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Mitigating Greenwashing: The Role of Audit Committees and Internal Audits in ESG Reporting Assurance

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NVivo-Extracted Word Cloud of Interview Transcripts

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Dedication

This dissertation is dedicated to my late father, who taught me to be kind, dependable, and determined, and to my devoted mother, without whom I would never have been able to accomplish my goals and succeed in life.

Declaration

The candidate affirms that the submitted work is his own and that proper citations have been made when referencing the work of others.

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// Abstract

Greenwashing refers to businesses making misleading ESG disclosures (Burbano, (2011). In response to rising expectations from regulators, investors, and the public, a growing number of businesses are under pressure to publish ESG reports. Financial losses, damaged brand reputation, and even corporate failure can result from greenwashing behaviour on the part of businesses if their ESG information is inaccurate.

ESG reporting has been a significant area of development in corporate reporting over the last two decades with different names and scopes. However, ESG reporting assurance (hereafter 'ESG assurance') is a relatively new area of practice, and there is limited research and understanding of its effectiveness. Existing studies in this field have mainly focused on the external audit role in the assurance process. The aim of this study is to gain an understanding of how the audit committee and internal audit can assist the board in fulfilling its oversight role of mitigating greenwashing by ESG assurance, based on direct evidence from the assurance providers. To achieve this aim, semi-structured interviews were conducted with 47 participants from various countries, representing a diverse range of global perspectives. The interviews lasted an average of 60 minutes, were recorded and transcribed, and analysed using reflexive thematic analysis.

Results suggest that competent audit committees should play an active and important role in ESG assurance. Internal audit is perceived to play an important role in ESG assurance. Respondents identified greenwashing as a real and significant risk to both businesses and the environment. They further emphasized that ESG reporting must be credible and well supported in order to gain investors' and the public's trust and meet their sustainability expectations. Results also showed that ESG reporting governance is poorly defined, limiting assurance, and that most boards lack ESG expertise and may underestimate the importance of ESG assurance.

This study provides empirical contributions on ESG assurance to mitigate greenwashing through direct engagement with boards, audit committees and assurance professionals. It also offers a framework to help better understanding some of the causes and consequences of greenwashing. In addition, it provides recommendations to boards, audit committees, internal audit, researchers and other assurance providers confronted with multiple challenges in this rapidly evolving domain.

Keywords: *Corporate Governance, Greenwashing, ESG Reporting, Sustainability Assurance, Internal Audit*

List of Abbreviations

ESG:	Environmental, Social and Governance
CSR:	Corporate Social Responsibility
SR:	Sustainability Report
AC:	The Audit Committee of the Board
IA:	Internal Audit
CG:	Corporate Governance
IIA:	The Institute of Internal Auditors
IPPF:	International Professional Practices Framework of Internal Auditing
Aka:	Also Known As
FTSE:	Financial Times Stock Exchange
GRI:	Global Reporting Initiative
IPCC:	Intergovernmental Panel on Climate Change
LSE:	London Stock Exchange
UK:	The United Kingdom
EU:	The European Union
RQ:	Research Question
ISSB:	International Sustainability Standards Board
TCFD:	Financial Stability Board Taskforce Climate Related Financial Disclosure
HBR:	Harvard Business Review
IFAC:	International Federation of Accountants
FCA:	Financial Conduct Authority, UK
FRC:	Financial Reporting Council, UK
SEC:	U.S. Securities and Exchange Commission
CEO:	Chief Executive Officer
CAO:	Chief Audit Officer

Chapter 1: Introduction

This chapter consists of eleven sections, and it provides an overview of the dissertation, discusses the background of the problem to be addressed by this research, outlines the aim, objectives, and research question, and explains the motivation for this research. Additionally, it provides a summary introduction to the theoretical framework and how theory is used in this study. The chapter concludes with an overview of the general structure of this thesis.

1.1 Background to the Study

As the global economy tries to heal from a pandemic-induced coma, investors are becoming more conscious of the environmental, social, and governance (hereafter ESG) issues and exerting pressure on corporations and governments to report on relevant ESG matters (Bouten *et al.*, 2011; IFAC, 2021). ESG is increasingly recognised as a crucial component of effective and sustainable business performance and associated evaluation (Lokuwaduge and De Silva, 2022). Scholars have argued that the ESG information provided in the annual reports is commonly unaudited; consequently, many corporations seized this opportunity by engaging in unethical and unfair greenwashing practices (Yu, Luu and Chen, 2020; Pucker, 2021). Corporate greenwashing can be considered the unethical practice of businesses promoting their positive environmental, social and governance actions while concealing their negative ones (Gregory, 2021). It has environmental, societal, and economic consequences, including misleading investors and the public (consumers) into unsustainable behaviour, which harms a company's reputation (De Jong, Harkink and Barth, 2018; Gregory, 2021). ESG reporting, also known as sustainability or sometimes known as Corporate Social Responsibility 'CSR' reporting (Lokuwaduge and De Silva, 2022).

ESG reporting is defined by the Global Reporting Initiative 'GRI' (GRI, 2016, p. 3) as "*an organisation's practice of reporting publicly on its most significant economic, environmental, and social impacts, and hence its contributions – positive or negative – toward the goal of sustainable development*".

ESG reporting assurance is a disciplinary mechanism that certifies the reliability of reported information and contributes to its credibility by reducing agency conflicts (Sìmnett, Vanstraelen and Chua, 2009; Gillet-Monjarret and Rivière-Giordano, 2017). Which supports reducing uncertainty of reported information for users (Gillet-Monjarret and Rivière-Giordano, 2017). The International Audit and Assurance Standards Board (IAASB) defines assurance as [...]

"an engagement in which a practitioner seeks to obtain sufficient appropriate evidence to express a conclusion intended to increase the degree of confidence of envisioned users other than the responsible party regarding the subject matter information" (IAASB, 2013: p. 7).

Numerous instances of greenwashing have been brought to light at a number of the world's largest companies, including Coca-Cola, Volkswagen, Ryanair, BP, Shell, Deutsche Bank, HSBC, IKEA and ExxonMobil, among others. I will elaborate on two instances that happened recently and have caught my attention because of their relevance to ESG disclosures and reporting:

In June 2021, the 'Earth Island Institute', a non-profit environmental organization raised a lawsuit against Coca-Cola for fraudulently reporting and representing that it is sustainable and ecologically friendly while being the biggest plastic polluter (Robinson, 2022; Sandler, 2022). By the year 2020, Coca-Cola had been listed as the company that polluted the environment with the most plastic for the previous three years in a row, and in that year, it had surpassed the total amount of plastic pollution that was produced by

the next two corporations combined (Sandler, 2022). The motivation for Coca-Cola's greenwashing practises could be attributed to rising consumer demand for environmentally friendly products and practises. Coca-Cola could attract environmentally conscious consumers and investors by presenting itself as a sustainable company. However, implementing ESG assurance could help prevent such greenwashing practises by ensuring accurate and transparent reporting of the company's environmental impact.

In May 2022, The Financial Times reported that German authorities raided the offices of the DWS Group, also known as DWS, a German asset management company that is owned by Deutsche Bank, and its primary shareholder Deutsche Bank as part of an investigation into greenwashing claims. DWS made inaccurate representations in its 2020 annual report about claims that more than half of the group's $900bn in assets were invested in environmental, social, and governance considerations. Subsequent a whistle-blower by one of its executives, the chief sustainability officer, to the relevant authorities in Germany and the United States of America. In its 2021 annual report, issued in March 2022, DWS claimed only €115bn in "ESG assets" for 2021, 75% fewer than the previous year, when it said that €459bn in assets were "ESG integrated" according to (Walker and Miller, 2022), in the Financial Times. A day after the authorities searched their offices, the Chief Executive Officer resigned from their position. In addition, this greenwashing incident resulted in significant financial losses (shares dropped 1.9% in a single day and continue to decline), damage to the reputation of the brand, anticipated loss of loyalty from customers, and loss of talent. At the time that this dissertation is being written, the investigation is still underway and has the potential to result in significant financial penalties as well as threats to the DWS’s corporate licence to operate.

The motivation behind DWS's greenwashing practises could be linked to the growing investor demand for ESG-compliant investments. DWS may attract investors

interested in sustainable investing if it presents a large portion of its assets as ESG-integrated. However, implementing ESG assurance could help prevent such greenwashing practises by ensuring that the company's ESG claims are accurate and verifiable.

These examples highlight the significance of ESG assurance in preventing greenwashing. ESG assurance can help ensure that companies are held accountable for their environmental, social, and governance practises by providing a mechanism for verifying ESG claims, preventing misleading or false claims and promoting transparency and trust.

De Freitas Netto *et al.* (2020) argued that businesses are actively engaged in greenwashing either intentionally or unintentionally. Practitioners and academics stated that greenwashing is rampant (Thompson, 2019; Yu, Luu and Chen, 2020; García-Sánchez et al., 2022). Recent research demonstrates that greenwashing has increased at an alarming rate over the past decade (Yu, Luu and Chen, 2020; García-Sánchez et al., 2022). Due to the rising consumer demand for green products, institutional investors' interest in green businesses, and employee attraction and retention, among other factors (Hoogervorst, 2018). The tendency to engage in greenwashing and absence of consistency of reporting practices, in conjunction with the wide variety of ESG data, measurements, comes along with a rising need for assurance, accountability, and thorough oversight of ESG information (Kotsantonis and Serafeim, 2019; Pucker, 2021; Eulerich, Bonrath and Lopez-Kasper, 2022). According to the findings of previous research the primary motivation for businesses to participate in social and environmental reporting is to secure their own position and interests (Cho *et al.*, 2015; Milne and Gray, 2013; Imboden, 2017).

Cho *et al.* (2015) argued that corporations do not walk the sustainability talk, resulting in sustainability reports consisting primarily of false claims and unmet commitments rather than communicating rational plans and actions that address

fundamental sustainability concerns. Yu, Luu and Chen (2020) argued that it is more difficult for investors to incorporate ESG factors into the investment selection process when companies "greenwash," or make misleading ESG disclosures. Effective capital markets and investment communities rely on a continuous supply of reliable, timely, and audited information (Radin, 2019). Driven by a desire for continued business accountability and transparency, in recent years, there has been an increase in calls to elevate the credibility of ESG reporting to that of financial reports, either on a standalone or integrated basis (Adams, C. and Tyson, 2013; IFAC, 2021). Even though ESG reports are supposed to provide a complete and balanced picture of corporate sustainability performance, they are, however, usually voluntary, lack required or generally accepted standards where firms often select metrics in a self-serving manner and are prone to interpretation and even greenwashing tendencies that may threaten the organisation's legitimacy (Bettenhausen, Byrd and Cooperman, 2014; Farooq and de Villiers, 2017). Accordingly, legitimacy or reputational threats tend to associate with ESG reporting decisions, with corporate management being most concerned with deflecting, obscuring, or rationalising their relatively poor social and environmental performance (Cho et al., 2015). Further, Hickman and Cote (2019) argued that the legitimacy of ESG reporting and its assurance process was questioned early in the sustainability-related accounting (Gray, 2000; Ball, 2001; Adams and Evans, 2014).

Because assurance of ESG reports is voluntary in most jurisdictions and inconsistent (Farooq and de Villiers, 2017). When the society finds that the organisation's activities do not regard its moral values, its social contract to operate may be revoked, and it may even lead to the organisation's collapse (Burlea and Popa, 2013). Unfortunately, negative social and environmental problems caused by the absence of legitimacy have a paradoxical role in motivating the need of legitimacy in organisations (Burlea and Popa,

2013). Negative social and environmental issues, for example, may attract increased public scrutiny and media attention, requiring organisations to take corrective action in order to regain the trust and support of their stakeholders. As a result, the negative consequences of a lack of legitimacy may create a sense of urgency and pressure for organisations to become more responsible and sustainable, leading to a greater emphasis on legitimacy as a strategic priority.

Previous research on ESG reporting focused mainly on the relations between reporting and repairing legitimacy issues rather than mitigating legitimacy threats (Boiral and Heras-Saizarbitoria, 2020; Boiral and Heras-Saizarbitoria, 2020). For example, research has shown that companies may engage in ESG reporting to improve their reputation and signal their commitment to sustainable corporate practices. Companies can demonstrate their efforts to meet stakeholder expectations and respond to concerns about their impact on society and the environment by publicly reporting their environmental, social, and governance performance. However, there has been less emphasis on how ESG reporting, specifically assured reports, can be used proactively to prevent or mitigate potential legitimacy threats. Companies, for example, may face legitimacy issues related to their social or environmental impacts (e.g., oil company), which can result in negative media coverage, stakeholder activism, or regulatory scrutiny. In such cases, accurate (or assured) ESG reporting could be used to build credibility or identify and address issues before they become full-fledged crises.

The main challenge associated with the ESG reporting activities is finding efficient and effective means to improve the credibility of these reports (IAASB, 2009). The International Federation of Accountants (IFAC, 2021) called upon authorities and regulators to maximise trust and confidence in ESG disclosure and reporting by requiring high-quality assurance. The International Institute of Internal Auditors ‘IIA’ (2021)

argued that ESG reporting assurance is a vital approach for mitigating ESG risks and for boards to fulfil their responsibilities to various stakeholders. The majority of professional consulting firms, including PwC and Deloitte, argued that ESG information and disclosures must be accurate, dependable, and consistent in order to facilitate more informed decision making. However, ESG reporting assurance is under-researched, and it remains a practice that is not well understood (Elamer *et al.*, 2021). Recent studies suggested that assuring sustainability reporting boosts stakeholders or users' trust and perceptions of information trustworthiness (Du, 2015; Channuntapipat, 2016; Boiral *et al.*, 2019; Alsahali and Malagueño, 2021) and hence it is thought that sustainability assurance mitigates greenwashing (Lyon and Maxwell, 2011).

Furthermore, there is a lack of consensus on how ESG reporting assurance engagements should be undertaken and who should perform it (Manetti and Becatti, 2009; Farooq and de Villiers, 2017). Schrank (2022, p. 2) argued that the question of ‘who should perform the ESG report assurance’ has dominated the discussions about the assurance of ESG reports. On the one hand, the International Integrated Reporting Council (IIRC, 2013) stated that Internal Audit could improve the reliability of this information. Some evidence that internal stakeholders prefer ESG issues to be assured by Internal Audit and perceive internal assurance as sufficient (Edgley, Jones and Solomon, 2010). On the other hand, some studies show that ESG assurance has been restricted mainly to external, third-party providers and would enhance credibility and trust. Despite the rising significance of the internal audit and its development to "help" board and management foster organisational goal achievement (Roussy, 2013), surprisingly, it has not received enough consideration, and its role may not be fully understood by management or investors (Onumah and Krah, 2012).

In practice, as businesses develop ESG programs and report on their initiatives,

internal audit leaders struggle to define their role (Gartner, 2022). Previous studies have explored ESG reporting assurance from the perspective of an external assurance firm (Casey and Grenier, 2014). It may be argued that this is attributable to the fact that some studies view the reporting that is subject to third-party assurance as more reliable or the perception of assurance that its limited to third-party. Eulerich, Bonrath and Lopez-Kasper, (2022) suggested that the scope of internal auditing's involvement in ESG should be explored and correspond to the nature of ESG as a whole, including both the assurance and advisory capabilities of internal audit.

Recent research by Hickman and Cote (2019) suggested that integrated assurance, including internal audit, views may be more impactful and beneficial to businesses. Supporting these views, some sustainability reporting managers argued that their internal audit was sufficient in the case of absent regulatory requirements for third party assurance, as it was overseen by the audit committee of the board (Jones and Solomon, 2010).

Talan and Sharma (2019) argued that ESG reporting affects investment decisions like financial reporting, so assuring or assessing it first internally like financial reporting and then extending the assurance to a third-party assurance provider could be more meaningful. Moreover, according to a new study by Whelan (2021, p. 2) at HBR "many boards lack ESG-related expertise, and many do not even acknowledge the importance of addressing material sustainability issues". Furthermore, Kiel and Nicholson (2003) argued that the lack of a clearly defined role set, and useful information could make it tricky for the board to properly govern an organisation.

Greenwashing has various negative effects on businesses and society that are rarely examined in depth. Therefore, the researcher chose this topic to understanding of how the audit committee and internal audit can assist the board in assuring the ESG reporting in order to mitigate greenwashing.

1.2 Purpose and Overview of the Study

Corporate greenwashing has increased at an alarming rate in recent years due to the ever-increasing interest in ESG and the increasing pressures on businesses to disclose and report on their sustainability and social initiatives (Du, 2015; Uyar, Karaman and Kilic, 2020; Yu, Luu and Chen, 2020; Barrymore, 2021). “Greenwashing is a threat” to accurate ESG information (Yu, Luu and Chen, 2020, p.7). Greenwashing occurs at businesses of all sizes, including some of the world's largest corporations (Robinson, 2022).

The assurance of ESG reporting to mitigate greenwashing has been a significant area of growth in corporate reporting over the past two decades, albeit under a variety of names and with differing scopes, but one that has received little research and practical understanding (Elamer et al., 2021). Eulerich, Bonrath and Lopez-Kasper (2022) argued that the scope of internal auditing's involvement in ESG should be explored and correspond to the nature of ESG as a whole, including both the assurance and advisory capabilities of internal audit. Farooq and de Villiers (2017) argued that ESG assurance has a considerable positive effect on the perceived credibility of sustainability reports among stakeholders. Previous studies found that managers seek ESG assurance to certify that their ESG claims are verifiable (Park and Brorson, 2005). This decreases any possible reputational legitimacy, and/or legal risks from reporting (Darnall, Seol and Sarkis, 2009; Sawani, Zain and Darus, 2010).

The progression of corporate governance over time has emphasised the necessity for businesses to conduct their operations responsibly and to respect the society and environment in which they operate (Marx and Watt, 2010). Audit committees have existed as a prerequisite for strong corporate governance for decades and have been widely accepted as a central component of the corporate governance structure of entities (Marx

and Watt, 2010; Coetzee *et al.*, 2021). Various factors have given rise to renewed emphasis being placed on audit committees and their role, the most significant of these are corporate collapses, business failures, emerging risks, and the issuing of various corporate governance codes and new or amended legislation (Ferreira, 2008; Marx and Watt, 2010).

Through its oversight role the audit committee assists the governing body or the board of directors (hereafter referred to as the board) in meeting its financial reporting, overseeing risk management, internal controls and assurance or audit-related responsibilities and dealing with emerging issues such as fostering an ethical culture of doing business and overseeing the company's corporate reporting including ESG reporting assurance (Marx and Watt, 2010). Internal audit as the audit committee's internal independent function, is increasingly regarded as an important component of organisational risk management and assurance (Arena and Jeppesen, 2010; de Zwaan, Stewart and Subramaniam, 2011) that helps organizations mitigate risks and fulfil corporate goals (Spira and Page, 2003). However, internal audit and the role of internal auditors remain under-researched (Gendron and Bédard, 2006; Roussy, 2013), despite its rise as an integral component of the CG fabric of contemporary organizations (Sarens, 2009). Further, Roussy and Perron (2018) in a recent structured literature review of internal audit from 2005-2017 found that no consensus about the roles internal audit function plays, or should play, in organizations. Pinto *et al.* (2014) state that internal audit should play distinct roles subject to the company’s requirements. The purpose of this study is to explore the audit committee's and internal audit's roles in ESG reporting assurance in order to assist the governing body in fulfilling its oversight role of mitigating greenwashing.

1.3 The Objectives of The Study

Given the prior context in its entirety. Which demonstrates that greenwashing is prevalent and that ESG information provided in annual reports is quite often unaudited, posing significant risks such as financial losses, brand reputation damage, and even corporate failure. ESG assurance has been a significant area of development in corporate reporting over the past two decades under a variety of names and scopes, but one that has been the subject of limited research and practice-based understanding. Existing research in this area has concentrated primarily on the role of external audit in the assurance process.

This study aims to gain an understanding of how the audit committee and internal audit can assist the governing body in mitigating greenwashing by ESG assurance. To achieve this aim, the dissertation has the following specific objectives:

- Explore views of individual board and audit committee members on their oversight role in the ESG reporting assurance to mitigate greenwashing risks.
- Understand, from interviews, participants board and audit committee members' level of understanding of the importance of the ESG reporting assurance.
- Explore views of individual internal auditors and ESG third party-assurance providers on their role in the ESG reporting assurance.
- Explore the perspectives of individual members of executive management, such as CEOs, CFOs, CROs, etc., on ESG reporting assurance and greenwashing.
- Gain a rich perspective on ESG reporting assurance, greenwashing and related corporate governance practice through interacting with international senior executives and assurance subject matters experts.
- Make recommendations on mitigating greenwashing risks through ESG reporting assurance.

1.4 Research Question

To achieve the aforementioned research purpose and objectives, the following is the specific research question: 'How do the audit committee and internal audit assist the governing body in mitigating greenwashing by assuring ESG reporting?'

1.5 A Brief Summary of Historical Perspective on ESG reporting

Environmental, social, and governance (ESG) is the most recent and more comprehensive terminology of sustainability reporting measures (Camilleri, 2018; Bose, 2020; Murphy and McGrath, 2013). Previously, ESG was used as a symbolic gesture by businesses to affect the communities in which they operated positively. However, the actual delivery of meaningful impact lacked substance and ultimately resulted in corporate inaction. The necessity to preserve the environment from degradation, depletion and climate change risks has become more critical than ever before (Alshuwaikhat and Mohammed, 2017). Globally, ESG reports are becoming far more common, and the content of these reports has increased considerably (Dhaliwal et al., 2012). ESG related matters are becoming decision critical (Bouten *et al.*, 2011). ESG measures are important for understanding how organisations generate financial returns in the long term (Marcia, Maroun and Callaghan, 2015; Dube and Maroun, 2017). Both society and investors are becoming more conscious of ESG issues and have begun to pressure corporations and governments to report on relevant issues. However, Yu, Luu and Chen (2020) argued that incorporating ESG factors into the selection process is made more difficult for investors when companies 'greenwash', i.e., when firms make misleading ESG disclosures.

