, firms face greater pressure to justify their operations and demonstrate accountability. This often leads to expanded sustainability disclosures aimed at aligning corporate behavior with societal expectations. However, the credibility of such disclosures is frequently questioned because ESG information can be selective, qualitative, and subject to managerial discretion (Cho et al., 2015). Legitimacy theory suggests that when there is a gap between societal expectations and actual corporate practices, organizations may use reporting as a means of managing perceptions rather than reflecting true performance (Deegan, 2019). This creates a significant role for the audit market.

External assurance enhances the credibility of sustainability reporting by providing independent verification of disclosed information. Auditors help reduce skepticism and strengthen stakeholder confidence in corporate disclosures, thereby reinforcing organizational legitimacy (Simnett, Vanstraelen, and Chua, 2009). From a legitimacy perspective, the growing demand for sustainability assurance reflects increasing societal scrutiny and the need for credible validation of corporate claims.

Furthermore, the ongoing development of standardized sustainability reporting frameworks, particularly by the International Sustainability Standards Board, reflects institutional pressures for transparency and comparability (IFRS Foundation, 2023). These developments encourage firms to adopt consistent reporting practices, which in turn increases the demand for reliable assurance services. However, there remains a risk that sustainability reporting and assurance may be used symbolically, reinforcing the need for rigorous and independent auditing to ensure that disclosures genuinely represent corporate performance (Cho et al., 2015).

3. Methodology

The research design used in this study is a qualitative research design that involved a systematic review of scholarly and professional literature in order to explore the correlation between sustainability reporting and the future of the audit market. Since the topic is conceptual and dynamic, the literature-based methodology is suitable since it allows a detailed synthesis of the available knowledge, theoretical advances, and empirical results without using primary data collection (Snyder, 2019). The method is especially appropriate for discovering trends, gaps, and inconsistencies in earlier studies and offers a critical ground to further academic discussion.

3.1 Research Design

A systematic literature review methodology is utilized in the study, with references to the concepts of systematic and narrative reviews. In contrast to only descriptive reviews, the critical analysis has been incorporated in this study to assess the strengths, applicability, and weaknesses of the current literature on sustainability reporting and audit market dynamics. This design enables a comparison of various perspectives, such as regulatory, theoretical, and empirical contributions to the discussion, which increases the depth of analysis (Tranfield, Denyer, and Smart, 2003).

Importantly, systematic reviews are meant to cover all aspects and be replicable, but they can be limited by strict inclusion criteria. To overcome this, this study takes a flexible yet transparent methodology, which involves systematic search processes and interpretive analysis. This guarantees methodological rigor and contextual richness.

3.2 Article Search Strategy

Key terms that were used include sustainability reporting, ESG disclosure, audited market, sustainability assurance, and audit quality. Boolean operators were used to narrow down search results and make them relevant. In order to keep the literature up to date, preference was given to recent publications that were published between 2020 and 2025, while seminal publications were used to argue out the theoretical basis where necessary.

3.3 Inclusion and Exclusion Criteria

Inclusion and exclusion criteria were used to guarantee the quality and relevance of the literature reviewed. The studies considered included those that directly relate to sustainability reporting, ESG assurance, audit market structure, or other regulatory developments. To increase reliability, peer-reviewed journal articles and reports of well-known organizations were preferred.

On the other hand, irrelevant studies, those that are old and lack a foundation of significance, and those that are not in English were excluded, as the method of selection minimizes the chances of including poor-quality or non-comparable studies. However, it was recognized that these criteria might lead to a selection bias, especially by locking out grey literature that could shed further light.

3.4 Analysis Technique

The research used thematic analysis to generalize and make sense of the chosen literature. This includes finding common patterns, themes, and relationships among studies, especially relating to sustainability reporting practices, development of the audit market, and assurance issues. The literature was then inductively developed into themes, thereby enabling the analysis to be grounded in the data whilst taking into consideration theoretical perspectives (Braun & Clarke, 2006).

