Greenwashing and the Role of Auditors in Ensuring ESG Reporting Integrity

Author: Asma Basyouni
Independent Researcher
(Presently Audit professional at Deloitte GmbH, Audit and Assurance Department), Hannover, Germany
Email: abasyouni@deloitte.de
basyouniasma@gmail.com
Date: April 13, 2025

Greenwashing and the Role of Auditors in Ensuring ESG Reporting Integrity

Abstract

Companies are now reliant on Environmental Social Governance (ESG) reporting which serves as vital assessment material for stakeholders to evaluate non-financial company performance. Greenwashing which involves misleading stakeholders about environmental practices has made ESG disclosures lose their credibility because it has become more prevalent. The article investigates auditor involvement to secure sustainable ESG report integrity through their ethical duties. This discussion explores two major issues with present audits and absent ESG structure standards and shows the necessity of new governance rules. The author supports the requirement for ESG assurance together with standardized ESG auditing procedures and multidisciplinary audit groups to prevent greenwashing and enhance disclosure and rebuild trust between stakeholders.

Introduction

Companies now face higher stakeholder expectations because environmental and social governance (ESG) factors have become increasingly important in corporate decision-making (Hassan, 2024). This requires organizations to reveal their social and sustainability achievements to multiple external groups. The primary instrument through which organizations communicate their sustainability-related non-financial performance is an ESG report. As businesses receive more attention from ESG stakeholders, there is an increasing problem of greenwashing, which involves promoting misleading environmental claims without real sustainability progress.

Auditors possess significant potential to validate real ESG disclosure data while decreasing false environmental and social claims since stakeholders consider greenwashing a significant issue. Restrictions exist throughout the auditor ESG assurance activities process. Auditors face three primary challenges while working with ESG metrics involving inconsistent standards between organizations and their restricted capabilities to examine environmental and social issues and the non-compulsory status of numerous ESG reporting systems. The article investigates these issues by providing strategic methods auditors can use to fight greenwashing while restoring confidence in ESG reporting and building sustainable and reliable sustainability strategies.

ESG Reporting Is Booming—but So Is Greenwashing

Companies now face higher expectations from stakeholders because environmental and social governance (ESG) factors have become fundamentally important in corporate decision-making. This requires organizations to reveal their social and sustainability achievements to multiple external groups. The primary instrument through which organizations communicate their sustainability-related non-financial performance is an ESG report. As businesses receive more attention from ESG stakeholders, there is an increasing problem of greenwashing that involves promoting misleading environmental claims without real sustainability progress.

When companies display false information about their environmental initiatives through misleading product advertisements, they perform greenwashing to achieve a reputation as sustainable operators. Greenwashing manifests in different ways, among which hidden trade-offs represent a situation where a company selects one sustainable feature for promotion without addressing other vital environmental effects (Eccles & Klimenko, 2019). For example, organic product branding does not necessarily mean the product avoids substantial environmental costs during manufacturing. Companies practice greenwashing by making unsupported statements without providing evidence that practitioners can verify. The practice of greenwashing commonly manifests through two deceptive methods, which include hiding partial details and using useless environmental claims that obscure genuine harmful activities from consumers.

McKinsey reports that 75% of companies remain at early levels of ESG maturity since they lack preparedness for ESG assurance, which exemplifies the extensive scope and dangers of greenwashing. ESG-related scandals lead companies to experience an average stock price reduction of 10 per cent, demonstrating the monetary risk from false ESG statements. Businesses must establish environmental claims that specify, prove and relate to actual practices while demonstrating full disclosure to stop greenwashing. The monitoring of greenwashing reached its peak in 2024. The 2024 Global ESG Monitor report shows that 63% of surveyed respondents view greenwashing as a substantial problem in their nations because they see this unethical practice. Greenwashing presents both moral and business risks to a company. Investors revealed in the report that they would dispose of their shares from companies practising unethical behaviour such as greenwashing. The failure to satisfy ESG obligations leads to evident business repercussions.