ESG assurance is one of the important ways of mitigating ESG risks and for boards to discharge their duties to their various stakeholders (IIA Global, 2021; Pugliese, 2021). Previous studies suggested that one of the important methods to accredit ESG reporting

and disclosure is through assurance (Sìmnett, Vanstraelen and Chua, 2009; Brown-Liburd and Zamora, 2015). ESG risk management has become crucial, as a business strategy now must ensure that sustainability policies and impacts do not deflect from the achievement of primary business objectives (COSO, 2013). Assurance's primary value is risk reduction or mitigation (COSO, 2013; IIA, 2021). Historically, assurance has been focused on financial reporting. Given the rapidity with which information is created and disseminated, the role of assurance players may need to evolve (Robert Knechel, 2021). To ensure accountability, resilience and drive towards progress, a coherent, comprehensive reporting system and assurance of ESG reports are needed (SASB (Sustainability Accounting Standards Board), 2018). Knechel (2021) argued that there are three areas in which auditors might help improve information quality: (1) non-GAAP earnings; (2) ESG reporting; and (3) cybersecurity risks disclosures.

Considering the undue influence of the management, there are concerns and chances that assurance will add credibility to reports where organisations have not fulfilled their commitments (Gray, 2000; O'Dwyer and Owen, 2005). This could be a serious impairment to the end goal of Sustainability to fight climate change where organisations commit but have not acted on their goals. For example, the organisation may claim they have reduced the water consumption per unit of product, but for the same period, their overall water consumption may have increased. This could lead stakeholders to accept the metrics that are not boosting the purpose of Sustainability or CSR or ESG efforts (Gray, 2000; Malsch and Gendron, 2013). This kind of instance again warrants establishing clear standards for defining procedures, norms, and key performance indicators to add credibility and fulfil the meaning of sustainability.

The vast majority of ESG disclosures are voluntary, and existing standards are more akin to general guidelines than strict regulations (Schrank, 2022). While there are

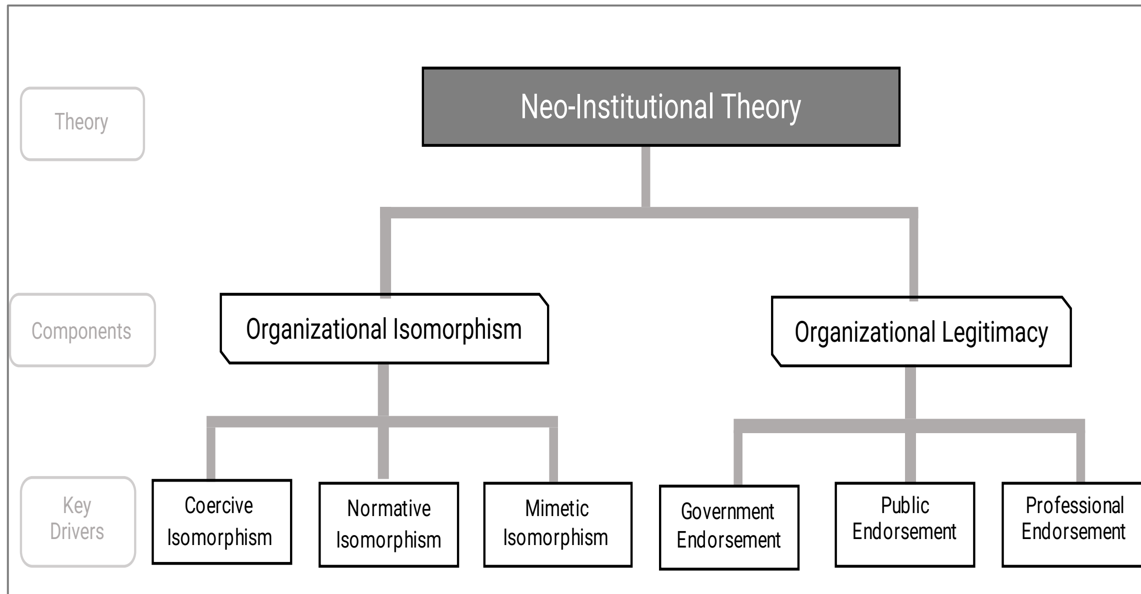
several ESG reporting frameworks across the world, there are few regulations around ESG reporting and none regarding ESG assurance practices (DeSimone, D'Onza and Sarens, 2021). As ESG programs mature, the audit committee will likely have a more prominent role in setting the tone regarding the importance of assurance on ESG information, assisted by internal and external auditors. The IIA emphasised that the difficulty and complexity of ESG reporting are readily apparent, and that the consequences associated with poorly managed reporting can be significant in terms of regulatory compliance and reputational damage. Therefore, a) an independent and active internal control system is required to increase the quality and quantity of ESG reporting without compromising objectivity and shareholder interest, b) governing bodies (the board, audit committee) and executive management should carefully consider all disclosures and how related assurance responsibilities are assigned (The IIA, 2021).

1.6 A Brief Overview of The Theoretical Framework

The institutional theory initially focused on formal institutions and how actors respond to external institutional constraints, whereas neo-institutionalism places greater emphasis on comparative analyses, behaviours, and how "inside" systems affect change and being affect by external pressures (DiMaggio and Powell, 1983; Greenwood and Hinings, 1996; Powell and DiMaggio, 2019). Neo-institutional theorists view the adoption of particular organisational practice and activities as the result of pressures and demands arising from institutionalised components within the macro-institutional environment to which the organisation belong (Meyer and Rowan, 1977; Powell and DiMaggio, 2019). Meyer and Rowan (1977, p. 351) emphasised the importance of "organisational social fitness". Neo-institutional institutionalism also considers how systems from "inside" affect change (Greenwood and Hinings, 1996; Powell and DiMaggio, 2019), and that

organisations are open systems that are heavily influenced by their institutional environments, which include regulations, norms, and socially constructed belief systems (Meyer and Rowan, 1977; DiMaggio and Powell, 1983).

Figure 1-1: Summary of the key components and drivers of the neo-institutional



Source: the researcher, summary based on DiMaggio and Powell (1983); Meyer and Rowan (1977); Scott, (2004)

Organisations strive to strengthen their legitimacy by incorporating or appearing to incorporate new practices, norms, and values, as well as communicating an alignment between their norms and values and those of society to external stakeholders e.g., investors (Milne and Patten, 2002). In the context of ESG reporting assurance, firms seek assurance in response to institutional pressures to meet stakeholder demand and legitimise their practices, and these pressures are mainly coercive, normative, and mimetic (Gillet-Monjarret and Rivière-Giordano, 2017).

The neo-institutional theory can be used to disclose and explore why changes in organisational processes and practices (e.g., ESG reporting practices) may have occurred

and to explain the process leading to the adoption of similar practices, innovative systems, and rules (DiMaggio and Powell, 1983). Analysing this study in the light of neo-institutional theory means considering the ESG reporting assurance practice as a response to institutional controls or pressures from society and investors through isomorphic behaviour with the aim of gaining and maintaining legitimacy (Smith, Haniffa and Fairbrass, 2011). Gillet-Monjarret and Rivière-Giordano (2017) argued that organisations actively construct their organisational image, and ESG reporting assurance practice is part of a legitimacy-building strategy that responds to coercive, normative, and mimetic pressures.

Table 1.1: Summary of the institutional elements of isomorphism change

The institutional elements of isomorphism change	**Coercive**	**Normative**	**Mimetic**
Reference or Source	Laws, regulation, and directives	Norms and standards including professional bodies requirements/ frameworks.	Ambiguity and uncertainty of activities.
The Result or Influenc	To adopt actions and behaviours in compliance with legislations.	To adopt actions and behaviours in conformance with normative expectations.	Imitating leading comparable institutions that deemed to be successful.

Adopted from: *Contrafatto, (2014)*

In this study, the theoretical framework is used primarily for data analysis, and not for theory testing or theory construction. On page 75 of Chapter 2: 'The Neo-Institutional Theory as the Theoretical Foundation for This Study', the researcher describes how the neo-institutional theory was applied throughout the entire study.

1.7 The Scope of This Study

Greenwashing and ESG are global phenomena (Lokuwaduge and De Silva, 2022); hence this research will examine a global perspective, taking an industry-agnostic approach. Brammer, Jackson and Matten (2012) argued that the emergence of new ESG-related institutions on a global scale today influences the practices and policies of businesses, both international and local. Particularly, the ESG reporting assurance has grown more widely diffused and a crucial governance aspect to combat greenwashing (KPMG, 2013). Farooq and de Villiers (2017) recommended that future research should target ESG reporting assurance, not only in developed countries but globally, covering Asia, Africa, South America, and the Middle East, comparing practice in these regions against those in developed countries to highlight similarities and differences. Assurance of ESG reports is relatively new as compared to the reporting of ESG, which was picked up globally by companies from the mid-2000s (Elamer *et al.*, 2021). Worldwide, there are only limited organisations offering assurance to their ESG reports (Zamil *et al.*, 2021). Therefore, narrowing the scope of this study to a specific sector would give minimal responses and not much data. Additionally, embracing a global view will highlight distinctive perspectives and good practices that can be recommended through this study for adoption by other countries and geographies.

1.8 The Motivation for This Study

This study seeks to fill a professional gap and address a professional problem by examining the role of the audit committee and internal audit in the practice of ESG reporting assurance in order to mitigate greenwashing. Fulton *et al.* (2012, p. 1) advocated that the primary objective of a professional Doctorate i.e., DBA is to develop "work-based skills or knowledge" and respond to the demands of professional practice. Accordingly, the DBA selection is suitable for the researcher's work schedule and learning objectives. The topic selection was primarily influenced by a practical need and an interest, based on the researcher's experience as an internal audit professional, for a professional need to clarify the roles of audit committees and internal audit in ESG assurance in order to assist boards in fulfilling their oversight role in mitigating greenwashing. This was also compounded by the fact that the research in the discipline of ESG reporting assurance is still evolving and, therefore, seems to lack clarity for both academics and practitioners (Elamer et al., 2021). In addition, the researcher is driven to gain a thorough understanding of the causes of greenwashing, methods for combating it, and the function of corporate governance.

A recent study by the Institute of Internal Auditors IIA Global (2021, p. 4) suggested that “in the context of governance, it is vital for organisations to consider roles in ESG reporting and risk management”. Furthermore, Farooq and de Villiers (2017) in their comprehensive global literature review of the market for sustainability assurance services, argued that the views and perspectives of senior managers, especially board members, remain under-represented in the literature. Further, they recommended semi-structured interviews with senior managers and board members to gain effective insights and methods to explore the perspectives of these stakeholders on ESG reporting assurance and related assurance provider types, e.g., external, internal, and integrated assurance.

1.9 Nature of The Study

This is an exploratory qualitative study. According to Hayashi, Abib and Hoppen (2019), qualitative research applies to exploration and an in-depth understanding of an evolving topic such as ESG and its reporting assurance. The explanatory study is most appropriate to address a research question when a researcher has no control over the studied contemporary phenomenon. The method of the attainment of data for this study is semi-structured interviews with a sample of forty-seven (47) interviewees to gain insights from global executive managers, board members, audit committee, internal audit, and ESG external auditors. This research takes an interpretivist researcher perspective to explore the research topic.

1.10 Significance of The Study

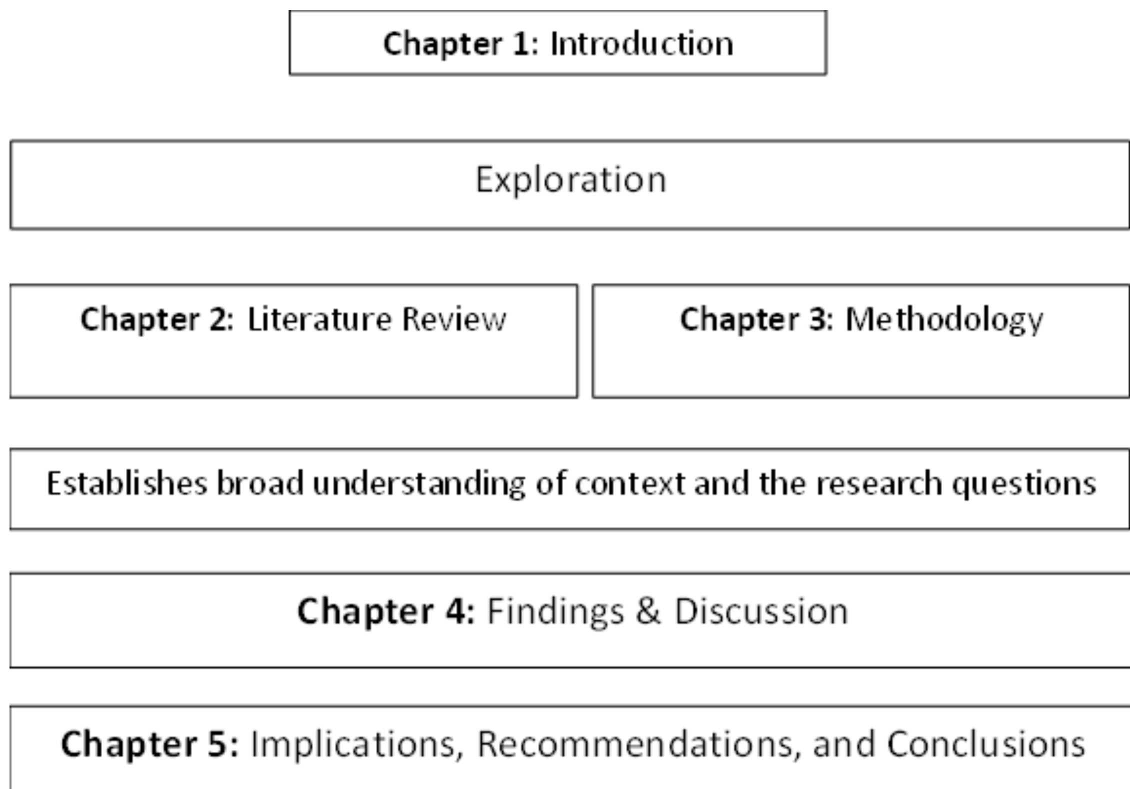
This study provides empirical contributions by employing interviews as the data collection method and through direct engagement with boards, audit committees, assurance professionals, and other key assurance provider stakeholders. In order to gain insight and understanding of the practice of ESG assurance and the role of the audit committee and internal audit in assisting the board in mitigating greenwashing. In addition, this study identifies five practical implications and provides a number of recommendations to boards, audit committees, internal audit, policymakers, and the internal audit professional association who face multiple challenges in this rapidly evolving domain. To enhance the validity, reliability, and applicability of the study, the researcher engaged closely with practitioners and academics in the field of the study (Dickins and Urtel, 2021). Moreover, this study provides a framework, in Figure 4-7, that that can be used by researchers and business leaders to better understand some of the causes and consequences of greenwashing. It shows how institutional components of isomorphism; coercive, normative, and mimetic pressures influence organisations to

report on ESG activities, which can be used by researchers and business leaders to better understand some of the causes and consequences of greenwashing. This study responds to continuous calls for interviews-based research of sustainability reporting assurance for deeper understanding of the practice (Edgley, Jones and Solomon, 2010; Farooq and de Villiers, 2017) and to directly engage with assurance professionals and providers (O'Dwyer and Owen, 2005). The findings of the study are significant because they provide new insights into the practise of ESG assurance and its role in reducing greenwashing. The study's findings may also help to improve the practise of ESG assurance and assist organisations in better managing their ESG risks.

1.11 Dissertation Overview

A graphical overview of the dissertation is provided below:

Figure 1-2: Dissertation Overview



Chapter Summary

ESG reporting has become mainstream. With this, greenwashing has exploded. According to prior study, corporations greenwash either purposefully or accidentally. Practitioners and academics say greenwashing is widespread. Recent studies found that assuring sustainability reporting enhances users' trust and perceptions of information trustworthiness and hence mitigates greenwashing. Recent research has suggested that sustainability reporting assurance increases users' trust as well as their perceptions of the trustworthiness of information, hence it is thought to mitigate greenwashing. Secondly, there is a lack of consensus on how ESG reporting assurance engagements should be undertaken. Typically, the audit committee assists the governing body in meeting financial reporting requirements, as well as overseeing risk management, internal controls, and assurance. Oversee the work of internal and external auditors. In practice, however, many audit committees are unsure of their role in the evolving topic of ESG reporting and assurance. Although internal audit activity is increasingly regarded as a crucial element of organisational risk management and assurance, little research has been conducted on the topic. In addition, researchers found that there is no consensus regarding the roles that internal audit functions play or should play in organisations. Scholars suggested that internal audit as an internal assurance and advisory provider, should play various roles based on the needs of the organisation represented by its board and audit committee. It is argued that lack of a well-defined role set and valuable information for the board may make it difficult for boards to oversee and direct an organisation effectively.

The purpose of this research is to gain an understanding of how the audit committee and internal audit can assist the board in mitigating greenwashing by assuring the ESG reporting. In order to achieve the aim of this research, the following is the specific research question: ‘How do the audit committee and internal audit assist the governing

body in mitigating greenwashing by assuring ESG reporting?’

ESG is a global phenomenon; hence this research will examine a global perspective, taking an industry-agnostic approach. To answer the research question, the researcher reviewed the literature, as presented in the next chapter, related to ESG, ESG reporting, assurance, greenwashing, and associated corporate governance represented by the board oversight, audit committee, internal audit, and their prevailing fiduciary duties.

Chapter 2: Literature Review

2.1 Introduction

This chapter is split into nine sections and provides a summary of the literature review and relevant theoretical perspectives pertinent to this study. This chapter is organised to present the most pertinent aspects of this research and the sources of their knowledge. Comprising the following components: Environmental, Social and Governance "ESG", the most prevalent ESG reporting frameworks, an introduction to auditing and assurance, as well as their connection to greenwashing, the types of assurance providers, the board oversight, audit committee, internal audit, and their duties, and finally it present the theoretical framework.

2.2 ESG: Environmental, Social and Governance

2.2.1 ESG Background

Environmental, social and governance (ESG) is the most recent and more comprehensive terminology of sustainability reporting measures (Murphy and McGrath, 2013; Camilleri, 2018; Bose, 2020). ESG and sustainability efforts existed in silos for a long time and were not integrated into the organisation's core business model and were not disclosed (PwC, 2020b). Scholars such as García-Sánchez et al. (2022) and Li *et al.*, (2021) used ESG, corporate responsibility, sustainability, and socio-environmental governance as synonyms. The term ESG first appeared in a United Nations (UN), Global Compact (2004, p.5) report "Who Cares Wins: Connecting Financial Markets to a Changing World", where the former UN Secretary General welcomed a collaborative initiative of financial institutions to provide guidelines and recommendations on how to

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Note: A substantial portion of the literature review was submitted in January 2022 to Durham Business School as part of my transfer document for this dissertation.

effectively integrate environmental, social, and corporate governance subjects in asset management, securities brokerage services, and associated research operations. The final report was endorsed by a group of 20 large financial institutions banks and asset owners (e.g., BNP Paribas, HSBC, and Morgan Stanley, Allianz SE and Aviva PLC). The UN Environmental Program Finance Initiative's Report, released only one year later, gave first evidence on the financial relevance of ESG issues and discussed at length the concern of fiduciary duty in the use of ESG information in investment decisions (RSM, 2021; Halbouni, Obeid and Garbou, 2016). The two reports are seen as the foundation of the UN-backed Principles for Responsible Investment, which was launched in 2006.

In the 80s UK and the US used an investment strategy called 'negative screening' to exclude organizations from the investment space based on ethical and social performance. Due to the 1989 Exxon Valdez disaster, the US-based Coalition for Environmentally Responsible Economies (CERES) established the Valdez principles for Social Investment Forum. This was used to introduce and implement the environmental reporting guiding principle. In 1997, CERES and United National Environments Program launched the Global Reporting Initiative based on the 'Triple Bottom Line principle to develop an on par nonfinancial information reporting with financial information disclosure and reporting.

Demand for nonfinancial information has risen considerably over the past three decades (Aureli *et al.*, 2020). Already in the 1960s, this kind of information was used for socially responsible investment (SRI) strategies, challenging the traditional capital market's view, which assumes that a company's responsibility is solely to its shareholders, and seeking to address normative values beyond financial returns (Friedman, 2017). More recently, the investment community has acknowledged the financial value of ESG issues

and their associated risks and inflecting increased interest in ESG data (Amir and Serafeim, 2018). This shift in focus among investors, from values-driven SRI to a financial value-driven ESG interest (either instead of or in addition to a focus on values), has resulted in a surge of interest in ESG data.

Research also evidence that there is an interconnected link between ESG and Socially Responsible Investing (SRI), (Tseng *et al.*, 2019). Irresponsible investments and methods of companies nearly 200 years ago gave rise to the concept of SRI. The main difference lies between ESG, and SRI is that ESG is considered both financial and environmentally sustainable standards, whereas the latter is primely focused on the moral standards against unethical business practices. Previously, ESG was used as a symbolic gesture by businesses to affect the communities in which they operated positively. However, the actual delivery of meaningful impact lacked substance and ultimately resulted in corporate inaction. The necessity to preserve the environment from degradation, depletion and climate change risks has become more critical than ever before (Alshuwaikhat and Mohammed, 2017). ESG transforms the corporation from a mere compliance mode to an engagement mode and from damage minimisation to value creation (Luetkenhorst, 2004; Arayssi, Jizi and Tabaja, 2020). There has been enough evidence that ESG directly affects the profitability and investment from the potential investors. Also, the investment decisions are not affected by the asset managers alone but by the customers who are willing to purchase the product (Casely-hayford, 2021). Buallay (2019) citing Earhart et al. (2009) argued that after the 2008 financial crisis, certain private banks in European were able to survive and even expand, while others failed. Banks that were able to survive and flourish were those that focused on ESG aspects and functioned sustainably. In order to survive, banks have begun to prioritise ESG value alongside financial benefit.