Importantly, thematic analysis enables flexibility in understanding multifaceted and cross-disciplinary problems. Nevertheless, it also allows subjectivity where identification and interpretation of themes are determined by the judgment of the researcher. To reduce this shortcoming, the research process was transparent in the coding and categorization process.

3.5 Theoretical Integration

The analysis was guided by Legitimacy Theory, which posits that organizations use sustainability reporting and assurance as mechanisms to align their operations and disclosures with societal expectations, thereby maintaining or enhancing their legitimacy among stakeholders. This theoretical viewpoint allows the study to critically evaluate the sustainability reporting practices with a view to determining whether they are substantively accountable or symbolically legitimacy-seeking behavior. Combining theory and empirical evidence increased the explanatory strength of the research and helped to interpret audit market developments more thoroughly.

3.6 Reliability and Validity

Reliability and validity should be ensured in literature-based research. The structured search strategy, with the use of a transparent search strategy, was used to boost reliability, which helped to reproduce the study. The use of high-quality and peer-reviewed sources and authoritative institutional reports supported the validity.

4. Analysis and Discussion of Articles

The content analysis of recent literature indicates that sustainability reporting is not a voluntary disclosure practice anymore, but rather a controlled and strategically important element of corporate reporting. In the surveys reviewed, one trend appears where the companies are becoming more and more involved in sustainability reporting, not only to report an ESG performance but also to meet the expectations of the regulators and society (Christensen, Hail, and Leuz, 2021; Velte, 2023). This transition has been further fueled by the creation of global frameworks by the International Sustainability Standards Board to facilitate standardization and comparability of the ESG disclosures (IFRS Foundation, 2023). The ramifications of this change have had a direct impact on the audit market through an increase in the assurance services beyond traditional financial reporting.

One theme that is prevalent in the literature is the increased need to assure sustainability as a tool to increase the credibility of ESG disclosures. Multiple studies stress that stakeholders are becoming more and more demanding of independent certification of sustainability data because of the issue of data validity and possible bias (Simnett, Vanstraelen, and Chua, 2009; Zhang & Liu, 2022). This need is supported by the regulatory trends, including the introduction of the Corporate Sustainability Reporting Directive by the European Commission, which stipulates more stringent and verifiable sustainability disclosures (European Commission, 2023). The audit market is therefore undergoing a structural change, which is characterized by heightened demand for specialized assurance services.

The analysis also indicates that there has been a major change in audit services. Audit firms are adopting the expertise of ESG, digital technologies, and interdisciplinary approaches more and more to cope with the complexities of sustainability reporting (KPMG, 2023). This change indicates the necessity to certify non-financial information that tends to be qualitative, prospective, and characterized by uncertainties in estimations. Nevertheless, this change also poses issues connected to the quality and consistency of audits because sustainability metrics are not regularly standardized, thus posing a potential risk of subjectivity in the processes of assurance (Velte, 2023).

Another vital finding is market concentration. The literature is unanimous that the Big Four companies control the market of sustainability assurance because of the technical possibilities, international connections, and the reputational benefits (Venter, 2024). This finding is further supported by the 2025 market study of the UK's Financial Reporting Council (FRC), which observed a growing preference among large companies for the Big Four to provide sustainability assurance because of their established audit relationships, reputation, and perceived capability to deliver high-quality assurance services. Although this dominance helps in providing complex assurance services, it creates issues of low competition and systemic risk in the audit market. Entry into smaller firms is highly impeded, especially in building ESG expertise and fulfilling regulatory demands, which can restrict their involvement in the growing assurance market (Velte, 2023).

Moreover, the study reveals that there are still unresolved issues concerning the independence of auditors. Consulting and assurance services are integrated in big audit firms, which can lead to some conflicts of interest, particularly in the framework of sustainability reporting when large audit firms typically offer ESG advisory and assurance engagement services (Quick & Inwinkl, 2020). This two-sidedness can affect the objectivity of the auditors and affect the confidence of the stakeholders in the sustainability reports.