The Rise of ESG Reporting and the Need for Assurance

The idea behind ESG evolved over several decades. Before ESG factors gained prominence, corporations treated sustainability as a speciality interest, but current climate change understanding, corporate governance failures, and social inequities have elevated ESG factors to prominence. Company environmental impact, social responsibility, and governance practices are now essential information investors need to evaluate before investing (John, 2022). ESG reports deliver sustainability information about corporate longevity, yet investors view these reports as fundamental tools for selecting business entities that support responsible values.

ESG reporting continues to increase in popularity, but greenwashing is the main barrier to its success. Organizations perform greenwashing when they use deceptive statements to deceive stakeholders about the environmental achievements of their products, services, and practices. Businesses often present misleading information about their environmental achievements, including fake reports on reducing their emissions or waste management operations, without showing proof of those claims.

Greenwashing destroys the trustworthiness of ESG reports and confuses people about companies dedicated to sustainable practices. Investors and consumers find it challenging to make decisions because of the confusion that results from greenwashing practices (Mehdiyev, 2024). An immediate need exists for external verification of ESG claims to monitor corporate environmental and social performance properly for accountability.

The Current Role and Limitations of Auditors

Auditors possess significant potential to validate real ESG disclosure data while decreasing false environmental and social claims since stakeholders consider greenwashing a significant issue. Restrictions exist throughout the auditor ESG assurance activities process (Pwc, 2024). Auditors face three primary challenges while working with ESG metrics: inconsistent standards between organizations, restricted capabilities to examine environmental and social issues, and the non-compulsory status of numerous ESG reporting systems.

The uptake of universal ESG reporting frameworks is today's primary challenge for ESG auditing operations. The lack of standardized ESG reporting frameworks stems from three leading organizations that created different frameworks: the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD). Auditors encounter difficulty verifying ESG claims because no unified global standard exists for reporting. Standardization deficiencies allow companies to select their preferred reporting frameworks, thus resulting in ESG reporting data that is inconsistent and unclear to the public.

Auditors exhibit typical expertise in financial accounting since their main tasks centre on verifying financial data against accounting standards. Auditors typically excel in financial auditing yet struggle to approach non-financial data assessment because they lack specialized expertise in environmental impact, social initiatives, and governance practices. ESG issues cannot be assessed efficiently due to their complexity; these topics require professional qualifications beyond standard accounting practice. The absence of required ESG expertise renders an auditor unable to properly verify the authenticity and accuracy of these disclosures.

Audit firms often provide ESG consulting services that promote potential conflicts between audit tasks. Auditors lose their impartiality when they combine ESG consulting services with auditing because they advise companies about their ESG strategies. Auditors advise companies, which they often use to create their ESG disclosures, leading to possible misinformation in their reporting. Auditors preserve their professional credibility when they distinguish between the activity of giving assurance and the practice of providing consulting services.

ESG audit requirements remain optional for operating companies across many jurisdictions worldwide. Many countries consider ESG assurance voluntary; thus, companies remain exempt from independent audits of their ESG reports. Due to the lack of regulatory standards, ESG disclosures become less trustworthy and reliable. Making self-certifications instead of seeking auditor assurance or choosing selective auditor involvement causes companies to avoid thoroughly examining their ESG performance.

The Case for Mandatory ESG Assurance

Every publicly listed company must undergo an ESG assurance evaluation to combat greenwashing effectively and protect ESG reporting integrity. Under mandatory assurance requirements, stakeholders would gain assurance about ESG report accuracy and reliability (KPMG, 2022). When exclusively requiring ESG data verification, the approach creates equal competition between firms by applying uniform verification methods regardless of their chosen reporting system.

ESG assurance processes should be subject to specific and unified standards that define the validation areas and audit quantifiable elements for auditors to check. Mandatory audits that monitor company accountability for their environmental statements would result in greater transparency in ESG reporting. Implementing mandatory ESG audits would create dual opportunities for analysts between sustainability metrics and traditional accounting to confirm equitable corporate assessments over time.

Standardizing ESG Audit Protocols

The effectiveness of ESG assurance requires standard procedures for ESG auditing. Auditors can consistently assess ESG claims across industries and company-selected ESG reporting standards through standardized audit protocols (Deloitte., 2023). Linear ESG audit procedures enable more accurate cross-sector and company-wide ESG report comparison.