Purpose-driven organisations witness higher market share gains and grow three times faster on average than their competitors, all while achieving a higher workforce and customer satisfaction (Alex, 2020; Cutten and Cousins, 2021). In terms of maximising profits, a recent analysis by Accenture mentioned that organisations with stronger sustainability practices are likely to deliver financial value and a long-lasting positive impact on society and the environment. This emphasizes how ESG is anymore not a regulatory requirement, but a strategic imperative integrated into the business.

2.2.2 ESG Definitions

Although, there is no generally agreed definition for ESG (Li *et al.*, 2021). Practitioners in various sectors and scholars have given different explanations. Koutoupis et al. (2021, p. 1) defines ESG as:

"a set of standards to evaluate a firm's performance regarding the protection of nature (environment), its relationship with stakeholders, such as employees and suppliers (social), and its governance as reflected in a firm's management, executive remuneration and other variables".

Li et al. (2021, p. 1) in the context of the investment management sector defined ESG as *"a standard and strategy used by investors to evaluate corporate behaviour and future financial performance".*

While consulting firms such as PwC view ESG as the risks and opportunities that potentially effect a company's capacity to build long-term value and sustainable practices (PwC, 2022). AccountAbility (2018, p. 17) defines ESG

"*a reference to the three central factors in measuring the sustainability and ethical performance of an organisation*".

Li et al. (2021, p. 2) showed a list for the ESG framework, which includes the various factors under each of the ESG three dimensions, E, S and G, in Figure 2-1. There

is no general agreement on a specific list of ESG factors and the degree to which they matter i.e., their materiality (Matos, 2020). However, there is a fear among investors and other stakeholders that some of these may have an impact on a company's value creation and resilience. These concerns are becoming more prevalent as a greater proportion of a company's value is attributable to intangible assets. A considerable number of ESG issues are associated with intangibles, which conventional financial statements don't usually take into account (Matos, 2020).

Figure 2-1: ESG framework

Dimension	Factors	Definition
Environmental (E)	• GHG emissions • Energy consumption and efficiency • Air pollutants • Water usage and recycling • Waste production and management (water, solid, hazardous) • Impact and dependence on biodiversity • Impact and dependence on ecosystems • Innovation in environmentally friendly products and services	Environmental matters that may have a positive or negative impact on the financial performance or solvency of an entity, sovereign, or individual.
Social (S)	• Workforce freedom of association • Child labor • Forced and compulsory labor • Workplace health and safety • Customer health and safety • Discrimination, diversity, and equal • Opportunity • Poverty and community impact • Supply chain management • Training and education • Customer privacy • Community impacts	Social matters that may have a positive or negative impact on the financial performance or solvency of an entity, sovereign, or individual.
Governance (G)	• Codes of conduct and business principles • Accountability • Transparency and disclosure • Executive pay • Board diversity and structure • Bribery and corruption • Stakeholder engagement • Shareholder rights	Governance matters that may have a positive or negative impact on the financial performance or solvency of an entity, sovereign, or individual.

Adapted from Li et al., (2021, p. 2) - ESG framework

Billio *et al.* (2021) did a study comparing the definitions of nine rating agencies and came to a conclusion that there is no common characteristics, attributes or standards used in defining the ESG components. This has led to another crucial point that having different definitions, standards, reporting, and rating frameworks makes it exceedingly difficult for the published reports to be compared within and across industries.

This demonstrates that ESG as a practice has been adopted by many businesses, but it is still evolving, that ESG reporting assurance is relatively new, and that the aim of this study is to gain an understanding of how the audit committee and internal audit can assist the board in mitigating greenwashing by assuring the ESG reporting.

2.2.3 ESG Reporting Definitions

Sustainability reporting also known as ESG or CSR, is defined by the Global Reporting Initiative (GRI, 2016, p. 1) as

"*An organisation's practice of reporting publicly on its most significant economic, environmental, and social impacts, and hence its contributions – positive or negative – toward the goal of sustainable development".*

Also, according to Ikiz (2017) ESG reporting is "a communication tool to enable the stakeholders to assess how sustainable an organization's operations are. It consists of the non-financial disclosures of a company's impacts on the sustainability issues, and it encompasses social, environmental, governance and societal information".

The words "CSR," "ESG," and "sustainability" are defined similarly and are commonly used interchangeably (Christensen, Hail and Leuz, 2021). Further, researchers have also used the terms "disclosure" and "reporting" interchangeably, despite their different meanings leading to various of names for non-financial reports with similar contents (Turzo *et al.*, 2022). Previous research suggested that the term "non-financial reporting" encompasses several types of reporting, including CSR reporting, sustainability

reporting, integrated reporting (IR), SDG (Sustainable Development Goals) reporting, GRI reporting, and greenhouse gas (GHG) reporting, among others. Since "ESG" is most often used by large audit firms and assurance professionals, the researcher uses this term to indicate corporate activities related to a business's sustainability and impact on the environment and society, as well as its corporate governance practices (Turzo *et al.*, 2022). Although these terms are frequently used interchangeably. Jon Hale (2022) in his article at Morningstar argued that the terminology "ESG" is widely used by the investment community because of two reasons (Hale, 2022). The first reason is that it is a convenient term for "sustainable investing and sustainability." In his research, 151 funds were identified with the term "ESG" in their name, compared to 123 with some form of "sustainable" in their name, within the United States. Second, perhaps the real reason so many asset managers and intermediaries (consultants, wealth managers, advisors) use "ESG" is that it sounds more values-neutral, allows them more flexibility in interpreting how they practice this type of investing and allows them to avoid the larger-picture theory of change that "sustainable investing" implies. Furthermore, some professional bodies such as the International Sustainability Standards Board (ISSB) and the Corporate Sustainability Reporting Directive (CSRD) by the European Commission used "sustainability".

Organizations voluntarily generate ESG reports in order to reduce information asymmetry between the organisation and the market, inform stakeholders, manage risk, and build a positive reputation (Sìmnett, Vanstraelen and Chua, 2009). Scholars suggested that standards and even a minimum level of regulation are required for ESG reporting (Young, 2011). Firms' sustainability disclosure procedures, in turn, pave the way for higher company value, shareholder returns, and earnings per share. Effective ESG reporting is essential for building confidence and trust in business. "The measurement and

disclosure of key metrics and information is a crucial component of corporate governance for businesses and economies" (Ioannou and Serafeim, 2012, p. 1). These benefits, however, may be realised only if firms can show the validity of their social and environmental efforts. Concerns and doubts have already been expressed concerning ESG reporting's transparency (Gray, 2010), quality (Vormedal and Ruud, 2009), and actual environmental contribution (Tregidga, Milne and Kearins, 2014). Investment decisions are made based on those reports. ESG statements made public should be vetted for factual accuracy and context in the same way as any other statement of fact (Rifkind *et al.*, 2020).

2.2.4 ESG Opportunities

ESG information will continue to gain significance among various stakeholders (Abhayawansa, and Adams, 2021). Increasing numbers of businesses are pursuing ESG credentials, issuing sustainability reports, and showing their contribution to sustainable development (Adams and Abhayawansa, 2021). According to Albuquerque *et al.* (2020) "The predominant view of socially responsible firms is that they maximize shareholder welfare by engaging in ESG activities. As Talan and Sharma (2019, p. 1) put it succinctly, "doing well by doing good". It indicates that ESG activities are suitable for shareholders while pursuing significant social outcomes. Unilever's purpose-driven brands such as "Lipton" grew 69% faster than the rest of the business and drove the company's growth, proving that it is possible to implement a mainstream initiative while reaping financial and reputational benefits rewards (Unilever, 2019).

The opposite view on ESG activities is based on the notion, usually attributed to Friedman (1970), that those activities are just a manifestation of managerial agency problems between shareholders and managers. In this view, managers engage in ESG activities that will benefit them at the expense of shareholders. Some firms invest in ESG

policies as a product differentiation strategy. For example, Apple Inc. is switching to 100% renewable energy, and Patagonia uses only organic cotton in its outdoor clothing and supports conservation efforts. Albuquerque *et al.* (2020) argued that the benefit of this strategy is a more loyal customer base and a lower price elasticity of demand for their products. A less price-elastic demand gives the firm the ability to charge higher prices and has higher profit margins. In their model, the higher profit margin lowers operating leverage and thus systematic risk and increases firm value.

ESG is not just a regulatory requirement for listed corporations, as in some developed countries, but a necessary enabler for long-term value creation, sustainable performance, and responsible business growth (Li *et al.*, 2021). It is expected that investors will allocate capital based on corporate fundamentals during crisis periods, rendering ESG portfolios safe havens (Singh, 2021).

Furthermore, the literature on perceived risks linked with ESG portfolios appears to conclude that these risks are relatively lower than those of their peers (Broadstock *et al.*, 2020; Ferriani and Natoli, 2021; Kanamura, 2020), whereas they likely provide significantly higher returns Albuquerque *et al.* (2020). Moreover, the more transparent the ESG disclosures of a firm, the less the impact of crisis and adverse events, as exposures reduce volatility (Hoang, Segbotangni and Lahiani, 2020).

EY (2021, p. 13) revealed that investors want boards to help companies adapt their strategies for a future in which prioritizing stakeholders and considering environmental and social impacts will be critical to building resilience and creating long-term value. EY also suggested that Boards have a responsibility and an opportunity to assist their companies unlocking ESG value in order to build long-term competitive advantage, improve resiliency to accelerating sustainability risks, and attract the increasingly socially conscious investors, talent, and customers that the company seeks.

Bose (2020) describes ESG goals as understanding and analysis of stakeholders' needs and communication of a solution and aligned activities to meet those expectations. Monitoring and identification of ESG developments that are facilitating or impeding the execution of corporate strategy. Understanding and identifying ESG reporting standards and frameworks, whether a company's disclosure is required or optional. Consistent, methodical, and precise reporting of ESG operations, including both successful and unsuccessful activities.

The emphasis on ESG is increasingly growing as investors want the businesses to stand true to their ESG commitments (Li *et al.*, 2021). The increased interest in measuring and reporting ESG data, on the other hand, raises questions about the validity and verifiability of the newly given data (Kaplan and Stroehle, 2021).

Motives for Voluntary ESG Disclosure

The recent surge in demand for assurance of ESG reporting reflects the changing landscape of corporate responsibility and stakeholder engagement (Schrank, 2022). A variety of factors influence this trend, including an increase in greenwashing cases, increased stakeholder demand, and changes in mandatory disclosure, such as the Task Force on Climate-related Financial Disclosures (TCFD). Future regulations, such as the Securities and Exchange Commission's climate disclosures and the Corporate Sustainability Reporting Directive (CSRD), which specifically requires assurance, will also play a significant role. Before delving into the assurance aspect, it is critical to comprehend the motivations for voluntary disclosure of ESG data. Companies may choose to disclose ESG data in order to meet stakeholder expectations, improve their reputation, demonstrate their commitment to sustainability, differentiate themselves in the market, reduce information asymmetry, and reduce the cost of capital. A complex interplay of these factors influences the decision to disclose ESG data, and despite the

challenges in data collection and analysis, many companies recognise the value of ESG disclosure (Alsahali and Malagueo, 2021).

Corporations have historically used ESG as a symbolic gesture to positively impact the communities in which they operate. However, the actual delivery of significant influence was frequently devoid of substance, resulting in corporate inaction (Alshuwaikhat and Mohammed, 2017). Despite voluntary practise in the majority of countries, the landscape is changing today, with 96% of the world's 250 largest global firms (G250) producing sustainability reports. This shift highlights the increasing importance of ESG disclosures as well as the need for robust assurance mechanisms to ensure their accuracy and reliability. As the demand for ESG data grows, it is likely that ESG assurance regulation will evolve and become more sophisticated.

2.2.5 ESG Reporting Assurance

The terms "audit" and "assurance" had become commonplace in a wide range of contexts, including "value-for-money auditing," "social auditing," and "environmental auditing," amongst others (Jeacle and Carter, 2022). In the early 2000s, firms began to use the phrase "assurance" in the context of sustainability reports as an alternative to the term "audit" and "verification" (Pinilla-Urzola, 2011). ESG assurance means evaluating the organization's performance in ESG against key performance indicators or metrics, auditing and accounting the ESG reports using an experienced audit team and presenting the assurance report to appropriate stakeholders (Trotman and Trotman, 2015).

The term "assurance" has been defined as "an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information" (IAASB, 2013, p. 7). At a narrower level, ESG

assurance engagement is related to services performed on subject matters other than financial audits.

ESG reporting assurance is a disciplinary mechanism that certifies the reliability of reported information and contributes to its credibility by reducing agency conflicts (Gillet-Monjarret and Rivière-Giordano, 2017; Sìmnett, Vanstraelen and Chua, 2009). Which supports reducing uncertainty of reported information for users (Gillet-Monjarret and Rivière-Giordano, 2017). The International Audit and Assurance Standards Board (IAASB) [2] defines assurance as *[...] an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information* (IAASB, 2013, p.7).

While the ISAE 3000 definition of an assurance engagement is more technical, the AA1000 accountability principles 2018 definition of assurance engagement is more straightforward *“an engagement in which an assurance provider evaluates and expresses a conclusion on an organization’s public disclosure about its performance as well as underlying systems, data and processes against suitable criteria and standards in order to increase the credibility of the information for the intended audience”* (AccountAbility, 2018 p. 17; Junior, Best and Cotter, 2014). AccountAbility's definition will be used in this dissertation. According to Pinilla-Urzola (2011) the Fédération des Experts Comptables Européens (FEE) is the representative organisation for the accountancy profession in Europe, requested for the use of the term “assurance” instead of “audit” in the context of sustainability reporting, to avoid confusion in their meaning. According to the FEE (2004), the difference between the two terminology lies in the level to which the credibility of information is enhanced. The term "audit" will be used throughout this dissertation to refer to a systematic assurance engagement in which the information's

credibility is increased to a high level (FEE, 2004:64). An assurance engagement, on the other hand, could be carried out with limited or reasonable levels of assurance (IAASB, 2004). The amount of assurance conveyed reflects the degree of trust that the intended user has in the subject matter's legitimacy (Soltani, 2007). The intended assurance users, or expected assurance beneficiaries, are those who have an influence on or are being influenced by an organization's decisions and the assurance engagement's results (Soltani, 2007). The underlying rationale behind the use of the phrase "assurance" in the context of sustainability reporting, according to O'Dwyer and Owen (2005) is an organisational strategy to emphasis the added-value agenda for organisations and their strategic stakeholders. The fundamental objective appears to be to get away from the term "social audit" (Pinilla-Urzola, 2011).

There is a recent surge in demand for ESG reporting assurance to support with more informed decision-making (Schrank, 2022). This could be influenced by multiple factors, including mounting greenwashing cases, the rising stakeholder demand as well as changes in obligatory disclosure, such as TCFD. This could also be influenced by upcoming regulations, such as the SEC climate disclosures and the CSRD which particularly requires assurance. Regulation of ESG assurance is a growing area of academic and professional interest. The growing demand for trustworthy and credible ESG disclosures necessitates ESG assurance regulation.

The regulatory landscape for ESG assurance is changing, with different countries and regions enacting their own standards and requirements. The Non-Financial Reporting Directive (2014/95/EU) has had a significant impact on firms' sustainability reporting practises in the European Union, influencing both the quantity and quality of reporting. The directive has increased the availability of sustainability information and the likelihood of firms seeking external assurance for their reports, thereby increasing their credibility

(Hummel and Schlick, 2021).

As a regulated area, ESG assurance is a complex and evolving field. It requires a delicate balance of ensuring the accuracy and credibility of ESG disclosures while also allowing for flexibility and innovation in ESG reporting practises. The Public Company Accounting Oversight Board (PCAOB) plays an important role in this process in the United States. It necessitates the use of analytical procedures during the planning and substantive phases of assurance audits for companies listed on active exchanges. This includes reviewing and publishing the audit client's information pertaining to Regulation G, of the U.S. Securities and Exchange Commission (SEC), which includes non-GAAP information. This requirement also applies to firm performance profiles submitted to the Bloomberg ESG platform (McGee and Weatherford, 2020).

Another significant regulation in the European Union is the Corporate Sustainability Reporting Directive (CSRD), (European Commission, 2019). It expands the companies required to include specialised ESG reports in their annual reports, establishes a timeline for the development of European Sustainability Reporting Standards (ESRS), and requires that all ESG reports be subject to an independent audit (Schrank, 2022) Mandatory sustainability reporting in China has resulted in significant increases in sustainability disclosure and increased firm valuations (Ioannou and Serafeim, 2017). Nonetheless, despite these regulatory efforts, there is still a gap in ESG report assurance. According to Eulerich, Bonrath, and Lopez-Kasper (2022), internal audits should not only express an auditor's point of view but also include good governance, risk management, and control over all ESG processes.

PwC’s 2021 survey of 325 investors globally, which found nearly 80% said they trust reported ESG information more when it has been assured, with about three-quarters saying they want this to be assured at the same level as financial reporting (ICAEW,

2021). According to the KPMG's survey of sustainability reporting 2020, a record 80 percent of 5,200 major organisations from 52 countries are voluntarily reporting on their sustainability efforts.

The motivations for voluntarily disclosing ESG information are complex and can be influenced by a variety of factors. Organisations may choose to disclose ESG data in order to meet stakeholder expectations, improve their reputation, or demonstrate their commitment to sustainability to differentiate themselves in the market, or to reduce information asymmetry and lower the cost of capital. Alsahali and Malagueño (2021) argued that the number of ESG reports has expanded significantly over the past decade. Despite voluntary practice in the majority of nations, 96% of the world's 250 largest global firms (G250) generate sustainability reports. Previously, corporations employed ESG as a symbolic gesture to positively impact the communities in which they worked. However, the real delivery of substantial influence lacked substance and eventually led to corporate inaction (Alshuwaikhat and Mohammed, 2017).

It is important to note that the decision to disclose ESG data is not without challenges. Companies may encounter challenges in collecting and analysing ESG data, and there may be concerns about the data's accuracy and reliability. Despite these obstacles, many businesses recognise the value of ESG disclosure and are working to improve their ESG reporting practises. A number of factors influence the decision to voluntarily disclose ESG information, including stakeholder expectations, reputational considerations, strategic positioning, and regulatory requirements. As the demand for ESG information grows, more companies are likely to choose to voluntarily disclose this information, emphasising the importance of robust assurance mechanisms to ensure the accuracy and reliability of ESG disclosures.

While assurance over sustainability reports is still in its initial stages, and some questions about their reliability have been raised in recent studies, Farooq and de Villiers (2017) argued that assurance is necessary to ensure a certain level of reliability, and that stakeholders perceive assured reports to be more reliable than non-assured reports (Cheng, Green and Ko, 2014; Reimsbach, Hahn and Gürtürk, 2018). Assurance is one of the important ways of mitigating ESG related risks (Dias-sardinha and Antunes, 2007; DeSimone, D'Onza and Sarens, 2021), interns of environmental violations and enabling organizations in the adoption of sustainability. Organizations are rapidly increasing ESG reporting assurance to ensure the accuracy of reports and to monitor sustainability risk and activities (Fraser, Schwarzkopf and Müller, 2020). However, Alsahali and Malagueño (2021) found out that the growth of assurance is falling behind that of sustainability reporting. Hodge, Subramaniam and Stewart (2009), investigated whether assurance, assurance level, and assurance service provider influence report users' confidence in the sustainability report and the credibility of the presented information. Their findings indicated that the issuance of a sustainability report is perceived as enhancing the credibility of the ESG information and can increase users' confidence in the sustainability report.

The assurance that is provided by internal audits should comprise not only the expression of an auditor's view, but also good governance, risk management, and control over all ESG processes (Eulerich, Bonrath and Lopez-Kasper, 2022; AICPA and CIMA, 2021). Within the context of the assurance framework, the ESG-related actions that are carried out by internal and external auditors should therefore be regarded as complimentary (The IIA UK, 2021).

ESG assurance regulation is a complex and evolving field. It entails striking a balance between ensuring the accuracy and credibility of ESG disclosures and allowing for flexibility and innovation in ESG reporting practises. As the demand for ESG data grows, it is likely that ESG assurance regulation will evolve and become more sophisticated.

Relation between ESG Expertise and Data Access, and External ESG Assurance and Internal Control

The association between ESG expertise and data access, as well as external ESG assurance and internal control, is multifaceted and interdependent. Understanding the nuances of ESG data, which can be complex and multifaceted, demands ESG expertise (Graves, 2010). This expertise enables a more accurate and comprehensive analysis of ESG risks and opportunities, which can then be effectively communicated to stakeholders. Access to reliable and adequate ESG data is also critical. Without it, even the most knowledgeable ESG experts would be unable to make accurate assessments or provide meaningful advice (Graves, 2010). Companies must therefore invest in systems and processes that enable the collection, analysis, and reporting of ESG data.

External ESG assurance is important for validating a company's ESG disclosures. It helps to build trust with stakeholders by providing an independent assessment of a company's ESG performance and ensuring that the company's ESG disclosures are accurate and reliable (Jimantoro, Maria, and Rachmawati, 2023). Internal control systems, on the other hand, are critical for ensuring the accuracy of an organization's ESG data. These systems aid in the prevention and detection of errors and fraud, as well as providing assurance that the ESG data being reported is precise and dependable.

Finally, ESG expertise and data access, as well as external ESG assurance and internal control, are all critical components of effective ESG management. They are interconnected and mutually reinforcing, and companies must invest in all of them to effectively manage their ESG risks and opportunities.