The other theme that recurs is the theme of legitimacy and symbolic reporting. According to the literature, a certain set of firms relies on sustainability reporting, which is used to promote their image instead of the actual ESG performance, and that is characteristic of greenwashing (Cho et al., 2015; Michelon, Pilonato, and Ricceri, 2015). The value of external assurance is important in these situations and helps to differentiate between true and nominal disclosures. Nevertheless, the efficacy of assurance as a way of overcoming the greenwashing issue is controversial, especially when there are no standardized requirements and procedures to implement.

The growing standardization of sustainability reporting is also pointed out as a major cause of the evolution of the audit market. Regulatory measures by the International Sustainability Standards Board should increase comparability and minimize the ambiguity of ESG disclosures to improve the efficiency and reliability of assurance procedures (IFRS Foundation, 2023). However, the literature indicates that standardization might not be the only solution to issues concerning the complexity of measurements and the quality of data, which implies that the audit profession should be constantly innovating concerning its methods.

Table 4.1: Summary of Key Findings from Content Analysis

Theme	Evidence from Literature	Implication for the Audit Market
Expansion of sustainability reporting	Increasing ESG disclosures driven by regulation and stakeholder demand (Christensen et al., 2021; Velte, 2023)	Expands the scope of audit services beyond financial reporting
Demand for assurance	Stakeholders require independent verification of ESG data (Zhang & Liu, 2022)	Growth in sustainability assurance services
Audit market transformation	Adoption of ESG expertise and digital tools by audit firms (KPMG, 2023)	Shift toward interdisciplinary and technology-driven auditing
Market concentration	Dominance of Big Four firms (DeFond & Zhang, 2014)	Reduced competition and entry barriers for smaller firms
Independence concerns	Overlap of consulting and assurance services (Quick & Inwinkl, 2020)	Potential risk to audit objectivity and credibility
Legitimacy and greenwashing	Use of sustainability reporting for symbolic purposes (Cho et al., 2015)	Increased need for rigorous assurance mechanisms
Standardization and regulation	ISSB and CSRD frameworks enhance comparability (IFRS Foundation, 2023)	Improves consistency but requires advanced audit methodologies

Table 4.2: Thematic Interpretation of Literature

Analytical Dimension	Key Insight	Critical Evaluation
Credibility of ESG disclosures	Assurance enhances trust in sustainability reports	Effectiveness depends on audit quality and independence
Structure of the audit market	Highly concentrated among large firms	Risk of limited competition and systemic vulnerability
Nature of audit services	Transition from financial to ESG-focused assurance	Requires new skills and methodologies
Role of regulation	Drives standardization and assurance demand	May increase compliance burden and complexity
Legitimacy function	Reporting used to align with societal expectations	Risk of symbolic compliance without substantive change

The thematic analysis has shown that sustainability reporting is fundamentally redefining the audit market by putting greater pressure on assurance, changing the nature of audit practices, and the regulatory pressures. Although the developments increase transparency and accountability, there are also serious issues of standardization, independence, and market concentration. The results imply that the sustainability of the audit market in the future will be determined by its capacity to adjust itself to the dynamism of sustainability reporting without compromising the high-level standards of assurance and professionalism.

5. Research Conclusion and Recommendations.

5.1 Conclusion

This research reveals that sustainability reporting has become part and parcel of corporate disclosure and is playing a major role in shaping the future and framework of the audit market. The pressures on organizations to have transparent and detailed information on their environmental, social, and governance performance have broadened the scope and definition of auditing. This means that auditors are no longer limited to financial verification but have to evaluate complex non-financial information that tends to be qualitative and is open to varied interpretation.

This trend has opened up opportunities and threats in the audit market. On the one hand, the increased need for assurance of sustainability has provided new avenues of professional growth and expansion of services. It has, on the other hand, revealed structural weaknesses such as high market concentration, less competition, and auditor independence concerns. The large audit firms still dominate the market, and the smaller firms struggle to get the experience and resources needed to compete.