The International Financial Reporting Standards (IFRS) Foundation and the European Financial Reporting Advisory Group (EFRAG) are developing global ESG reporting standards. Auditing firms and regulators must work closely with standard-setting bodies to create uniform audit procedures defining step-by-step processes for checking ESG disclosure content. This process, which covers environmental effects and social rights for labour alongside governance structures, makes assessing each significant aspect of sustainability performance possible.

Building Multidisciplinary Audit Teams

ESG issues with a high level of complexity underscore the need to acquire specialized skills by auditors for practical non-financial data assessment. A possible solution is to form multidisciplinary audit teams that include experts from diverse sectors such as social responsibility, human rights, governance, and environmental sciences. An extensive and in-depth evaluation will be performed to assess ESG reports by expert specialists in multidisciplinary teams with comprehensive audits across various dimensions (Sneideriene & Legenzova, 2025).

The creditability of ESG audits increases when multidisciplinary teams bring diverse perspectives to the assurance process. For instance, where a labour rights expert assesses the supply chain practices, a climate/ environmental specialist evaluates the accuracy of the company's emission reduction targets. Such approach display transparency, preventing greenwashing and ensuring a thorough audit aligned with stakeholders' expectations.

Addressing Conflicts of Interest and Enhancing Auditor Independence

Integrity can be maintained in the ESG assurance process through the resolution of potential conflict situations. The teams designing the company's sustainability strategy should be kept separate from the ESG auditing team. Audit companies must draw distinct lines between consulting services and assurance functions while ensuring transparency and zero interference (Weghmann, 2024). Companies must disclose their assurance approach with auditing firms to highlight independent assurance processes.

Additionally, regulatory bodies play a crucial role by defining a strict independent framework for auditors to ensure compliance and no interference from outside during the assessment process. Companies must disclose the scope, methodology, and outcomes of ESG audits in annual reports, enabling stakeholders to assess the creditability and accuracy of ESG claims in the report.

The Role of Technology in ESG Auditing

The efficiency and accuracy of ESG audits can be achieved through advanced technologies, reducing errors and delivering more dependable data for analysis. Advanced tools such as Artificial Intelligence (AI), blockchain and data analytics help auditors assess large volumes of ESG data and analyze and verify claims in real-time. AI algorithms are helpful in analyzing patterns and discovering nonstandard behavioural elements in disclosure information through social media and new coverage of a company's social impact initiatives. Blockchain technology allows users to establish a secured and unalterable ESG information database, helping auditors trace information back to its source. Data analytics tools benefit potential stakeholders as they can access reliable data to make informed decisions and enhance the company's reputation.

The adoption of these technologies enhances ESG auditing accuracy and creditability, minimizing the risk of greenwashing. Advanced technologies simplify ESG audit processes, reducing operational expenses and improving audit efficiency.

A Case Study: Unilever’s Authentic Sustainability Strategy

Unilever, a global leader in consumer goods, is a real-time example of how the risk of greenwashing can be minimized by implementing a strong sustainability strategy. The company announced a Sustainable Living Plan in 2010 to reduce its environmental footprint and promote positive social outcomes without compromising business goals and profitability (Unilever, 2020). The plan addressed three core elements: reducing environmental impact, improving health and well-being, and promoting livelihoods across the supply chain.

Understanding and Avoiding Greenwashing

Unilever's approach to initiating the plan started by identifying and addressing what greenwashing entails without making vague claims. Clear and measurable sustainable targets were defined, preventing the spread of misleading information to consumers. By 2030, the company aims to reduce its products' 50% carbon footprint across their entire lifecycle, which is one of the goals. This is an example of a SMART objective, as the company aims to back its promise with achievable outcomes.

Transparent and Verifiable Communication

Unilever is committed to providing accurate and verifiable data on its sustainability progress, which is a critical aspect of its approach. The company's reporting practices are aligned with globally recognized standards, including the Carbon Disclosure Project (CDP) and the Global Reporting Initiative (GRI). The company discloses detailed performance metrics within its annual sustainability reports, including waste reduction, water usage, and greenhouse gas emissions, maintaining consistency and transparency in its disclosures.