2.3 ESG International Reporting Frameworks

There are many voluntary ESG reporting frameworks (e.g., GRI, SASB, TCFD), when it comes to ESG assurance standards, there are no generally accepted standards (DeSimone, D'Onza and Sarens, 2021). The main concern in the assurance process of sustainability reports is, similar to the reporting process, the absence of a generally accepted standard to guide practitioners (Alsahali and Malagueño, 2021). Investors were dissatisfied with the lack of standardized, investment-grade data (PwC, 2020a). Due to the lack of a single set of widely accepted standards, ESG reporting assurance engagements have been varied, including the scope and level of assurance offered (Manetti and Becatti, 2009). The absence of universal ESG standards made the evaluation of the relevance and comparability of data in ESG reports difficult (O'dwyer, 2011). Also, some ESG reports do not provide enough quality and adequate information for stakeholders to assess whether they contain all information necessary for that particular industry (Ruiz-Blanco, Romero and Fernandez-Feijoo, 2022). Not only reporting organisations, but the assurance providers also lack knowledge, guidance and information on representation of information and assurance practice (Elamer *et al.*, 2020). This challenge adds to the management to influence on negotiating the terms and scope of potential assurance engagements making it self-serving. This also adds to the rational that universal ESG reporting standards and defined assurance practice would provide some roadmap and consistency in the information presentation (Manetti and Becatti, 2009; Manetti and Becatti, 2009; Casey and Grenier, 2012; García-Sánchez *et al.*, 2022).

On the contrary, there is another argument suggesting that applying financial audit's GAAP standards to sustainability reporting would actually weaken the growth in the evolving area of ESG assurance (Wallage, 2000). This is attributed to the reason that social and environmental issues and risks vary over time and differ by industry and

institution (O'dwyer, 2011). Therefore, it could be argued that institutional context, industry and cultural development matter to its ESG reporting and assurance.

Calls for ESG reporting and climate disclosures are increasing worldwide (Florea and Florea, 2013). A 2019 government paper in the United Kingdom, for instance, recommended that public firms and major asset owners align their corporate reporting with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) by 2022. The government warrants that UK be the first G20 country to make TCFD disclosures mandatory (Bose, 2020). The International Integrated Reporting Council (IIRC) merged with the Sustainability Accounting Standards Board (SASB) to form the Value Reporting Foundation, which has since merged with the International Sustainability Standards Board (ISSB) to enable companies to provide investors and other stakeholders with a comprehensive view of performance (Bose, 2020a). At the UN global summit "COP26" in Glasgow, the IFRS Foundation (Trustees) announced

"the formation of a new International Sustainability Standards Board (ISSB) to develop, in the public interest, a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information" (IFRS Foundation, 2022).

2.3.1 Global Reporting Initiative (GRI)

The most widely adopted Sustainability reporting standard is GRI, with continuous revisions to complement the United Nation's sustainable development dialogue. GRI is the first ESG reporting framework. GRI operates by the mission "to enable choices that generate positive social, environmental, and economic outcomes for everybody" (GRI, 2022, p.1). It was co-founded by the UN Environment's Program, Coalition of Environmentally Responsible Economies, and Tellus institute in 1997 based on the Triple Bottom Line for Corporate Responsibility Reporting. GRI is a voluntary reporting

framework that can be used in tandem with other reporting standards. GRI is not limited to shareholders, but its target audiences are employees, consumers, and the public. This emphasizes the United Nation's viewpoint that Sustainability and its information is relevant to everyone as it should be accessible to everyone (Frank and Horst, 2011).

2.3.2 Sustainability Accounting Standards Board (SASB)

SASB focuses on integrating the principles of nonfinancial performance and profitability, particularly for the investor. This is clear in its goal statement: "to develop disclosure guidelines on sustainability issues that ease the exchange of decision-useful information by corporations to investors'. They have developed and released 77 different standards for 11 other industrial sectors. It emphasizes the concept of 'Financial Materiality,' where standards are based on sustainability drivers that influence the organisation's financial performance. SASB has materialized the SASB Materiality Map to showcase the evaluation of materiality in terms of sector and issue. During the time that this dissertation was being written, the SASB joined with the newly formed ISSB, under the IFRS Foundation (IFRS Foundation, 2022).

2.3.3 Task Force for Climate-related Financial Disclosures (TCFD)

TCFD is another recently developed reporting framework targeting the finance experts such as investment bankers, lenders, and insurance underwriters. In 2015, the Financial Stability Board (FSB) was formed by finance ministries and banks from G20 countries to establish the Task Force for Climate-related Finance Disclosures. TCFD reporting framework includes both impacts and dependencies of the firm over nature. Furthermore, the European Commission recently established a Corporate Sustainability Reporting Directive that requires limited external assurance of disclosed information (EU

Commission, 2021). These expanding international reporting frameworks highlight the need for a comprehensive understanding of the various reporting practices and assurance markets (Pinilla-Urzola, 2011).

2.4 Assurance and Corporate Greenwashing "Greenwashing"

Greenwashing has become a "trend in the business world" (Huang, Xie and Zhou, 2022, p. 1). Firms are actively engaged in greenwashing either intentionally or unintentionally engage (de Freitas Netto et al., 2020). The chair of the International Accounting Standards Board (IASB) has indicated that "greenwashing is rampant" (Thompson, 2019, p. 1), they further said in the FT, (2019), some may be shocked to learn that the majority of ESG reports are self-promotional efforts overseen by the marketing department, with no external oversight and despite the efforts of internal sustainability professionals. Nathan Barrymore (2021) emphasised that there are several examples of companies engaging in corporate greenwashing and that it can occur in a variety of ways. According to researchers, corporate management's influence, inadequately developed reporting standards, the absence of stakeholder participation, and the undue influence of specific stakeholder groups all are contributing factors to the credibility of the ESG reporting (De Jong, Harkink and Barth, 2018; Gregory, 2021).

The greenwashing phenomenon has grown at an alarming rate in recent years, due to rising consumer demand for green products, institutional investors' interest in green businesses, and employee attraction and retention, among other factors (Huang, Xie and Zhou, 2022).

2.4.1 What is greenwashing?

The terminology "greenwashing" was introduced in 1986 by an American environmentalist and biologist named Jay Westerveld (Seele and Gatti, 2017). It was first used to characterise the practice of encouraging the reuse of bath towels for environmental reasons when, in reality, it was an economic approach to save laundry costs. Huang, Xie and Zhou (2022) suggested that greenwashing is an act of confrontation, despite the fact

that it appears to be an outward manifestation of adaptation. There are two prominent notions of greenwashing (de Freitas Netto *et al.*, 2020). The first approach applies the concept of greenwashing to the discrepancy between sustainability or ESG reporting and disclosures against actual performance. While the second approach simply addresses misrepresenting environmental issues when defining greenwashing. This study follows the first approach: greenwashing is the discrepancy between ESG reporting and the organisation's actual performance. Despite the fact that there is no universal definition of what greenwashing is, some scholars argued that it is hard to construct a precise definition of this phenomenon because of its multifaceted nature (Seele and Gatti, 2017; Fanning, Hatfield and Sealy, 2022). Similarly, Silva (2021) argued that greenwashing is a growing phenomenon that encompasses a wide variety of marketing messages and tactics.

Greenwashing could be defined as the practice of businesses masking their negative actions by promoting their positive ones (Gregory, 2021). Yu, Luu and Chen (2020, p. 5) defines "greenwashers" as "companies that appear to be very transparent and publish large quantities of ESG data, but perform poorly in ESG aspects, i.e., firms that make misleading ESG disclosures". Burbano (2011) using a firm communication typology model, that the essence of greenwashing is a deception and a conflict between reported and real behavior. Silva (2021) defines greenwashing, "a practice through which companies try to create an image of doing more for the environment than they actually are…". Furthermore, Nathan Barrymore (2021) defines greenwashing as "actions taken by managers in organizations that promote a view of the organization as being more environmentally or socially responsible than justified given the environmental or social outcomes the firm produces".

2.4.2 What is the impact of greenwashing?

Ioannou, Kassinis and Papagiannakis (2022) argued that many environmental claims and pledges do not come to fruition, they further cited research conducted in Europe revealing that 42 percent of green claims were inflated, incorrect, or deceptive, pointing to widespread greenwashing and a significantly risky situation for businesses and the environment. Corporate greenwashing has environmental, societal, and economic consequences, including misleading investors and people into unsustainable behaviour, which harms a company's image (De Jong, Harkink and Barth, 2018). Managers can use sustainability reports to portray their companies in a more sustainable light i.e., greenwashing (Walker and Wan, 2012; Alsahali and Malagueño, 2021). Scholars argued that greenwashing is a widespread global concern, and it harms a company's reputation, the customer's experience with its product or service, and other stakeholders (Ioannou, Kassinis and Papagiannakis, 2022). Stakeholders penalise corporations that misbehave or create harm (such as BP's Deepwater Horizon oil leak and Volkswagen's emissions scandal). Moreover, Ioannou, Kassinis and Papagiannakis (2022) suggested that greenwashing presents a regulatory and legal threat in some jurisdictions, while regulatory oversight is on the rise globally.

Recent study indicates that environmental, social, and governance variables are crucial for corporate valuation and risk management (Friedman and Heinle, 2021; Huang, Kerstein and Wang, 2018;Yu, Guo and Luu, 2018). Friedman and Heinle (2021) suggested that investors use ESG report to price the firm, therefore the disclosure of an ESG report offers incentives for both effort and greenwashing. Marquis, Toffel and Zhou (2016) and Kurpierz and Smith (2020) in their study demonstrated similarities between fraud and greenwashing in terms of legal theory, multi-actor information asymmetry models and the evolution of reporting regimes. Researchers have noted that corporate

management's influence, and undue influence of specific stakeholder groups are contributing reasons for undermining the reports' credibility (Dando and Swift, 2003; Thomson and Bebbington, 2005; O'Dwyer, 2011). Silva (2021, p. 1) in their study of "the fight against greenwashing in the EU" stated that greenwashing is a possible threat to the current environmental goals of the European Union, and the entire world.

This gap leads to the institutional and organizational level (i.e., meso-institutionalism, according to (Contrafatto, 2014), demand driving the necessity for assurance services based on the belief that information is reliable if externally evaluated by independent auditors (Sìmnett, Vanstraelen and Chua, 2009; Herda, Taylor and Winterbotham, 2014). This propelled the accounting firms and other assurance providers like quality assurors, ESG Consulting firms, and civil society assurors to undertake assurance services (Farooq and de Villiers, 2017). Predominantly, assurance on sustainability reports is voluntary, but the assurance services market has been steadily budding since the 1990s. In 2017, a whopping 250 "Fortune500" companies have had their ESG reports assured (Sudhoff, 2011). The literature on the impact of corporate greenwashing on firm value is limited (Farooq and Villiers, 2017; Gregory, 2021). Gregory (2021) and Farooq and de Villiers (2017) categorized ESG reporting assurance into five categories considering the current assurance services market. They focused research on features of ESG reporting assurance, geographical and organizational factors driving the assurance market, the part of accountants in assurance markets, compliance with standards, and improving the credibility of ESG reports. Also, historically, the 'audit' of nonfinancial information is branded as assurance services in the standardization and practices area. In summary, previous research has shown that corporate greenwashing is detrimental to businesses, society and the environment. Business damage may include: corporate legitimacy, business reputations, market share and firm value (Ioannou,

Kassinis and Papagiannakis, 2022; Du, 2015; Fanning, Hatfield and Sealy, 2022).

2.4.3 Can assurance mitigate greenwashing?

Some institutions overuse terms such as “sustainability”, “green”, “ESG”, and “environment”, and stakeholders question the accuracy and dependability of corporate ESG information (Arner, Buckley and Zetzsche, 2022). According to the chief of global accounting body in the Financial Times Thompson (2019), the majority of sustainability reports are self-promotional efforts overseen by the marketing department, with no oversight and assurance. Assuring sustainability reporting boosts users’ trust and perceptions of information trustworthiness according to Channuntapipat (2016) and Alsahali and Malagueño (2021) and hence is thought to mitigate greenwashing (Lyon and Maxwell, 2011). By scrutinizing the content of the ESG reports, one can make broad inferences and deeply understand the business (Ball, 2001). According to the European Commission guidelines, assurance is portrayed as a technical independent and unbiassed activity to evaluate the credibility of the information presented (Council of the EU, 2022). Further, Channuntapipat (2016) argued that the ultimate goal from ESG assurance practices is to act as a mechanism for trust and reliability.

Prior research has linked the voluntary adoption of assurance over ESG or sustainability reports to a variety of factors, including increased reliability. According to Sìmnett, Vanstraelen and Chua (2009) organizations with a stronger need to improve their corporate reputation are more likely to have their sustainability reports assured. Kolk and Perego (2010) investigated the impact of country-level institutional determinants on a sample of G250 businesses’ voluntary adoption of assurance over sustainability reporting from 1999 to 2005. Their findings show that corporations in stakeholder-oriented countries are more likely than companies in shareholder-oriented countries to seek

assurance of their sustainability reports. Companies are considered as mechanisms for creating shareholder value in shareholder-oriented countries (such as those in Europe); other stakeholders are less important. Some board characteristics, such as board size, the participation of a female director, and the separation between the chairperson and the chief executive officer role, improve the possibility of corporations certifying their sustainability reports, according to Liao, Lin and Zhang (2018).

ESG assurance voluntary or mandatory

Whether ESG assurance and reporting should be voluntary or mandatory is a topic of ongoing discussion and debate among academics and professionals, with some advocating for mandatory requirements. The case for mandatory requirements is that they may improve the credibility and comparability of ESG disclosures even in the absence of a regulation mandating the adoption of assurance or specific guidelines (Ioannou and Serafeim, 2017). This could support mitigating greenwashing by holding companies accountable for their ESG practises. Making ESG assurance mandatory, on the other hand, could have unintended consequences. For example, it may alter the underlying motivation for these disclosures. Instead of demonstrating a company's commitment to ESG principles, it could simply become a compliance issue. This has the potential to dilute the value of these disclosures and undermine their intended purpose. Ioannou and Serafeim (2012) studied how regulations mandating the disclosure of ESG information have led to an increase in disclosure practices and firm valuations. However, they also noted that firms voluntarily seek assurance to enhance disclosure credibility, suggesting that mandatory assurance might not be necessary for achieving these outcomes. Studies such as "From voluntarism to regulation: the effects of Directive 2014/95/EU on sustainability reporting in the EU" suggested that mandatory assurance may not always result in higher reporting standards.

Furthermore, the impact of ESG assurance on financial performance is multifaceted and complex. Some of the factors that may have an impact on the relationship between ESG assurance and financial performance may include: the regulatory environment, the industry standards, the size of the business. According to a recent study of Indonesian banking companies, while ESG performance was generally negatively related to financial performance, the individual pillars of ESG had different impacts (Suryanto, 2023). This implies that the relationship between ESG assurance and financial performance is complex and may be influenced by a number of factors.

While ESG assurance has the potential to reduce greenwashing by increasing the credibility and comparability of ESG disclosures, making it a mandatory requirement may have unintended consequences at least in some sectors or specific cultures or countries. Some of the potential inadvertent consequences of mandatory ESG assurance, may include the following: Firstly, mandatory ESG assurance could likely heighten the compliance costs for businesses. This is due to the fact that businesses would need to allocate more resources and establish additional processes to ensure their ESG disclosures and reports are assured. Secondly, the introduction of mandatory ESG assurance could potentially shift the focus of businesses from improving ESG performance and making a meaningful impact to merely complying with the assurance standards. This shift in focus could lead to businesses prioritising the fulfilment of assurance standards over the actual enhancement of their ESG performance. Thirdly, it might have an adverse impact on some businesses, where they might engage in superficial ESG initiatives merely to meet the requirements of the assurance standard and appear greener than they actually are i.e., greenwash. Lastly, mandatory ESG assurance could potentially lead to discrimination against certain companies or industries. This could occur if the assurance standard is designed in a way that inherently favours certain types of companies or industries. These

potential consequences highlight the complexity of implementing mandatory ESG assurance and underscore the need for careful consideration and balanced policies to prevent any negative impacts. More research is needed to fully understand the implications of such a policy change. This is study will contribute to the body of knowledge and empirically support some of these claims. Particularly by understanding how coercive pressures i.e., formal institutions shape organizational behaviour.

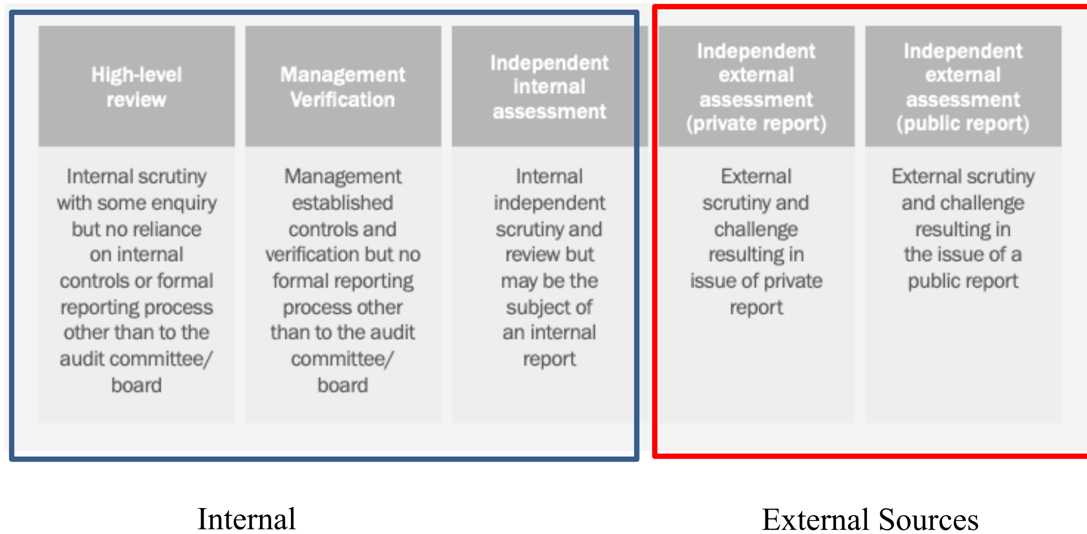
2.5 Introduction to Auditing and Assurance

While “auditing” or “assurance” as a profession originated in the United Kingdom in the middle of the 19th century, by the middle of the 20th century, the United States had assumed the lead in spearheading its evolution, a position it maintains to this day as a result of its market size, the influence of its large corporations and institutions (Omoteso and Obalola, 2014). Between its inception and the present, the primary objective of auditing shifted from just detecting or investigating fraud to multiple objectives, including a certificate on the credibility of management's annual reports and accounts, providing management advisory services, reporting doubts about an organisation’s going concerns issues, and promoting accountability, transparency and strengthening corporate governance (Porter, 2009; Omoteso and Obalola, 2014). Depending on the audit’s intended primary beneficiaries and the assurance provider, the audit type can be either external or internal.

2.6 The Types of Assurance Providers

Ideally, the board can get assurance from many sources. The Institute of Chartered Accountants of Scotland ‘ICAS’, (2022) suggested five illustrative sources of assurance, shown in Figure 2 2. These sources of assurance are divided into three internal sources: informal high-level review, management assurance, and independent internal assurance, which is typically performed by internal audit reporting to the audit committee. Two sources contributed to the external assurance: private and public reporting.

Figure 2-2: Sources of assurance



Adopted from ICAS, (2022)

Moreover, the three-lines model by the Institute of Internal Auditors (IIA, 2020) "The model" explained in further detail later in this chapter. Providers a guidance to the assurance actors' position at the institutional level. The assurance standards mostly used for ESG reports by the assurance providers are the International Standard for Assurance Engagements (ISAE 3000) issued by The International Auditing and Assurance Standards Board (IAASB) and the AA1000 AccountAbility Standard (AA1000 AS), issued by AccountAbility for third-party auditors or the IPPF issued by The Institute of Internal Auditors (the IIA) for internal auditors. The adoption of these various standards has been linked to differences in assurance engagements. During an assurance engagement, the scope and level of assurance must be agreed upon. The scope of the assurance engagement specifies which parts of the report are covered e.g., the complete report or certain sections (AccountAbility, 2018; IAASB, 2013). The level of assurance describes how certain the assurance provider is that the report is error-free, for example, restricted or reasonable (Alsahali and Malagueño, 2021).

The level of assurance and scope of assurance are two of the most debatable topics in ESG reporting assurance practice (Channuntapipat, 2016). The ISAE 3000 is the most prevalent worldwide assurance standard, offering two levels assurance: the reasonable assurance and the limited (also, some researchers call it moderate) assurance standard (Rivière-Giordano, Giordano-Spring and Cho, 2018). They suggested that the level of assurance is crucial because it determines assurance work.

“The reasonable assurance statement is framed in a positive manner:

“The reported environmental data accurately reflect Company A’s environmental performance during the Year 20XX”.

In comparison, the wording of the limited assurance statement on data is framed in a more negative manner:

“Nothing has come to our attention which causes us to believe that the reported environmental data do not accurately reflect Company A’s environmental performance during the Year 20XX” (Rivière-Giordano, Giordano-Spring and Cho, 2018). They further argued that in France the limited assurance level is divided into two levels (called moderated assurance level 1 and level 2).

Channuntapipat (2016) and Rivière-Giordano, Giordano-Spring and Cho (2018) argued that most sustainability reporting assurance is limited in scope and level of assurance. They also argued that the primary reasons why more sustainability reports are assured for selected data (chosen limited assurance) is that reporting organisations prefer to assure just their most important or relevant KPIs. Instead of investing resources to get assurance for entire reports, reporting organisations can choose to use their limited resources to assure only relevant data. In addition, from the standpoint of the assurance providers, offering a limited scope of assurance rather than ensuring the entire report could lower their risks in respect to the content being assured. KPMG (2022) suggested that due

to the relative immaturity of ESG reporting and the associated cost/benefit ratio, the majority of ESG reporting assurance opinions currently have limited assurance.