Moreover, sustainability reporting has been a matter of concern with regard to credibility. Devoid of robust and autonomous certitude, there is a danger that organizations will deploy sustainability disclosures more to improve their perception than their actual performance. This compromises the confidence of the stakeholders and devalues such reporting.

Practically, the future usefulness of the audit market will be determined by how it will be able to adapt to the growing complexity of sustainability reporting. This demands the constant enhancement of professional standards, an increase in the focus on independence, and the creation of new standards and tools that guarantee the reliability, consistency, and significance of sustainability disclosures.

5.2 Recommendations

First, global standards of sustainability reporting and assurance should be tightened and harmonized by the regulatory bodies to minimize the variation in ESG reporting and enhance comparability across corporations and jurisdictions.

Second, major investments by audit firms in specialized ESG skills, data analytics, and interdisciplinary training are needed to increase their ability to offer high-quality sustainability assurance services.

Third, there is a need for the regulatory and professional bodies to establish more stringent measures to protect the independence of auditors, especially through the clear separation of consulting and assurance services in audit firms, in order to reduce conflicts of interest.

Fourth, policymakers and professional organizations ought to encourage more competition within the audit market by encouraging smaller audit companies to participate in the sustainability assurance activities.

Fifth, organizations must also make sustainability reporting a part of their business models and not a compliance exercise, so that disclosures can be substantive and also be subjected to strict independent scrutiny.

5.3 Limitation of the Study

This study is subject to certain limitations. First, the research adopted a qualitative, literature-based approach and did not involve the collection or analysis of primary data from audit practitioners, regulators, or corporate organizations. Consequently, the findings are based on the interpretation and synthesis of existing scholarly and professional literature rather than direct empirical evidence.
Second, although a systematic search strategy and clearly defined inclusion and exclusion criteria were employed, the review was limited primarily to English-language publications and selected authoritative reports. As a result, relevant studies published in other languages or contained within grey literature may not have been captured, potentially limiting the comprehensiveness of the review.

Third, the rapidly evolving nature of sustainability reporting and assurance standards means that regulatory developments, professional practices, and market dynamics may change after the completion of this study. Recent initiatives by standard-setting bodies and regulators may therefore influence future developments beyond the scope of the literature reviewed.

Finally, the study focused on providing a broad conceptual understanding of the relationship between sustainability reporting and the future of the audit market. It did not examine industry-specific or country-specific differences, nor did it empirically assess the impact of sustainability reporting on audit quality, audit fees, or firm performance. Future research may address these limitations by employing quantitative or mixed-method approaches using primary data across different jurisdictions and industries.

5.4 Suggestions for Further Research

This study provides a conceptual understanding of the relationship between sustainability reporting and the future of the audit market. However, several areas warrant further investigation.

First, future studies should undertake empirical analyses to examine the impact of sustainability reporting on audit quality, audit fees, and auditor performance across different industries and jurisdictions. Such studies would provide quantitative evidence to complement the conceptual findings of this research.

Second, comparative studies could investigate differences in sustainability assurance practices between developed and developing economies, particularly in emerging markets where sustainability reporting frameworks are still evolving. This would provide insights into the influence of regulatory maturity, institutional environments, and market structures on assurance practices.
Third, future research should examine the preparedness of small and medium-sized audit firms to compete in the sustainability assurance market. Such studies could explore the challenges relating to technical expertise, resource availability, technology adoption, and compliance with evolving sustainability reporting standards.

Fourth, there is a need for further research on the effectiveness of current sustainability assurance practices in mitigating greenwashing and improving stakeholder confidence. This could involve assessing whether externally assured sustainability reports are perceived as more credible by investors, regulators, and other stakeholders.

Finally, future studies should investigate the implications of emerging technologies, such as artificial intelligence, machine learning, blockchain, and advanced data analytics, on sustainability assurance processes. Understanding how these technologies can improve audit efficiency, accuracy, and transparency will be essential as the audit profession continues to evolve in response to increasing sustainability reporting requirements.

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