Embedding Sustainability into the Business Model

incorporated sustainability into its corporate strategy by appointing a chief sustainability officer (CSO) to report directly to the CEO. The Chief Sustainability Officer ensures that social and environmental goals are part of the strategic decision-making process. The company has rolled out other initiatives, such as sourcing agricultural materials for sustainability and improving energy consumption in manufacturing facilities. Progress on ESG initiatives has been made public to ensure accountability and transparency.

Third-Party Verification

Unilever collaborates with independent organizations to reinforce the credibility of its sustainability claims. Validation is achieved by external bodies such as the Rainforest Alliance and the Fairtrade Foundation in responsible sourcing practices. The company's sustainability reports are audited through a third-party audit, gaining the trust and confidence of investors, partners, and the public.

Conclusion: Time for Auditors to Lead the Change

Greenwashing presents significant challenges for ESG reporting reliability by undermining investor trust, consumer trust, and stakeholder trust all at the same time. Auditors should be central to ESG document verifications/assessments, which have become key to discussing corporate sustainability. Even if auditors play a critical role in addressing greenwashing, the problems with auditing ESG reports—the lack of standardized frameworks, shortage of talent, and conflicts of interest that develop between auditors and the companies—impede the delivery of those claims.

Standardized auditing techniques should be used to create an independent ESG verification for publicly traded companies subject to regulatory requirements to validate ESG claims accurately. To examine various facets of ESG data, organizations should have multidisciplinary teams that bring together specialists in social and environmental issues. With independent auditing and technological advancements, the auditing profession will contribute to developing a sustainable business environment and the growth of trust in ESG reporting.

References

Deloitte. (2023). Building better futures. *Global Impact Report.* https://www2.deloitte.com/content/dam/Deloitte/tw/Documents/about-deloitte/2023-deloitte-global-impact-report.pdf

Eccles, C.R., & Klimenko, S. (2019). The Investor Revolution. *Harvard Business Review.* https://hbr.org/2019/05/the-investor-revolution?hss_channel=tw-937917572913152000

GRI (2024). The global standards for sustainability impacts. *Standards.* https://www.globalreporting.org/standards/

Hassan, S. (2024). Greenwashing in ESG: Identifying and Addressing False Claims of Sustainability. *Journal of Business and Strategic Management, 9*, 90-105. 10.47941/jbsm.2390.

IFAC (2024). *The State of Play: Sustainability Disclosure & Assurance 2019-2022, Trends & Analysis.* https://www.ifac.org/knowledge-gateway/audit-assurance/publications/state-play-sustainability-disclosure-assurance-2019-2022-trends-analysis

John, M.L. (2022). World's top companies improving on climate reporting, but more progress is needed in key areas of sustainability & ESG. *KPMG.* https://kpmg.com/xx/en/media/press-releases/2022/10/world-top-companies-improving-on-climate-reporting-but-more-progress-is-needed-in-key-areas-of-sustainability-and-esg.html

KPMG (2022). *Key global trends in sustainability reporting.* https://kpmg.com/xx/en/our-insights/esg/survey-of-sustainability-reporting-2022/global-trends.html

McKinsey & Company (2023). Accelerating sustainable and inclusive growth for all. *ESG report.* https://www.mckinsey.com/about-us/social-responsibility/esg-report-overview

Mehdiyev, A. (2024). *Sustainable Finance and ESG Investment: Foundations of Digital finance, future-driven contemporary analysis, opportunities, challenges and role of ESG investment in economy*. 10.13140/RG.2.2.13206.36168.

Pwc (2024). *ESG reporting and preparation of a Sustainability Report.* https://www.pwc.com/sk/en/environmental-social-and-corporate-governance-esg/esg- reporting.html

Sneideriene, A., & Legenzova, R. (2025). Greenwashing prevention in environmental, social, and governance (ESG) disclosures: A bibliometric analysis. *Research in International Business and Finance, 74.* https://doi.org/10.1016/j.ribaf.2024.102720

Unilever (2020). *2010 – 2020 – The birth of Unilever's Sustainable Living Plan.* https://www.unilever.com/our-company/our-history-and-archives/2010-2020/

Weghmann, K. (2024). Why ESG integrity is at a crossroad between aspiration and regulation. *EY.* https://www.ey.com/en_gl/insights/forensic-integrity-services/why-esg- integrity-is-at-a-crossroad-between-aspiration-and-regulation