Gillet-Monjarret and Rivière-Giordano (2017) stated that ISAE 3000 is intended to govern the sustainability reporting assurance practices of accountants only, whose goal is to certify the correctness of sustainability reporting in a formal assurance statement, rather than to provide an assurance opinion on how well it satisfies all stakeholder needs.

Rivière-Giordano, Giordano-Spring and Cho (2018) suggested that businesses should avoid picking the lowest level of assurance whenever possible since it could have a detrimental impact on the decisions made by investors when the assurance is voluntary and there are at least two levels. From this point of view, businesses have to commit an adequate amount of work and resources to get their ESG reports assured at a reasonable level of assurance.

2.6.1 External Assurance

External third-party assurance of sustainability reporting began in 1997–1998, according to O'Dwyer, Owen and Unerman (2011). The sustainability assurance market is controlled by three types of assurance providers: the Big Four accountancy firms: Deloitte, EY, KPMG, and PwC, certification bodies such as AccountAbility, and specialized assurance consultants such as Trucost. While accountancy firms particularly the Big Four, have a strong presence in the global sustainability assurance market, dominate the sustainability assurance market globally, It is worth noting that they do not have a monopoly on these services (Pinilla-Urzola, 2011). Numerous other providers have emerged and are making significant contributions in the field of Environmental, Social, and Governance (ESG) assurance. For example, Bureau Veritas, a global leader in testing, inspection, and certification (TIC) services, provides independent assurance of sustainability reports, including ESG metrics. Similarly, DNV GL, an international

accredited registrar and classification society, offers ESG risk management and independent assurance services. These organisations, among others, play an important role in the ESG assurance landscape, providing alternatives to the Big Four. Furthermore, there are specialised firms that provide ESG ratings and research, such as Sustainalytics and MSCI, further diversifying the field of ESG assurance providers. These firms use a variety of methodologies to evaluate a company's ESG performance and provide valuable insights to investors and other stakeholders.

According to Ikiz (2017) assurance could be a costly decision, but it is a crucial tool for businesses that results in greater stakeholder confidence. GRI (2016) suggested that some of the benefits of dependable reporting and external assurance may include encouraging board and CEO participation, strengthening internal reporting and management systems, and enhancing stakeholder communication and inclusion. Vaz Ferreira (2019) suggested that external auditors are one of the most important safeguards for corporate governance in any organisation; their primary responsibility in corporate governance is to preserve the interests of shareholders and increase the credibility of management's reports. External audit is a regulated profession with an oversight by an official regulatory authority such as FRC in the UK, and the Public Company Accounting Oversight Board "PCAOB" in the USA. According to the PCAOB, its mission is to safeguard investors and enhance the public interest via the production of transparent, accurate, and independent audit reports. With responsibility for four key functions: Public accounting companies registered with the SEC that generate audit reports for issuers, brokers, and dealers. Create or establish standards for auditing and related attestation, quality control, ethics, and independence. Inspect the auditing and quality control systems of registered businesses. Conduct investigations and disciplinary actions against registered public accounting companies and their affiliated individuals for infractions of

specific laws, regulations, or professional standards. The ESG assurance provider landscape is constantly changing, with new entrants and innovative services. As a result, keeping up with the latest developments in this field is important.

2.6.2 Internal Assurance

Senior corporate responsibility managers from ten FTSE100 companies, as well as representatives from three key stakeholder groups, were interviewed by O'Dwyer and Owen (2005) the authors discovered that the actual driving factors behind assurance are internal to an organisation. The Institute of Internal Auditors 'The IIA Global' (2018) said that internal audit strengthens Corporate Governance via risk-based audits that give confidence and insight into the processes and structures that propel the corporation toward success. As risks proliferate and become more complicated, the function of internal audit will likely extend into areas like culture and behaviour, sustainability, and other non-financial reporting indicators.

Internal audit remains under-researched according to Gendron and Bédard (2006) and Roussy (2013), despite its rise as an integral component of the Corporate Governance fabric of contemporary organizations (Sarens, 2007; Sarens, 2009). Internal audit has increasingly been regarded as a vital component of organizational risk management (Arena and Jeppesen, 2010; de Zwaan, Stewart and Subramaniam, 2011). Internal audit helps their organizations fulfil corporate objectives and support achieving their strategy (Spira and Page, 2003). The IIA Global (2018, P.5) 'The IIA' defines internal audit as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations". The IIA further elaborates that internal audit "helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and

governance processes. Internal audit's role in governance is vital" (The IIA Global, 2018, p. 5). Internal audit should play a dynamic and direct role in establishing good governance (Raiborn *et al.*, 2017; Whiteman, 2022). Furthermore, a number of studies emphasised that it is crucial to position the internal audit as a key function in the ESG sphere to enhance ESG reporting and ESG reporting assurance (Soh and Martinov-Bennie, 2015; Eulerich and Eulerich, 2020; Gartner, 2021, 2022; The IIA, 2021; Accontancy Europe, 2022; Eulerich, Bonrath and Lopez-Kasper, 2022). Despite the growing importance of internal audit and its development to assist board and management in achieving organisational goals, it has surprisingly not received enough consideration, and its role may not be fully clear to management or investors (Roussy, 2013). Scholars have argued that the misconception that the work of internal auditors overlaps with that of external auditors and finance could be contributing to some confusion regarding the role of internal auditors (Schyf, 2000; Roussy, 2013; Sonnerfeldt and Pontoppidan, 2020). Roussy and Perron (2018) in a recent structured literature review of internal audit from 2005-2017 found that no consensus about the roles internal audit function plays, or should play, in organizations. It could be argued that a lack of understanding of the Audit committee and Internal Audit function may have impacted the internal audit function's ability to support ESG reporting assurance and assist the board in fulfilling its oversight role and duties.

The evolution of corporate governance has been of immense help to internal audit (Pinto *et al.*, 2014; Robert Knechel, 2021). It has raised it to professional status by emphasizing the benefits of independent judgment and objectivity in reporting (Omolaye and Jacob, 2018). At the same time, an effective and a practical internal audit function plays a crucial role in assisting the board in discharging its governance responsibilities and enhancing corporate governance (Florea and Florea, 2013; Zaman Groff, Di Pietra and Sitar, 2016). Internal Audit plays an essential function in assisting the audit committee

of the board to fulfil its governance responsibilities (M. Eulerich and A. Eulerich, 2020). In addition, it provides insight through enhancing management and board understanding of governance procedures and structures (IIA 2018). According to the IIA, significant organisational transformation and innovation are sparked by internal audit insights on governance, risk, and control (IIA 2018). Internal Audit instils organization-wide confidence and enables intelligent, well-informed decision-making. As an experienced internal audit team may help a business anticipate problems by spotting patterns and drawing attention to impending issues. (IIA 2018). Pinto *et al.* (2014) stated that internal audit should play distinct roles subject to the company's requirements. They further, suggested that these roles enable management to identify threats and opportunities for improvement, drive decision-making in various levels of management, minimizing possible threats. It is argued that competent internal audit can improve the effectiveness and efficiency of the company's performance. All of the aforementioned data suggests that internal audit is a crucial function of corporate governance and an important function for the board and management.

The Role of Internal Audit in ESG Reporting Assurance

There is an increasing recognition that assurance services can add value to ESG reporting systems by driving internal organizational change and development (Halbouni, Obeid and Garbou, 2016). The role of internal audit has been evolving with growing expectations from stakeholders and the professional requirements, i.e., IIA standards (Edgley, Jones and Solomon, 2010). The International Integrated Reporting Council, (IIRC, 2021, p. 34) stated that internal audit could improve the reliability of integrated reporting including ESG reporting mechanisms, robust internal controls and stakeholders engagement. Some studies show that ESG assurance has been restricted mainly to external

providers and would enhance credibility and trust. Despite some evidence that internal stakeholders prefer ESG issues to be assured by internal audit and perceive internal assurance as sufficient (Edgley, Jones and Solomon, 2010).

Halbouni, Obeid and Garbou (2016) argued that there is also recognition that the management and reporting of ESG should be linked to risk management systems and processes. Internal Audit has a role to play in adding credibility to ESG information and identifying gaps for improvement (Soh and Martinov-Bennie, 2015). Internal audit's involvement in corporate governance, profound understanding of their organization, and risk management and assurance-related competencies give them a unique position within the organisation in ESG reporting and assurance (Szczepankiewicz, 2012; Institute of Chartered Accountants of Scotland, 2022). ESG factors such as climate change have unsettling effects, and its impact on social inequities is another fundamental reason for organizations to embrace sustainability at their core objectives, strategies, and operations (Nordhaus, 2019). This pushes organizations to rethink their interaction and impact with society and the environment—organizations realizing this want to manage their ESG risks. However, the difficulty with the ESG risks, they are dynamic and hard to measure with objectivity (Trotman and Trotman, 2015). Some of the ESG risks are inclusion, ethical behaviour, corporate culture, and embracing sustainability across the organization. Other accompanying risks of ESG are dependence on third-party data, credibility, lack of assurance of ESG reports, potential reputational impairment because of false reporting. And the chance that an explicit pledge to fulfil specific ESG goals might become a potential risk to the organization's objectives (Ferriani and Natoli, 2021).

The risks mentioned above and increasing adoption warrant that ESG Reporting be treated with the same care as Financial Reporting. This accelerates the organization's need to understand that ESG reporting should have a strategic foundation of internal

controls. And how the ESG objectives translate into action and reflect in results relating to organizational resources i.e., budgets or finances and value creation i.e., cases, value addition (B. S. Littan, 2019). According to the IIA's white paper issued in 2021, internal audit can play a key role in ESG reporting by "adding value in an advisory position to create an efficient ESG environment, providing assurance to ensure credibility through objective evaluation of the ESG risk assessments, responses, and controls. Assisting in conformance of the ESG reporting with required standards, regulatory, and investor criteria requirements". Additionally, the UK Chartered Institute of Internal Auditors, "Audit committee chairs, board members and senior leaders aren't always using their internal audit functions to their full advantage even though it is potentially one of the most powerful tools that they have at their disposal performing independent, objective assurance to manage climate-related risks, taking advantage of fast-paced opportunities and whether its governance processes are operating effectively" (The IIA UK, 2021).

Role of Internal Audit

Sound ESG decision-making requires reliable quality information, and this emphasizes the point of establishing policies, processes, and internal controls to ensure that. Similar to financial reporting, ESG reporting requires up-to-date information on strategies, operations and decisions functional to the organization (Kotsantonis and Serafeim, 2019). Designing effective internal controls for the operation to data collection and analysis used in the ESG Reporting for quality data. Management puts in place required internal controls, and internal audit provides assurance that these Internal Controls are well designed and effectively operational (S. Littan, 2019). With internal control, organizations need governance to execute the ESG Strategy and achieve the objectives. Governance is necessary to ensure the organization-wide adoption and execution of ESG Strategy, not just as a tool to ensure the accuracy of ESG data (FRC,

2021). Reporting accurate, consistent, and trustworthy information is essential for effective corporate governance, ESG reporting, and the trust of stakeholders (SASB, 2018; Prinsloo and Maroun, 2021). Hodge (2021) suggested that auditors are in a unique position to support ESG reporting. They assess if metrics have been generated consistently and openly, ensuring that the gathering and production of data adhere to established standards and procedures and confirming that the statistics correspond to what a company claims to do. Due to the impartiality and scepticism of auditors, the verification of ESG data is in many respects an extension of the tasks auditors currently perform. Internal auditors possess essential business knowledge and an established working relationship (Hodge, 2021). Previous research (The IIA, 2021; Eulerich, Bonrath and Lopez-Kasper, 2022) suggest that internal audit can add value through assisting their organisations with activities such as developing an ESG controls system as internal audit are competent with the effective internal controls. Identifying relevant Key Performance Indicators (KPIs), what KPIs to present in the ESG reports are crucial as they reflect the ESG efforts of the organizations. Providing guidance on ESG corporate governance and structure. Hodge (2021) argued that ESG reporting assurance by an independent internal audit should provide three basic components: a) reviewing performance measures, it is paramount that ESG reports present only accurate information and validated data showcasing the organization's actions. Internal audit objectively and independently supporting the verification process of whether the data presented is true, factual, and representative of the organization's efforts, reviewing reporting congruence with plans and disclosure requirements; for instance, the information presented in ESG reports and financial reports should be uniform and appropriate, with no room for material error; internal audit should conduct materiality risk assessments on ESG reporting (Tysiac, 2021). Further, Internal audit can provider advisory activities and help their organization realize what part of

sustainability initiatives and commitment contributes to their sustainability materiality.

Channuntapipat (2021) suggested that the issues of independence for sustainability assurance and the roles of assurance providers may differ from the classical financial audit. Sustainability assurance is a practice that is initiated by both external and internal demands, whereas financial auditing is a response to external pressure (Channuntapipat, 2021). Power (1997) argued that there are normative differences between the independence issues in financial audit practice and environmental audit practice; financial audit is typically mandated and regulated, whereas sustainability assurance is, with few exceptions, largely voluntary. These arguments are predicated on the notion that, unlike financial auditors, providers of sustainability assurance may not have external liability implications for parties outside of the organisations being assured, due to the current state of regulations.

The IIA reported that 1% of Internal audit work is ESG or sustainability related engagements (The IIA, 2021). ESG reporting is immature still and needs proper direction and management to be useful to the organization releasing it and the stakeholders who stand to benefit from it (Gillet-Monjarret and Rivière-Giordano, 2017). That direction, guidance and management can be successfully provided by Internal audit given their familiarity with Internal Controls and Governance. Although, Internal audit activity has increasingly been regarded as a vital component of organizational risk management and assurance (Arena and Jeppesen, 2010; de Zwaan, Stewart and Subramaniam, 2011), it remains under-researched (Gendron and Bédard, 2006; Roussy, 2013). Further, (Roussy and Perron (2018) found that no consensus about the roles internal audit function plays, or should play, in organizations. Pinto et al., (2014) state that internal audit should play distinct roles subject to the company's requirements. The literature has showed that the Internal Audit functions have worked to enhance and ensure sustainability and perform as

assurance and consulting professional service providers, consistent with international sustainability programs (Ridley, D'Silva and Szombathelyi, 2011). Internal audit helps achieve sustainability by examining data, investigating the validity and consistency of reports, and building trust with management, investors, employees, and stakeholders (Zamil *et al.*, 2021). This is in agreement with the direction by IIA to enable Internal Audit to confirm and assure consulting services of ESG activities (Ridley, D'Silva and Szombathelyi, 2011). Management's support and reporting of ESG information are the main keys contributing to the involvement of Internal audit in sustainability assurance (Soh and Martinov-Bennie, 2015). Which emphasise the importance of a collaborative and an integrated approach. It has been highlighted that the interrelationships between IA, external auditors, the board, and audit committee have a crucial role to play in sustainability assurance (Boiral, Heras-Saizarbitoria and Brotherton, 2020).

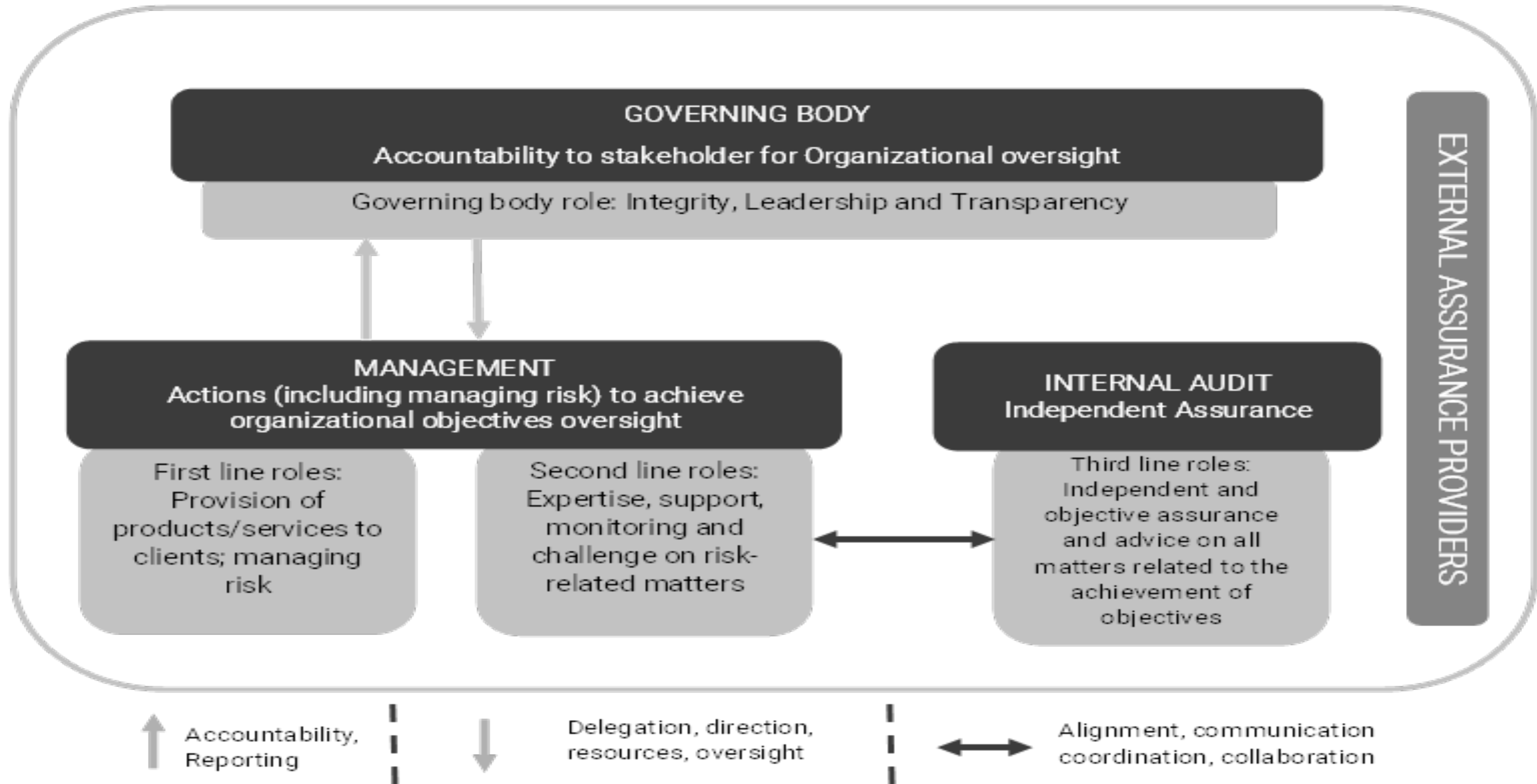
Eulerich, Bonrath and Lopez-Kasper (2022) suggested that Internal Auditors' ability to assess and evaluate the processes and controls used to create, collect, and disclose information may give them with a competitive advantage in the ESG space. This competitive advantage over other parties, such as contractors, is described by Knechel (2021) as auditors' expertise in the verification process and their extensive portfolio of subject-matter knowledge, notwithstanding their lack of experience in environmental or social disclosures. Given their extensive knowledge of company-specific processes and risks, as well as the controls in place to address ESG issues, internal auditors may serve as important participants in the multifaceted ESG space (Heesakkers *et al.*, 2018; The IIA Global, 2020).

2.6.3 Integrated (aka Combined) Assurance

Prinsloo and Maroun (2021) argued that external assurance performed by audit firms and consultants to test organisations' sustainability is examined by the prior research but least focused on how different types of internal and external sources of assurance form part of a combined assurance model. That organisations can rely on to ensure the integrity of information used for internal decision making and reporting to stakeholders. Zhou and Hoang (2019) argued that combined assurance (CA) is credibility- enhancing mechanism, where the credibility-enhancing processes from internal and external assurance providers across the three lines of defence. CA is often referred to as the ''Three lines model'' (Zhou and Hoang, 2019). According to Prinsloo and Maroun (2021) CA is framed as "a function of the responsibility of the board to ensure accurate, complete and reliable reporting and the characteristics of different internal and external sources of assurance".

To fulfil the ESG initiatives and achieve the set objectives, internal control, governance, and the management should work in unison. The alignment of activities is achieved through communication, coalition, and cooperation to achieve transparency and reliability of the information. The model structures the delegation of roles and assignment of work, which gives clarity on who is responsible for what actions at each level.

Figure 2-3: The IIA's three-lines model "The Model"



The board provides direction to management by setting the organization's risk appetite and strategic direction and seeks to identify the principal risks facing the organization (The IIA, 2018b). Thereafter, the board assures itself, by receiving assurance from assurance providers, on an ongoing basis that senior management is responding appropriately to these risks (The IIA, 2018b). Typically, the board delegates primary ownership and responsibility for operating risk management and control to the CEO as management leader (The IIA, 2018b; Tonello, 2018). It is management's task to provide leadership and direction to the employees in respect of risk management, and to control the organization's overall risk-taking activities in relation to the agreed level of risk appetite. To safeguard the effectiveness of an organization's risk management system, the board should be able to rely on effective line functions – including monitoring and assurance functions – within the organization. Here are how responsibilities should be divided, according to the The IIA, (2020b):

- The first line – functions that own and manage risk (front line)
- The second line– functions that oversee or specialize in risk management, compliance. Generally, management is responsible for establishing objectives, formulating ESG risk management strategies, and implementing pertinent policies and procedures. Its other essential duty is to ensure compliance with standards and regulatory organisations.
- The third line – functions that provide independent assurance. Internal audit typically assumes responsibility for assurance on controls, risk management, and corporate governance, independent of management.

As with corporate governance in general, it is argued that the board is accountable for ESG activities. The audit committee may be equipped to assist the board with a number of these duties. As evidenced by the available literature discussed earlier in this chapter,

the audit committee is well-versed in external reporting and understands policies, procedures, risk management and internal control. Given that the purpose of this study is to gain an understanding of how the audit committee and internal audit can assist the governing body in mitigating greenwashing, it is important to conduct a comprehensive review of the board oversight and audit committees' duties in the literature. The next section will present the relevant literature for the board oversight as the governing body, and the audit committee of the board.

2.7 Board Oversight and Audit Committee Duties

2.7.1 Overview

The governing body (aka the board of directors or "the board"), is ultimately accountable to stakeholders, including shareholders, for the long-term stewardship of an organisation by overseeing it strategy, monitoring risks associated and appointing management (Subramaniam, Mcmanus and Zhang, 2009). Accordingly, the board should be accountable for the organisation's long-term performance with respect to potential shifts in the business landscape that may result from ESG, and failure to do so may constitute a breach of directors' duties (WEF, 2019). The monitoring role of the board of directors is an important component of corporate governance (John and Senbet, 1998) and this study will pay particular attention to it. This section will introduce the literature review of corporate governance, board oversight and ESG risk monitoring or management duties.

2.7.2 Board Oversight and Corporate Governance in the Literature

Corporate governance is one of the three factors of ESG for an organization to measure its sustainability activities. Traditionally Corporate Governance was considered to direct the operations of the organization and devise the enterprise-wide strategy. In recent times, it has focused more on transparency and accountability for the organization to function effectively and efficiently (Shrivastava and Addas, 2014). Adopting ESG is as important as implementing it, and that too with good governance practices is the key for achieving long term sustainability goals (Sciarelli *et al.*, 2021). Credible corporate governance and sustainability disclosures and communications are attractive to investors and other stakeholders because they demonstrate confidence in the company's ability to survive and generate long-term profits (Aprilia, 2018; Sciarelli *et al.*, 2021). According to Buallay (2020) the board oversight of the organisation is necessary for management to be effective and be accountable for achieving their strategic objectives. Buallay (2020) further emphasised that audit committees play a critical role in assisting the board fulling their corporate governance and assurance duties, including sustainability assurance.

Though the concept of "governance" is as old as human civilization according to Fernando (2006), across different pieces of literature, 'governance' has no generally agreed definition (Morrell, 2009). Corporate Governance systems differ throughout the world (Pillai and Al-Malkawi, 2018). It represents many different components of the business depending on the sector and organization in which it is applied (Florea and Florea, 2013). There are numerous variations in terms of how governance is implemented in different disciplines. According to Fernando (2006) governance is the process of decision making and the process by which decisions are implemented (or not implemented). The G20/OECD Principles of Corporate Governance stated that corporate governance "encompasses a set of relations between the corporation's management, its

board, its shareholders, and other stakeholders. Provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined" (OECD, 2015, p. 9). This definition of corporate governance and guiding principles by the OECD are the widely adopted or being accepted around the world.

The overwhelmingly dominant theoretical perspective applied in corporate governance studies is the agency theory (Kontogeorgis, 2018). Jensen and Meckling (1976) proposed the agency theory to explain how corporations could exist, given the assumption that managers are self-interested and a context in which those managers do not assume the sincere interest of the owners. This was the initial explanation of the agency problems. Lubatkin *et al.* (2005) argued that a growing body of research, however, suggests that the agency theory, or the principal-agent model, does not adequately explain the critical relationships within corporate governance in other nations e.g., (Leighton and Garven, 1996; Pedersen and Thomsen, 1997). Stakeholder theory underpins that stakeholders and firms share a reciprocal relationship where a firm's performance affects the wellbeing of the stakeholders. Also, there are two types: external and internal stakeholders (Freeman, Wicks and Parmar, 2004). Stewardship theory has gotten researchers' attention, both as a compliment and a contrast to the agency theory (for example, (Davis, Schoorman and Donaldson, 2018). Whereas agency theorists view executives and directors as self-serving and opportunistic, stewardship theorists describe them as frequently having isomorphic interests with those of shareholders (Daily, Dalton and Cannella, 2003).

To protect their reputations, the governing body members are inclined to operate the firm in a manner that maximizes financial performance, operate with integrity, and protect shareholders interests (Hassan and Ahmed, 2012). In 1992, the Cadbury

Committee published its report on corporate governance. However, there was considerable criticism that recommendations in the Cadbury Report are too prescriptive, focus too much on the accountability aspects of governance, and risk damaging the spirit of enterprise necessary for commercial and economic success governance (Short *et al.*, 1999). However, Hampel (1998) claimed that while accountability by public companies was essential, the emphasis on accountability had obscured business prosperity. Additionally, the report claimed that the 'check-list' approach to the code by many organisations and has made them believe that accountability would deliver success. The overarching emphasis of the Hampel Report is the need for good corporate governance to be based on principles rather than prescription. Corporate governance is reflected in several different mechanisms that make it possible for the management to run a corporation to benefit one or more stakeholders (Morck and Yeung, 1999). Many different mechanisms ensure the efficiency of corporate governance, such as significant shareholders, creditors, systems of internal control and monitoring, external and independent auditors, and the legal framework within which a corporation operates.

2.7.3 Board Oversight in ESG Reporting Assurance

The organization's success fundamentally depends on the board of directors (Merendino and Melville, 2019). The board operates as a bridge and a link between management and shareholders or owners (Dimma, 1998). Though there is an overlap in the literature on the board of directors' role in corporate governance and assurance oversight, there are differences. On the one hand, for instance, the economics and finance literature's focus has traditionally been on the agency problems boards solve or, in some cases, make. The agency theory suggests that the board acts as a representative of the different groups of shareholders for overseeing the performance, managing key risks, and controlling management (Albitar *et al.*, 2020). On the other hand, the sociological and

management literature also emphasizes that boards can (a) play a role in strategy setting and (b) offer critical resources to the firm, such as building networks and connections (Hambrick, Finkelstein and Mooney, 2005; Kim, Haleblian and Finkelstein, 2011).

In recent years, there has been a growing emphasis on the structure and strategies adopted by a board to meet the diverse needs of stakeholders, and the adoption of monitoring standing committees may be viewed as one such strategy for safeguarding corporate legitimacy (Subramaniam, Mcmanus and Zhang, 2009). Corporate governance, in general, boards and audit committee, in particular, have been suggested to have an impact on assurance decisions (Coetzee *et al.*, 2021). Effective corporate governance reduces the likelihood of decoupling the ESG-related disclosure and reporting, according to (Sauerwald and Su, 2019), although the mechanisms through which corporate governance influences ESG decoupling are unknown. The Institute of Internal Auditors argued, “the board oversees and monitors the company’s strategic, operational, financial and compliance risk exposures, and it collaborates with management in setting risk appetite, risk tolerances, and alignment with strategic priorities” (The IIA, 2018b, p. 2).

The board usually delegate the oversight of financial, compliance risk exposures and assurance to the audit committee. Recently, extensive research suggested that the firm’s board and composition can influence its ESG performance (Birindelli *et al.*, 2018; Huber *et al.*, 2020). The “G” in ESG and the critical role of the board and each board committee in ensuring the integrity of the corporation’s sustainability initiatives continue to be a focal point of the ESG discussion (Sullivan, Arthur and Galezio, 2020, p. 1). European Commission report (2018) suggested strengthening the board’s duties related to ESG by advising them to consider “longer-term consequences of decisions, the benefits of the corporation’s employees and the impact of the corporation’s activities on the community and the environment, protecting the world’s cultural and natural heritage”.

Board members should be knowledgeable of ESG risks, understand and value stakeholders' ESG preferences to fulfil their duties and address long-term sustainability risks (García-Sánchez *et al.*, 2022). According to Sullivan *et al.*, (2020) boards are responsible for overseeing management's progress on ESG efforts and for making clear, stakeholder-informed choices that position the organisation as a pioneer in its industry and among its rivals. The report also emphasized that the competency and the maturity of the board's governance structure would increase with the evolvement of the ESG initiatives program. The board is accountable for addressing ESG risks and disclosures to stakeholders, can as per its governance structure, delegate this oversight responsibility to one of its governing committees, such as the audit committee or a sustainability committee (García-Sánchez *et al.*, 2022).

Standing committees, such as the audit committee, exist to assist the board carry out its responsibilities. The purpose of the board's committees is to improve the board's performance, specifically, as the board's role expands, such committees are increasingly viewed as essential rather than desirable (Subramaniam, Mcmanus and Zhang, 2009).

2.7.4 The Audit Committee

Historically, audit committees can be traced back to 1930s, when McKesson & Robbins Inc., fraud occurred the New York Stock Exchange (NYSE) and the Securities and Exchange Commission (SEC) recommended that external auditors be chosen by a special committee comprised of non-officer board members (Teed, 2010). In the 1970s, a series of business failures in the United States prompted regulators to suggest that publicly traded companies have an independent audit committee (Ghafran and O'Sullivan, 2013). By 1977, NYSE requested a mandatory audit committee for all listed corporations. Numerous additional commissions in the United States attempted to strengthen the quality of audit committees during the following 20 years or more, but without recourse to

legislation. However, with the Enron and world com crisis in 2001, this changed.

The history of audit committees in the United Kingdom is quite recent. Audit committees were virtually non-existent prior to 1979, according to (Collier, 1996), and only began to be formed seriously in the early 1990s, owing largely to the Cadbury Committee (1992), which recommended that all listed companies establish audit committees as an important step in raising corporate governance standards (Ghafran and O'Sullivan, 2013). It should also be noted that comparable regulatory actions have been implemented in a number of other nations. For example, audit committees in Australia, New Zealand, Spain, Singapore, and China must now have a majority of independent members, an independent chair, at least one financial expert, be responsible for the selection, appointment, and removal of the external auditor, and review the effectiveness of the internal audit function (Ghafran and O'Sullivan, 2013).

According to OECD (2021) Audit committees have historically been an integral part of corporate governance, and independent audit committees are mandated by almost all jurisdictions worldwide. Audit committees are considered indispensable to a sound governance structure (Coetzee *et al.*, 2021). The UK code of corporate governance by the Financial Reporting Council (FRC, 2018 p. 10) stated that "The board should establish an audit committee with a minimum of three independent non-executive directors, or two in the case of smaller subjects. The board chair should not be a committee member. The board should ensure that at least one member possesses recent and pertinent financial experience. The committee as a whole must have knowledge of the industry in which the company operates". Furthermore, according to the UK code of corporate governance

"the audit committee shall, amongst other things: a) monitor and analyse the efficiency of the company's internal audit function… [], b) advising on whether the annual report and accounts as a whole are fair, balanced, and clear, and if the information

required for shareholders to assess the company's position and performance, business model, and strategy is provided" (FRC, 2018, p. 10).

The Institute of Internal Auditors suggested "The audit committee, which is composed of independent directors, can significantly enhance the independence, integrity, and effectiveness of audit activities by providing independent oversight of internal and external audit work plans and results, assessing audit resource and qualification needs, and mediating the auditors' relationship with the organisation" (The IIA, 2018a, p. 10).

There is immense literature associated with the audit quality of the non-financial activities of firms around the world (Cohen, Gurun and Nguyen, 2021). However, amongst the non-financial activities, the ESG disclosures and their quality have gained particular attention in the past decade (Hammami and Hendijani Zadeh, 2020). Expertise of the audit committee is associated with enhanced disclosures regarding risk management (Hay, Stewart and Botica Redmayne, 2017).

In the context of ESG assurance, the audit committee role is extremely important. The literature has also emphasised the audit committee's role in the assurance of transparent and accurate sustainability disclosures. The audit committee is typically responsible for monitoring the reliability, accuracy and consistency of ESG reporting or disclosures by overseeing the processes, controls and approaches used to create the metrics and the internal controls (Armstrong, 2020). The audit committee oversees the work of internal audit, who work in association with the external auditor to complete the reporting process within the organisation (Eluyela *et al.*, 2018). Similarly, the audit committee role has also been researched from various aspects to produce better quality non-financial statements (Arif *et al.*, 2020). The audit committee is a vital element of the governance structure within an organisation and is primarily charged with areas such as risk management, internal controls, reporting and assurance (Hay, Stewart and Botica

Redmayne, 2017). Expertise of the audit committee is associated with enhanced disclosures regarding risk management (Hay, Stewart and Botica Redmayne, 2017). Armstrong (2020) claimed that the audit committees are typically well-versed in internal control monitoring, policies, procedures, risk management and reporting. Armstrong further argued that audit committees are responsible for monitoring the accuracy, reliability, and consistency of the reporting metrics by evaluating and overseeing the processes and approaches used to create the metrics and the internal controls. The audit committee plays a central influence in how corporations communicate ESG disclosures and manage their risks. One could argue that audit committee members intuitively comprehend how risks are identified, evaluated, and used to influence material disclosure objectives and practices. Audit committee should understand how materiality is defined when identifying ESG metrics for disclosure, the relevant ESG framework to meet business goals, in accordance to Sullivan, Arthur and Galezio, (2020). They also argued that in addition to monitoring disclosures, providing assurance on ESG information is an important component of an effective governance structure.

The audit committee typically assists the governing body in meeting its financial reporting, overseeing risk management, internal controls, and assurance (Marx and Watt, 2010). Supervision the work of internal and external audit (Eluyela *et al.*, 2018). In practice, however, many audit committees are unsure of their role in the evolving topic of ESG reporting and assurance. Hodge (2021, p. 11) raised important questions in 'The CPA Journal' for boards to consider in order to clarify reporting assurance oversight under a title "take the first steps… before it's too late"; "How do boards adapt to the evolving ESG reporting journey?" What are audit committees' responsibilities? These questions illustrated the existing gap in practice as well as the necessity of conducting this research. As ESG programs mature, the audit committee will likely have a more prominent role in

setting the tone regarding the importance of assurance on ESG information, assisted by internal and external auditors. Factors such as meeting frequency and the number of independent directors affect the compliance with GRI guidelines and the quantity of ESG disclosures. Appuhami and Tashakor (2017) argued that an independent and engaged audit committee could provide efficient oversight that is required to balance the managerial and stakeholder objectives in the context of ESG disclosures. Karamanou and Vafeas (2005) also added that having audit committee is a vital governance and control mechanism that monitors the financial and non-financial reporting practices. According to Rahman (2015) audit committee qualities affect the financial and non-financial reporting of a firm. In addition, the National Association of Corporate Directors Blue-Ribbon Committee report (2020) referred to audit committees as "the ultimate monitor" of the organization’s reporting process (NACD, 2020). A monitoring board committee like the Audit Committee is most likely to boost corporate accountability by establishing a process for independent oversight of corporate activities, thereby safeguarding and enhancing corporate legitimacy (Subramaniam, Mcmanus and Zhang, 2009). Consequently, Arif *et al.* (2020) argued that having a competent audit committee is essential for improving the quantity and quality of ESG reporting and related assurance.

In addition to the traditional role of monitoring the conduct and reporting of financial matters for an organisation, the audit committee now has a broader role of ensuring that organisations follow a long-term and comprehensive approach to decision-making by considering the impact of their operation and business practices on ESG aspects (Rahman, 2015). Moreover, the role of Audit Committee becomes even more critical in the case of high reliability and sensitive industry such as healthcare as the operations of these organisations have a higher risk of becoming a source of hazard to the community (Nazari, Hrazdil and Mahmoudian, 2017). To summarise, the audit committee

role is critical to ESG reporting assurance and mitigating critical risks. It is in charge of overseeing the accuracy and reliability of ESG disclosures, managing ESG risks, and establishing the importance of ESG assurance. This study aims to further investigate and clarify this role, contributing to audit committees' understanding and effectiveness in mitigating greenwashing through ESG assurance.

2.8 Theoretical Framework

This section introduces 'the three most dominant theories in sustainability reporting namely the legitimacy, stakeholder, and institutional theories (Asem, 2022). Therefore, the three most dominant theories' in sustainability i.e., the legitimacy, stakeholder, and institutional theories were discussed. These three theories are founded on the same source of legitimacy and centre on the organisation's connection and environment. ''Legitimacy and institutionalisation are virtually synonymous" (Suchman, 2014, p. 576). The legitimacy theory emphasises the adaptation of organisational operations to a social contract. Whereas, the stakeholder theory focuses on the adaptation to stakeholder group requirements, and the neo-institutional theory emphasises the adaptation to regulations, internal mechanisms, values and norms (Liu *et al.*, 2022).

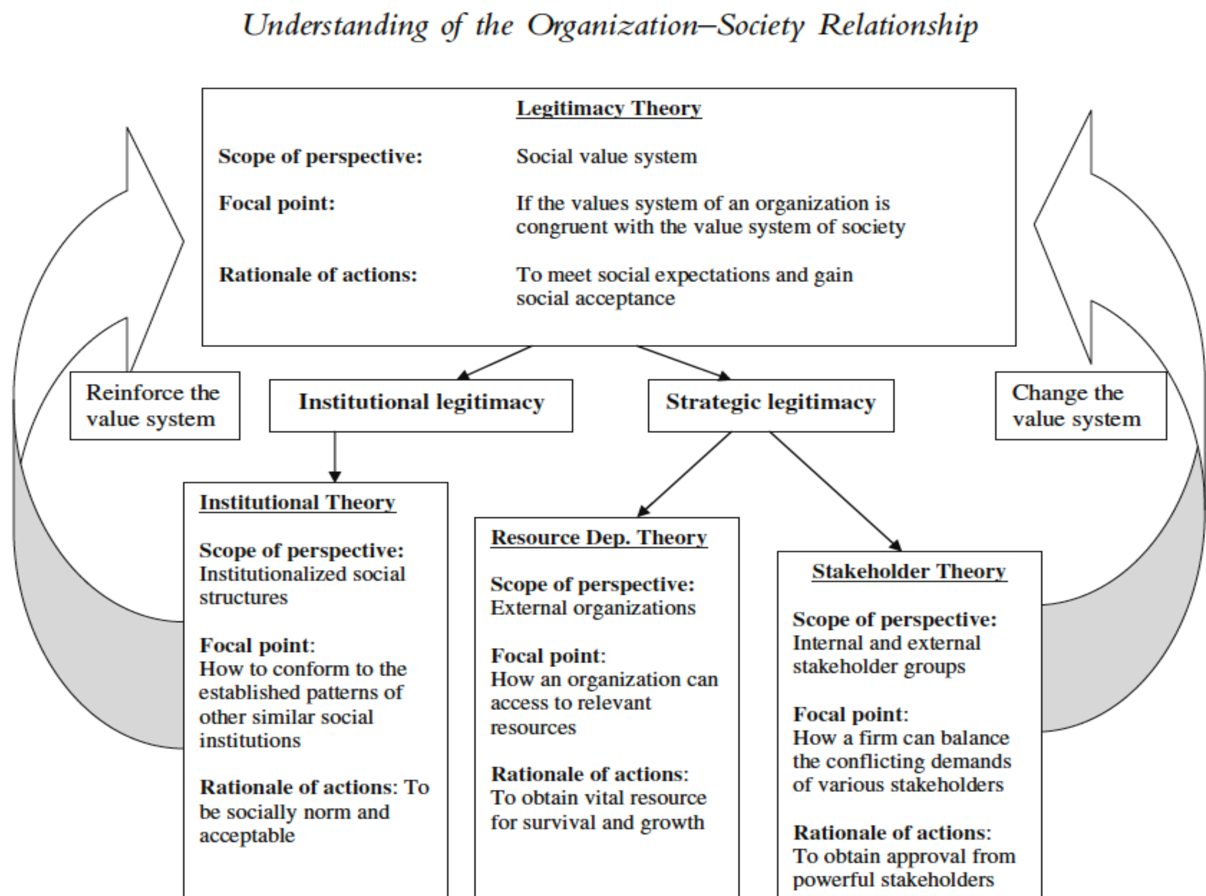
This section then delves into the neo-institutionalist perspectives on ESG reporting assurance practices, which serve as the theoretical framework for the study. The neo-institutional theory is useful for ESG assurance because it extends beyond organisational boundaries (Golrida *et al.*, 2020). It seeks to explain how institutions adapt systematically to institutional change and adopt similar or leading practices, systems, or structures in order to satisfy external expectations and gain legitimacy (Walker and Wan, 2012). In this study, the theoretical framework is used primarily for analysing the data and not for theory testing or theory building. The theoretical framework has provided the structure to the

data analysis and discussion of findings.

2.8.1 Overview

The relationship among the theories by Chen and Roberts (2010) in Figure 2-4 provided a panoramic view of legitimacy theory and the organisation-society relationship. The legitimacy, stakeholder, and neo-institutional theories all have a system-oriented characteristic that focuses on the organisation's connection and environment. They also explain a phenomenon based on "adaptation" to a particular feature. The legitimacy theory emphasises the adaptation of organisational operations to a social contract. In contrast, the stakeholder theory focuses on the adaptation to stakeholder group requirements, and the neo-institutional theory emphasises the adaptation (internal mechanisms) to regulations and norms (Liu *et al.*, 2022).

Figure 2-4: Relationship among the theories adopted from (Chen and Roberts, 2010)



Legitimacy Theory

Historically, organisations' legitimacy was driven by their financial position to shareholders in line with the Friedman doctrine by Milton Friedman 1970. However, over the past decade, it has been shifting towards a more inclusive stakeholders' approach (Parmar *et al.,* 2010). A central aspect of the legitimacy theory is the social contract between the organisation and the society in which it operates (Guthrie and Parker, 2012). When society finds that the organisation's activities do not regard its moral values, its social contract with the organisation may be revoked and may even lead to the organisation's failure (Loewe, Zintl and Houdret, 2021). It may be argued that in the era

of social media, with its emphasis on purpose and social connection, the social contract between the organisation and the society is more relevant and important than ever.

Brown and Deegan (1998) stated that an organisation's survival would be threatened if a legitimacy gap exists, such that the expectations and norms of society are incongruent with the needs of the organisation, in cases where the community posits that the organisation has breached its social contract. For instance, Brown and Deegan (1998) argued that companies report on their positive social and environmental activities as opposed to undesirable and harmful actions to maintain their business legitimacy. Such a practice of deceptive marketing is known as 'greenwashing'.

Legitimacy theory asserts that firms will behave in a way to showcase that they follow society's norms (Meyer and Rowan, 1977). Supporting literature claims that societal norms are shifting towards or paying more attention to ESG activities and fulfilling the expectations of the organisation's wider stakeholders (Joyner and Payne, 2002; Dawkins and Lewis, 2003; KPMG International, 2013; Laszlo and Zhexembayeva, 2017). By connecting the dots between the shift and the willingness to exhibit societally compliant behaviour, it could be argued that non-financial disclosures and reporting, and ESG disclosures and reporting in particular, assist organisations in establishing and maintaining their legitimacy. Adding to the point that organisations use ESG reporting as an instrument to showcase legitimacy (Bebbington, Unerman and O'Dwyer, 2014). Organisations achieve so by influencing their stakeholders that they do more good than harm, and they do so by appealing to a sense of moral, pragmatic, and cognitive legitimacy (Bebbington, Unerman and O'Dwyer, 2014).

Pragmatic legitimacy

Pragmatic legitimacy lies on the foundation of public interests and is considered very influential (O'Dwyer, Owen and Unerman, 2011; Suchman, 2014). In pragmatic

legitimacy, the society supports an organisation's activities, expecting back the materialistic benefits such as employment opportunities. At the same time, influential legitimacy is achieved by being responsive to stakeholders and incorporating society's broader interests in the organisation's decision-making process (Suchman, 2014). In general, this would include generating good financial returns by companies and simultaneously balancing the efforts taken to tackle environmental or social issues such as climate change or occupational health and safety risks to a needy society.

Moral legitimacy

Moral legitimacy pivots on whether a particular action is viewed as acceptable by an organisation's primary stakeholders (Suchman, 2014). Moral legitimacy is based on consequential, procedural, personal, and structural legitimacy. Consequential legitimacy is achievement-oriented and is based on visible achievements (Suchman, 2014). For procedural validity, the focus is not only on the outcomes of an activity, but also on the morality surrounding the procedures used to reach a certain result (O'dwyer, 2011; Suchman, 2014). Structural legitimacy focuses on the organisation's identity and whether it forms part of a morally favoured taxonomic category (Suchman, 2014). While, personal legitimacy emphasises a leader's character (O'dwyer, 2011: Suchman, 2014)

Cognitive legitimacy

Cognitive legitimacy comprises comprehensibility and being taken for granted (Suchman, 2014). Comprehensibility means to make society understand the organisation by providing logical, understandable explanations for its actions and plans. In comparison, the second part of cognitive legitimacy depends on the existence of the company, taken for granted. In a healthcare delivery context, claims to cognitive legitimacy are grounded in the significant contribution that the industry makes to the healing of citizens and society members. The legitimacy of ESG reporting and assurance itself is put to the test in the

CSR associated accounting literature (Gray, 2000; Ball, 2001; Adams and Evans, 2014) and the questioning of the legitimacy pushes forward the research in this direction (O'Dwyer and Owen, 2005; O'dwyer, 2011). One of the highly concerned problems is the undue influence of the management over the reporting and assurance, which affects the freedom of the assurors and the thoroughness of the verification work (Ball, 2001). The other form of influence by the management would be the limited scope of assurance activities, lack of stakeholder engagement and incomplete assessment of the report (Adams and Evans, 2014). Further, drawing on insights from the experiences and perspectives of a Fortune 200 firm's Vice President responsible for ESG oversight (including ESG reporting), and with the report's assurance team from a Top 20 accounting firm, Hickman and Cote, (2019) stated that often ESG reports are self-serving and self-applauding and are often restricted with reporting of positive ESG performance. Brown and Deegan (1998) argued that a legitimacy gap would threaten the organisation's existence when the community thinks they breached the social agreement. When credibility damage occurs, managers are compelled to react and repair damaged legitimacy (O'Donovan, 2002).

One of the main limitations of the theory of legitimacy is that it does not consider continuous and tremendous pressure from stakeholders, in addition to fragmented social values (Neu, Warsame and Ped well, 1998). The legitimacy, stakeholder, and institutional theories all have system-oriented characteristic that focuses on the firm's connection and environment. They also explain a phenomenon based on "adaptation" to a particular feature. The legitimacy theory emphasises the adaptation of organisational operations to a social contract, whereas the stakeholder theory "focuses on the adaptation to stakeholder group requirements, and the neo-institutional theory emphasises the adaptation, of the internal systems, to new regulations and norms (Liu *et al.*, 2022).

Stakeholder Theory

Legitimacy theory and stakeholder theory are overlapping theories with different perspectives (Nilipour, 2016). Legitimacy theory focuses solely on an organisation's interactions with society, whereas stakeholder theory expands by focusing on different groups of stakeholders and their relationships with these stakeholders. The term stakeholder came into existence to challenge the status quo that management is responsible for pursuing stockholders' interests (Freeman, Wicks and Parmar, 2004). The word as such came into existence in 1963 in an internal memo of Stanford Research Institute. When the business focused on ethical business management and accounting uncertainties, stakeholder theory became prevalent among organisations. Freeman was the frontrunner in the stakeholder theory. These fellow researchers tried to address the three main concerns of the business: a) value creation and trade, b) ethics and capitalism c) managerial mindset (Laplume, Sonpar and Litz, 2008).

Stakeholders are defined as "any group or individual that can affect or be affected by the achievement of the organisation's goals (Freeman, 1984, p.46). This definition is frequently cited as the classic definition of a stakeholder, which served as the foundation for stakeholder theory (Littau, Jujagiri and Jujagiri, 2008). Parmar *et al.* (2010) argued that there are many distinct types of stakeholders. External stakeholders, intermediary stakeholders, and internal stakeholders are the three basic types of stakeholders. The government, creditors, suppliers, customers, and competitors are external stakeholders; environmental protection organisations and auditors are intermediary stakeholders, while shareholders, managers, and other employees are internal stakeholders. Here, the management plays a crucial role in managing the relationship, resolving conflicts among the stakeholders, and making trade-offs while creating value, adhering to ethics, and compliance (Donaldson and Preston, 2016). It challenges the preeminent notion of the

business that the sole reason for any business is "making profits". This nudges the board, management, and organisation to rethink the narrative of business duties and responsibilities as an entity. The background of the stakeholder theory shows its origin was in strategic management, growing into organisational theory and business ethics. Then it transitioned to social responsibility and is now finding its way into sustainable development and ESG (Parmar *et al.,* 2010).

They realise that multinational corporations, with their sheer size, magnitude, and business volume, make them as powerful and impactful as political nations are the point when stakeholder theory became prominent in 1982 and peaked in the late 90s. Approaching stakeholder theory as a framework allows it to operate in various fields from business management, healthcare, law, public works, and corporate social responsibility to sustainability (Bansal, 2005). The evolution in business in a global village required different mechanisms to operate, which were no longer supported by current practices. Both internal and external stakeholders responded to the material changes and, at other times, evened spearheading the changes. Stakeholder theory was able to get its stronghold when businesses appreciated how valuable and integral it could be to the firm’s success. The fabric that ties stakeholder theory into businesses appeals to the moral compass and emotional commitment to fellow humans as individuals and as a group (Freeman, Wicks and Parmar, 2004).

According to Solomon and Lewis (2002) communicating with stakeholders and sharing information is one of the best strategies for organisations to legitimise their actions. Managers examine major stakeholder interests and concerns when developing the company’s environmental performance information disclosure and non-financial measurements, according to (Cormier, Magnan and Van Velthoven, 2005). As a result, legitimacy may be a primary motivation for businesses to engage in corporate social

activities (Deegan, 2002). Producing ESG reports is one of the techniques businesses use to respond to stakeholder demand and obtain legitimacy. However, stakeholders are concerned about the legitimacy and reliability of the reported sustainability information due to agency issues - conflicts of interest between managers and stakeholders – and a lack of regulation in ESG reporting and assurance. Resource dependence theory suggests that the power of the parties to control the required resources and organisations is to form the power difference between stakeholders. In this view, the stakeholders'' power is proportional to the resources they control. At the most basic level, the corporation is confronted with several stakeholder groups controlling rising holdings of these groups, intensifying the urgency, and meeting the needs of these groups. Shareholders are thought to have the most direct impact on a company's transparency, performance information disclosure, and wealth. Other stakeholders, on the other hand, may be interested in the company's performance disclosure (Harrison and Freeman, 1999). Freeman (2016) suggested that management had responsibility for all stakeholders impacted by the company's strategies, footprint and actions. Stakeholder engagement requires openness and accountability, which necessitates regular reporting about a company's business and operations (Andriof and Waddock, 2017). The performance of a firm is directly influenced by the quality of the relationship with its many stakeholders (Ogden and Watson, 1999).

Assurance of ESG reports is an additional communication technique that helps businesses impact stakeholders' impressions by demonstrating that the company's performance is professional and up to date (Nilipour, 2016). As a result, as Gillet (2012, p. 80) said, the assurance of sustainability reporting is "a quest for legitimacy" not just in the eyes of society, but also in the eyes of all stakeholders. The requirement for an organisation to gain legitimacy from stakeholders and receive their approval drove them to participate in the assurance process, it was stressed. Zajac (1988) concluded that the

capacity of the governing body and management team to adapt to the demands of the external environment are crucial to an organization's success and existence.

Stakeholder theory has some limitations. Scholars argued that stakeholder theory could be one of the highly controversial and criticised views today (Donaldson and Preston, 1995). Ardent supporters suggest this massive criticism is because of the wide breadth it covers as a theory. Most have tried narrowing the meaning in an attempt to reduce the misinterpretations which induce the complaint. Here criticisms come as overt or critical distortions that, in rare few cases, led to stakeholder the development and maturity of stakeholder theory. Stakeholder theory is limited by a concentration on the human actors' interests in the enterprise (Orts and Strudler 2002). As a result, stakeholder theory has an insurmountable conceptual challenge in offering realistic ethical rules for business managers dealing with issues that do not directly concern human beings within a commercial entity or who engage in transactions with a firm. Further, Orts and Strudler (2002) pointed out that they do not believe stakeholder theory can fully account for the overriding moral imperative for firms to follow the law, for example. Despite the efforts of a few theorists to include the natural environment as "stakeholder", stakeholder theory cannot satisfactorily address the increasingly critical concerns of managing in an environmentally ethical and responsible manner. While Freeman, Wicks and Parmar (2004) attempted to address flaws in previous versions of the stakeholder theory, their new comments did not suggest managers prioritise stakeholders' interests (Kaufman and Englander, 2011). Finally, it is argued that there are considerable overlaps with both the stakeholders and legitimacy theories.

2.8.2 Neo-Institutional theory

Suchman (2014, p. 576) stated that ‘‘legitimacy and institutionalisation are virtually synonymous”. Both phenomena grant rights to organisations primarily by making them seem natural and meaningful. Institutional theory is like legitimacy theory but concentrates on the relationship between environment and organisations, especially the stability and survival of organisations (Meyer and Rowan, 1977; DiMaggio and Powell, 1983).

Institutional theory broadly states that the behaviours of organisations are governed by their institutional environment: usually, the institutional forces drive agent’s behaviours by aligning agent’s beliefs with societal norms, with the alignment being caused by either internalisation of norms or external pressure (Dash, 2017). According to Huang, Xie and Zhou, (2022, p. 30) adapting to the institutional environment in order to survive is viewed as “an organization’s pursuit of legitimacy”. The old institutional theory focuses on formal institutions and how actors respond to external institutional constraints, whereas the new institutionalism places greater emphasis on comparative analyses, behaviours, and how "inside" systems affect change and being affect by external pressures (Greenwood and Hinings, 1996; Powell and DiMaggio, 2019). The foundation of neo-institutional theory can be traced to a 1977 publication by sociologist John Meyer. The neo-institutional theory emphasises that organisations are open systems that are heavily influenced by their institutional environments, which include regulations, norms, and socially constructed belief systems that exert significant control over goal setting, decision-making, and the development of performance measures (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). Institutional theory holds that the institutional environment and isomorphism are the source of organisational isomorphism, and some institutional theorists suggested that social institutional forces, rather than natural

economic laws, are more influential in the formation of organizational systems (Huang, Xie and Zhou, 2022). The early interpretations of the new institutionalism theory were primarily concerned with isomorphism and legitimisation, but a major body of subsequent work has revealed a strong and ongoing interest in agency and change (Vargas-Hernández, 2008). According to the literature, the new institutional theory can explain ESG reporting, which is created from internal variables that create the social background and company culture (Oliver, 1997). It explains that the ESG report has not yet attained institutional stature and that its complexity is still being explored and worked out (Bebbington, Higgins and Frame, 2009).

The neo-institutional is a theory of organizational change and it represents "a major research paradigm in organisational sociology" according to (Ball and Craig, 2010, p. 1). Further, the neo-institutional theory is suitable for explaining organisational (i.e., 'meso-institutionalism' and national level i.e., 'macro-institutionalism', according to (Contrafatto, 2014), differences in corporate governance, including ESG reporting assurance because it considers national-level institutions' roles (Dash 2017). Social influences and pressures are based on the social integration of organisational structure shape and practice, according to the new institutionalism in economics and politics (Oliver, 1997). Researchers considered the new institutionalism paradigm was appropriate because it expanded from a rational approach to a more mindful decision-making process (Deegan, 2002; Bebbington, Higgins and Frame, 2009). Organisations strive to strengthen their legitimacy by incorporating or appearing to incorporate new practices, norms, and values, as well as communicating an alignment between their norms and values and those of society to external stakeholders e.g., investors (Milne and Patten, 2002). In the context of ESG reporting assurance, firms seek assurance in response to institutional pressures to meet stakeholder demand, or responding regulators pressures and legitimise their

sustainability practices, and these institutional pressures are coercive, normative and mimetic (Gillet-Monjarret and Rivière-Giordano, 2017).

The neo-institutional theory can be used to disclose why changes in organisational processes (e.g., ESG reporting practices) may have occurred and to explain the dynamics or process leading to the adoption of similar practices, innovative systems, methods, and rules (DiMaggio and Powell, 1983). Further, in the context of ESG assurance by external auditors globally, previous studies such as Boiral and Heras-Saizarbitoria, (2020) and O'dwyer (2011) pointed out that the prevalence of accounting professionals in ESG assurance reports tends to encourage a procedural approach based on institutional arrangements and the mimetic transfer of procedures from the accounting profession rather than their effective adaptation to the complex realities of sustainability and accountability issues, which fosters the professional isomorphism.

Analysing this study in the light of neo-institutional theory means considering the ESG assurance practice as a response to institutional demands and pressures from society, investors, and regulators through isomorphic behaviours with the aim of gaining and maintaining legitimacy. These views are aligned with previous studies (Gillet, 2010; Smith, Haniffa and Fairbrass, 2011). Central to the neo-institutional theory are notions of 'organisational fields' and the mechanisms or process of institutionalisation (DiMaggio and Powell, 1983, p. 147). Organisational fields are said to become increasingly homogeneous over time through a process known as 'isomorphism' (DiMaggio and Powell, 1983, p. 149). Isomorphism emerges through an imperative for organisations to confer legitimacy upon themselves by conforming or appearing to conform to external pressures (Smith, Haniffa and Fairbrass, 2011). An organisational field comprises a recognised area of institutional life (DiMaggio and Powell, 1983), whose participants interact more frequently and fatefully with one another than with actors outside the field

(Derue and Ashford, 2010). The initial literature review showed that the coercive (by investors and regulators) and normative (by the public) isomorphism are the most relevant Isomorphic elements of the theory to ESG reporting and assurance. Gillet-Monjarret and Rivière-Giordano, (2017) argued that organisations actively construct their organisational image, and ESG reporting assurance practice is part of a legitimacy-building strategy that responds to coercive, normative, and mimetic pressures.

Coercive Mechanisms

Coercive isomorphism happens as a result of pressure from outside parties to drive certain desired behaviours and actions (Golrida et al., 2020). Regulatory pressures are strong coercive mechanisms that can force businesses to adopt ESG assurance practices (Kolk and Perego, 2010). However, the results of empirical studies are incongruent. While Kolk and Perego (2010) found that ESG assurance can emerge when national institutional processes are weak or non-existent, Casey and Grenier (2014) argued that ESG assurance is irrelevant in a highly regulated sector with severe sustainability risks.

Normative Pressure

Normative isomorphism happens as a result of firms adopting certain systems or standards in order to get recognized for specific quality (Deephouse and Carter, 2005). Companies may implement ESG reporting assurance practices in response to a normative push from the business environment, with the goal of attaining legitimacy (Herda, Taylor and Winterbotham, 2014). The development of audit practices of non-financial reporting such as ESG reporting, according to (Boiral and Gendron, 2011), may be attributed to a normative isomorphism process.

Mimetic Pressures

Finally, mimetic pressures suggest that organisations will imitate other, “proactive” organisations in behaviours, actions, and forms, mostly in uncertain and

ambiguous circumstances. The good practices of what are considered the most talented organisations will be imitated by others that wish to appear legitimate (Gillet, 2010; Golrida *et al.*, 2020). By referring to the business sector, this mimetic method is operationalised (Park and Brorson, 2005). Being in the same business sector, especially when it is strictly regulated, increases the usage of ESG reporting assurance (Herda, Taylor and Winterbotham, 2014). Further, while legitimacy theory itself does not explicitly express how to meet the social expectation and gain social support, neo-institutional theory strongly emphasises that organisations can incorporate institutionalised norms and rules to gain stability, adapt and enhance survival prospects. Thus, conformity to these established institutional patterns is the pathway to legitimacy and receiving support and attracting resources (e.g., investors, talents, customers). Conformity is the basic managerial tactic for organisations seeking legitimation (Chen & Roberts 2010).

The neo-institutional theory as theoretical framework for this study

Silverman (2017, p. 322) argued that "theories arrange sets of concepts to define and/ or explain some phenomenon…without theory, research is impossibly narrow, without research, theory is mere armchair contemplation". The theoretical framework guides the data analysis in order to explore the relationship between the data and the concepts that emerge from the analysis (Saunders, Lewis and Thornhill, 2019). The neo-institutional theory was adopted as a theoretical framework through the process of the literature review. The use of theoretical framework in this study is primarily for data analysis purposes, and not for theory testing or theory building. The theoretical framework has provided the structure to the data analysis and discussion of findings. As a result, it was determined that the use of neo-institutional theory and its institutional elements, as explained above, provide the most suitable framework for conducting the analysis, discussion and presenting the findings for this study. Similar use of neo-institutional theory framework was prevalent in previous professional Doctor of Business Administration (DBA) and studies, for example (Alsharif, 2015; Valdez and Richardson, 2013). This approach is consistent with the purpose of this study, which is to fill professional gap and solve professional problem by exploring the role of the audit committee and internal audit in the practice of ESG reporting assurance to mitigate greenwashing. Fulton *et al.* (2012, p. 1) suggested that the main aim of a Professional Doctorate is developing professional practice, "*work-based skills or knowledge*".

The neo-institutional theory is relevant and illuminating within the context of ESG reporting assurance because it looks beyond the organisational boundary and focuses instead on the interactions between 'institutions' (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Smith, Haniffa and Fairbrass, 2011; Golrida *et al.*, 2020). Wigmore (2010) in case study research showed evidence that there are mimetic, normative, and

legitimising components to institutions engaging in sustainability and green activities, which is consistent with the neo-institutional. According to Golrida *et al.* (2020) and Walker and Wan (2012), the neo-institutional theory is one of the most influential theories that can explain the relationship between organisations and their environment. It draws not only on the notion of legitimacy outlined above, but also seeks to explain how institutions adapt systematically to institutional change and adopt similar or leading practices, systems, or structures in order to conform to external expectations and gain recognition or legitimacy (DiMaggio and Powell, 1983; Deegan, 2002). This is consistent with the 'standardisation' of ESG reporting assurance practice through, for example, the increasing adoption or mandate of ESG standards and guidelines (Narayanan and Adams, 2017). Dash, (2017) suggested that because ESG reporting assurance tends to take a disciplined approach, it is a good subject to study the isomorphic pressures induced by neo-institutional theory. The rising usage of ESG reporting guidelines such as GRI, SASB, and TCFD reflects and supports this direction. While these standards and assurance practice are mostly voluntary, companies are increasingly facing societal and government pressures to adopt them (Eccles and Saltzman, 2011; Vigneau, Humphreys and Moon, 2015) in order to improve the comparability and transparency of ESG reports (Eccles and Saltzman, 2011; Vigneau, Humphreys and Moon, 2015).

Previous neo-institutional research has shown that the assurance and audit professionals are active agents in the institutional process (Greenwood and Hinings, 1996). Smith, Haniffa and Fairbrass (2011) argued that the notion of professional bodies as active agents suggests that fairly complex network dynamics operate within organisational fields involving independent professional services (assurance), and this sits in stark contrast to the simple idea of assurance providers being mere instruments of their corporate clients or reporting manager. Marx and Dyk (2011) referred to those reporting

managers as ‘the paymaster’. Neo-institutional theory may, therefore, be able to address some of the dynamics of the interaction between the organisation, the assurance service providers (in particular internal audit) and the social context in which it, the organisation, operates. This has led some researchers to suggest that neo-institutional theory and organisational change may be a valuable tool for research into exploring the dynamics of “managerial capture” (Golrida *et al.*, 2020, p. 343) and greenwashing (Adams and Larrinaga-González, 2007). In the case of ESG reporting assurance, the central feature is essentially a commercial and possible political conflict over alternative conceptions of the relative importance of assurance and accountability as set against managerial interests. According to (Smith, Haniffa and Fairbrass, 2011; Maynard *et al.*, 2017), ESG assurance individual engagements are likely to be influenced by inter alia:

- differences in how the assurance process is conceptualised as an internal or external function (Edgley, Jones and Solomon, 2010);
- coercive, normative, and possibly mimetic pressures from the assurance provider (Park and Brorson, 2005);
- normative influences from leading practices, the academic community, professional bodies and standard setters (Waddock, 2008);
- mimetic and coercive pressures from other companies in the sector (Wallage, 2000; Waddock, 2008); and
- mimetic and possibly coercive forces in play between the standard-setting bodies themselves such as GRI, SASB, TCFD.

This research scope and focus is on the organisation-level greenwashing, i.e., meso-institutionalism, according to (Contrafatto, 2014)) aligned with the corporate governance lens for board and audit committee oversight. Such organisation-level greenwashing varies from product-level greenwashing, a common marketing strategy

where firms exaggerate or obfuscate the environmental benefits of a specific product or service to increase sales (Burbano, 2011; Marquis, Toffel and Zhou, 2016). Additionally, understanding the firm-level greenwashing is increasingly important given rising demands for organisations to exhibit greater accountability and transparency (Marquis, Toffel and Zhou, 2016). Hence, the neo-institutional theory is most relevant to address this research's question. In particular, the perspective to mitigate risks for the stability, legitimacy and existence of organisations.

According to the neo-institutional theorists, 'organisations that are under institutional pressure are more prone to "decouple" their normative structure from their practical activity, resulting in policy and practice differences' (Meyer and Rowan, 1977, p. 345; de Grosbois, 2016). When institutional norms place competing expectations on companies, this "decoupling" behaviour is more frequent. Additionally, the natural system theory, according to (Mintzberg, 1991), emphasises the need to distinguish between management intentions and management actions and advocates keeping a clear separation between intended strategy (plans) and realised strategy (actions or actual behaviour). Mohr (1978) found that individual aims or intents may only be weakly linked to behaviours. As a result, it is critical to separate the measurement of reporting on ESG commitments (goals) from reporting on actual efforts and tangible outcomes (practice). For example, a firm may pledge to cut its carbon output by 20% by 2030. However, the veracity of the company's reporting on ESG commitments will be called into question if it fails to take any action towards realising this objective.

The trustworthiness of ESG reporting is a major challenge. In any industry, the trustworthiness of ESG reporting and the prevalence of posturing (e.g., "greenwashing") is a cause for worry. Grosbois (2015) used a new institutional theory based model to explain why there may be discrepancies between stated commitments and reported

outcomes. He argued that significant disparities in the extent to which individual firms and the cruise tourism industry as a whole report on ESG pledges, efforts, and outcomes support the premise that decoupling (and maybe posturing) is taking place.

Previous research (Spence, 2009; O'Dwyer, Owen and Unerman, 2011; Smith, Haniffa and Fairbrass, 2011) referred to greenwashing as managerial capture. For instance, Smith, Haniffa and Fairbrass (2011, p. 425) describe 'capture' as "the possibility that powerful interests become 'institutionalised' and lose credibility as a result". Smith, Haniffa and Fairbrass (2011, p. 428) argued that managerial capture is sometimes called 'professional capture', it occurs when professionals seek to create and maintain their dominant interests and positions in the market by legitimising an invisible expert action and then using their position to play the role of "powerful social actors in making sure that these professional practices are institutionalised as rules and norms adopted by society" (Power, 1997, p. 123). Furthermore, comparing how a UK chemical company portrayed itself in its ESG reporting to how the press and other external sources portrayed the company, Adams (2004) discovered that the company either omitted or briefly mentioned significant negative social and environmental impacts that were extensively covered in the external press. Similarly, Spence and Gray (2007, p. 23) stated that numerous organizations routinely omit "bad news and significantly alter their ESG reports in a favourable direction. Typically, businesses disclose information that is already in the public domain as opposed to presenting an accurate picture, they said. Scalet and Kelly (2010) provided further evidence that firms tend to ignore negative events and instead focus on, and only publicly discuss, activities which reflect positively on their sustainability performance. The inherent 'managerial' bias in these accounts contrasts with the 'accountability' approach, where corporate management provides a neutral and complete account of the social and environmental impacts of its commercial operations in

order to be fully accountable to its stakeholders and society more generally (O'Dwyer and Owen, 2007; Owen et al., 2000).

The neo-institutional theory will contribute to answering the theoretical question", "what causes greenwashing and what role does assurance play in mitigating it?" Understanding the potential causes of greenwashing and elucidating the key governance roles can significantly assist in mitigating greenwashing. Generally, what can be measured can be managed or mitigated. The neo-institutional theory will also be used to analyse the research data in order to better explain the ESG reporting and assurance maturity, as well as to gain an understanding of its components and impact. ESG reporting has not yet attained institutional stature and that its complexity is still being worked out by internal actors (Bebbington, Higgins and Frame, 2009).

Institutional and Neo-institutional Theories' Limitations

Critics of institutional and neo-institutional theories have noted their relative inability to fully account for the impact of conflicting interests and agency (Dacin, Goodstein and Scott, 2002). Further, the neo-institutional theory does not sufficiently differentiate and articulate the role of specific organisations involved in the complex dynamics at the heart of the institutional process (Greenwood and Hinings, 1996; Dacin, Goodstein and Scott, 2002). It is limited in its capacity to describe the roles of actors with competing interests, and it lacks a theoretical framework for categorising stakeholders in terms of the degree to which they exert influence (Kostova, Roth and Dacin, 2008). As a result, examining institutional forces is merely the first step in comprehending the influences on organisational practices. Examining and analysing the roles of actors or stakeholders influencing or being influenced by an institutional logic within the organisational field is necessary to explain and obtain a better knowledge of how actors influence particular behaviours (Chen, 2018). According to institutional theory, corporate behaviours do not always follow business logic, but rather respond to the environment's institutionalised expectations (Hahn and Kühnen, 2013). The majority of institutional theory focuses on how actors react to external institutional constraints, but the new institutionalism considers how systems from "inside" affect change (Powell and DiMaggio, 1991; Greenwood and Hinings, 1996) which is most relevant to this study.

2.9 Chapter Summary and Conclusion

This chapter introduced the literature review and the theoretical framework for this study. The following topics were covered in the literature review: the Environmental, Social, and Governance "ESG"; ESG reporting frameworks; assurance and greenwashing; the board oversight, the role of audit committee and internal audit; and finally, the theoretical framework. Legitimacy is essential to ESG and ESG assurance, as it is to the survival of businesses in today's purpose-driven world, as we are entering a new stage of a deeper understanding of the relationship between business performance and social and environmental impact in the wake of the coronavirus pandemic and the increased economic and political uncertainties (Porter *et al.*, 2019). ''Legitimacy and institutionalisation are virtually synonymous" (Suchman, 2014, p. 576). Therefore, the three most dominant theories' in sustainability i.e., the legitimacy, stakeholder, and institutional theories were discussed. They all have a system-oriented characteristic that focuses on the organisation's connection and environment. They also explain a phenomenon based on "adaptation" to a particular feature. The legitimacy theory emphasises the adaptation of organisational operations to a social contract. While, the stakeholder theory focuses on the adaptation to stakeholder group requirements, and the neo-institutional theory emphasises the adaptation (internal mechanisms) to regulations and norms (Kuo, Lee and Lee, 2022). Institutional theory focuses on formal institutions and how actors respond to external institutional constraints, while neo-institutionalism emphasises comparative analyses, behaviours, and how "inside" systems affect change and are affected by external pressures (Powell and DiMaggio, 2019). Exploring this study in light of neo-institutional theory entails viewing the ESG assurance practice as a response to institutional controls and pressures from stakeholders, i.e., society and investors, through isomorphic behaviours in order to gain and maintain legitimacy (Gillet,

2010).

The majority of institutional theory focuses on how actors react to external institutional constraints, but the new institutionalism also considers how systems of control and governance from "inside" affect change (Greenwood and Hinings, 1996). It emphasises that organisations are open systems heavily influenced by their institutional environments, including regulations, norms, and socially constructed belief systems that exert significant control over goal setting, decision-making, and the development of performance measures (DiMaggio and Powell, 1983). According to the literature, the neo-institutional theory can explain ESG reporting, which is created from internal variables that create the social background and company culture (Oliver, 1997). The neo-institutional theory contributes to answering the theoretical question, "what causes greenwashing and what role does assurance play in mitigating it?" In addition, it explained that the ESG reporting has not yet attained institutional stature and that its complexity is still being worked out by internal actors (Bebbington, Higgins and Frame, 2009).

The gap in the literature

Despite a comprehensive review of the literature, several gaps were identified, which this research aims to fill. First, despite the growing importance of ESG reporting, there is still a lack of clarity and consensus on ESG assurance practises. This research aims to improve understanding of ESG assurance practises and their role in mitigating greenwashing. Second, previous research has primarily examined sustainability assurance from the perspective of external assurance firms, with little qualitative research and interview-based studies on ESG reporting. This study will fill this void by conducting a qualitative, interview-based investigation of ESG reporting and assurance practises.

Third, while the role of Internal Audit in assisting boards and management in

achieving organisational goals is becoming more widely recognised, it may not be fully understood. This research aims to shed light on the role of Internal Audit in ESG reporting and assurance. Fourth, previous non-financial reporting research has primarily focused on repairing legitimacy issues rather than understanding the causes and techniques for mitigating legitimacy threats such as greenwashing. This study will fill that void by focusing on understanding and mitigating greenwashing as a threat to legitimacy. Fifth, the negative consequences of greenwashing on businesses, society, and the environment have not been thoroughly investigated. This study aims to fill that gap by investigating the effects of greenwashing and the role of assurance in mitigating those effects. Finally, the absence of a clearly defined role set, and useful information can make it difficult for the board to effectively govern an organisation. The purpose of this research is to improve understanding of the board's roles and responsibilities in ESG reporting and assurance.

In conclusion, this study will address these gaps in the literature by providing a comprehensive exploration of ESG reporting and assurance practices, the role of internal audit, the causes and mitigation of greenwashing, and the roles and responsibilities of the board. The findings of this study will contribute to the understanding of ESG assurance and the mitigation of greenwashing, thereby enhancing the legitimacy and sustainability of businesses in today's purpose-driven world.

Chapter 3: Research Methodology

3.1 Introduction

This chapter discusses the research philosophy, approach, design and the data quality assurance measures for this study. For this exploratory study, a qualitative research method based on semi-structured interviews, with a diverse and global sample of participants, is chosen to address the research question: 'How do the audit committee and internal audit assist the governing body in mitigating greenwashing by assuring the environmental, social and governance (ESG) reporting?' The interpretivist paradigm and qualitative methods would enable the researcher to gain a deeper understanding of a particular research subject and social context by eliciting experiences and perceptions of that context (Alharahsheh and Pius, 2020, p. 43). The primary objectives of this chapter are to identify and describe the underlying methodology and philosophy, as well as to describe the stages involved in conducting this research and the data quality assurance measures.

3.2 Research Philosophy: Paradigm, Ontological and Epistemological Considerations

Philosophy of research refers to the set of beliefs and guiding principles that inform how researchers conduct their investigations. It encompasses several important concepts, such as paradigm, ontology, and epistemology, which are crucial to research design and methodology. Research paradigms are important in the gathering and analysis of research data, and as such, they must be understood in order to execute a credible and effective research study (Saunders, Lewis and Thornhill, 2019). Collins and Stockton (2018) refer to research paradigm as a set of fundamental beliefs that guides research action or an investigation. Ontology and epistemology are the researcher's main beliefs

and assumptions about how people know what they know about the world (Goertz and Mahoney, 2012). It is crucial for researchers to understand the fundamental ontological and epistemological assumptions, as well as the manner in which these assumptions influence the selection of appropriate methodology and methods (Alharahsheh and Pius, 2020). There are two major methodological paradigms, quantitative and qualitative, respectively; each has its own ontology. This section discusses the research philosophy, and it explains the researcher's selection of an interpretivist paradigm and the adoption of a social constructionist ontology for this qualitative research.

3.2.1 Paradigm

The word "paradigm" comes from the Greek word "pattern," and the American philosopher Thomas Kuhn (1962) first used the word "paradigm" in the context of science to refer to a philosophical way of thinking (Kivunja and Kuyini, 2017). Collins and Stockton (2018) refer to research paradigm as a set of fundamental beliefs that guides research action or an investigation, this definition is also consistent with Guba and Lincoln (1994). A paradigm contains multiple components that can be classified as "Ontology, Epistemology, Methodology, and Methods" (Alharahsheh and Pius, 2020, p. 40). Because knowledge is considered contextualised, value-dependent, and subjective, the interpretive paradigm in this study focuses on understanding rather than the correctness or objectivity of the corpus of information. Each methodological approach contains research methodologies that may be used to conduct research (Collins and Stockton, 2018). For instance, the interpretive paradigm may employ a qualitative approach to research, with data collected and analysed utilising experiment, ethnography, action research, grounded theory, or case study approaches. This research takes an interpretivist researcher perspective to explore and understand the research topic. The interpretive paradigm was founded on the idea that techniques used to explain knowledge in human and social

sciences could not be the same as those used in physical sciences because humans interpret their reality and then act on that interpretation, while the world does not (Saunders, Lewis and Thornhill, 2019). Apparently, with the interpretivism perspective, researchers are inclined to gain a deeper understanding of the phenomenon and its complexity in its unique context instead of generalising the base of understanding for the whole population (Creswell et al., 2007). Interpretive research could be complex and interrelated as it revolves around the individuals and their interaction with the family, society, culture and most unnoticed of them all, themselves (Black, 2006). What is deemed to be reality is subjective, as the world may be viewed in a variety of ways based on one's subjective point of view (Goertz and Mahoney, 2012; Saunders, Lewis and Thornhill, 2019). In order to account for this degree of subjectivity, it is feasible to have many constructions of reality, each of which alters as time passes by (Alharahsheh and Pius, 2020). Because knowledge is considered contextualised, value-dependent, and subjective, the interpretive paradigm in this study focuses on understanding rather than the correctness or objectivity of the corpus of information.

3.2.2 Ontology

One of the simplest definitions of ontology is "the branch of metaphysics concerned with the nature of being or reality" (Jepsen, 2009, p. 1). According to Marsh and Musson (2008), ontology is the study of the nature of reality and people's perceptions of it. It follows that whatever ontological assumptions and commitments are maintained will impact research objectives and questions, as well as the research methodology. The ontological position will serve in identifying the research approach and strategy since it draws the researcher's attention to "the basic elements of reality" fundamental beliefs about the social entities and social actors about whom data will be collected and analysed (Silverman, 2017, p. 308). According to Bryman (2011) the two ontological viewpoints

are objectivism and constructionism, which is also known as constructivism. Their definition of ontology involved one or both of the following issues: whether social entities should be considered as objective entities with a reality external to social actors (objectivism) or whether social entities should be considered as social constructions built from the insights and actions of social actors (constructionism).

Objectivism is founded on the ontological notion that there is an anticipated standard of behaviour and that the actual output or performance may be assessed against this predetermined standard (Saunders, Lewis and Thornhill, 2019). The constructivist ontological position, on the other hand, claims that humans generate knowledge from existing bodies of information and past experience. In contrast to objectivists, who evaluate performance based on a predetermined set of standards, constructivists build their own realities to suit their particular position or circumstances. Constructionists think that reality is a social construction based on a compromise and agreements resulting from one's own perception of reality, which is impacted by values and experience, as well as another group's interpretation of reality. According to Fisher (2004) constructivist research is classified as agnostic because it denies the existence of a commonly accepted or orthodox interpretation of any phenomena and instead emphasises relativity, variety, and complexity. Due to the fact that constructionist research results are often impacted by the research dataset, assumptions, beliefs, and biases, the interpretation of these findings requires reflexive critiquing abilities.

This research adopted a social constructionist ontology approach since the reality of ESG reporting is indeed evolving, and there are no internationally unified standards for reporting and assurance. The researcher would conduct interviews and thought-leadership discussions with board and audit committee members, internal audit leaders, senior executives, and ESG assurance professionals in order to attain insight into the realities of

the existing and future position. This provided an outstanding insight into the perspectives of the key stakeholders of the assurance providers.

3.2.3 Epistemology

Epistemology can be defined as the researcher's understanding of reality (Alharahsheh and Pius, 2020) or "the nature and status of knowledge" (Silverman, 2017, p. 308). In other words, it is the researcher's point of view on what should be considered knowledge and how to discover it. Epistemological concerns must be considered when choosing what information to study and how to learn it. Epistemological perspective will affect study strategy outcomes (Saunders, Lewis and Thornhill, 2019). When conducting this research, it was important for the researcher to take into consideration some fundamental aspects, such as the accurate and objective measurement of results and the social construction of knowledge. According to Saunders et al. (2016:134) a researcher who conducts an analysis of presentations in narrative form embraces interpretivism philosophy. Interpretivism focuses on context-related variables and circumstances and sees humans as different from physical occurrences because they generate deeper meanings. Therefore, social sciences research should differ from natural sciences research (Alharahsheh and Pius, 2020). Interpretivism emphasises the need to comprehend both the players and the world under study, as well as the theory (Olatubosun, 2020). Interpretivism takes into account distinctions such as "cultures, circumstances, and times", which contribute to the emergence of distinct social realities (Alharahsheh and Pius, 2020). Olatubosun (2020) argued that the connection between understanding and behaviour is mediated by people's thoughts, beliefs, and interpersonal interactions, hence we cannot isolate the actions of social actors from their underlying causes and connections. The connections between interpretations are referred to as dialogic

relationships in interpretative research. Because of this, a social researcher will attempt to map out a variety of opinions and viewpoints on a phenomenon under investigation (Williams, 2000). Therefore, interpretivist researchers approach their research in an open and exploratory manner.

3.3 Research Approach

There are three major reasoning approaches that have been recognised in terms of research techniques, namely, 'inductive, deductive, and abductive' (Thompson, 2022, p. 1411). These approaches may be distinguished primarily on the basis of logical reasoning, generalisability assumptions, and the manner in which data is acquired (Saunders et al., 2016:144). Deductive reasoning entails working from the top-down, beginning with a broad theory or concept, then proceeding via preliminary hypotheses, patterns in evidence, and finally confirming the conclusion (Buallay, 2020b). Inductive reasoning, on the other hand, is "data-driven" begins with observations (such as observing social reality by taking notes) and then proceeds to generalisation and knowledge generation, where "the researcher enters the field with an open mind" (Thompson, 2022, p. 1411). In general, the inductive approach is related to qualitative research methods, whereas the deductive approach is connected to quantitative research methods (Olatubosun, 2020). An abductive approach moves back and forth, in effect combining deduction and induction (Suddaby, 2006; Saunders, Thornhill and Lewis, 2019). Thompson (2022) argued that abductive research, which derives its origin from the philosophical field of pragmatism is not data-driven or hypothesis-driven, but instead engages in parallel and equal engagement with empirical data and existing theoretical knowledge. The theory of abduction combines induction and deduction. For example, according to Ghauri, Grønhaug and Strange (2020) an inductive theory is based on empirical facts, whereas logic is the base of deductive theory. Blaikie (2017) suggested that the examination of knowledge include the manner in which it was gained, which leads to inductive and deductive techniques. While social scientists tend to favour either strategy, it might be argued that a strict reliance on one is implausible.

Inductive reasoning can be seen as creative and insightful process in which thought are grasped and it plays a critical part in qualitative data analysis specifically, in the identification of themes, codes, and categories (Lipscomb, 2012; Thompson, 2022). Inductive research is exploratory and interpretative approach that depart from a dataset or priori assumptions to construct theoretical understanding (Burns, 1989; Thompson, 2022). This exploratory study followed primarily an inductive reasoning approach due to its flexibility for such exploratory study to establish themes and patterns from the data set to solve the practice gap for ESG reporting assurance (Faucon, Olsen and Dillenbourg, 2020).

Gioia, Corley and Hamilton (2013, p. 21) argued that "upon reviewing the literature, the research process may be viewed as shifting from "inductive" to "abductive" in the sense that data and existing theory are now considered in tandem". In this study an inductive reasoning approach was adopted, where to establish themes and patterns from the data. When the data patterns and themes were evident and meaningful, the findings were correlated with and compared to the theoretical framework i.e., neo-institutional theory in a form of abductive analysis taking an applied scientific approach.

3.4 Research Design

The research design or methodology is the overarching strategy designed by the researcher to address the research question (Saunders, Lewis and Thornhill, 2019). Alharahsheh and Pius (2020) refer to the research methodology as the general research strategy that outlines how a research project is to be conducted and identifies the method to be used. The design of research may be qualitative, quantitative, or based on mixed methods. Research designs may also be categorised according to the purpose for which they are used, for example, exploratory, evaluative, and descriptive research designs. Some scholars refer to qualitative research as “a "bottom-”up" strategy, in which evidence establishes a notion or concept, forms a pattern, or explains what is happened prior to the emergence of the theoretical framework (Christensen, 2013). Yin (2003) suggested that a qualitative approach will be helpful to researchers in the understanding and examination of the management process, managing change and interpersonal challenges within institutions. The alternative to a qualitative study is a quantitative study. In contrast, Creswell et al. (2007) noted that a quantitative study was appropriate when a researcher sought to analyse relationships between two or more variables. A qualitative study is planned and would be appropriate in this study as it is not an examination of the relationship between the phenomena but rather an exploration of the experiences of others. Creswell et al. (2007) described qualitative study as a useful method for exploring and comprehending the central phenomenon. Ballou and Heitger (2005) suggested that a qualitative study would be appropriate in light of the subject nature of leaders implementing corporate sustainability reporting and assurance practices, as in this study.

To design a research strategy, it is necessary to clearly define the research question, objectives and scope, as well as the techniques to be used and the possible impediments to data collection (Saunders, Lewis and Thornhill, 2019). This entails

extensive planning on how to get the data, whether the task can be performed within a certain time limit, where to obtain the data, and any possible restrictions. Creswell, (2014) advocated for a clear knowledge of the underlying research philosophy, the nature of what defines reality (ontology), how to access this reality (epistemology), the researcher's ethics (axiology), and the nature and procedures used in the research process (methodology).

This qualitative study is an exploratory search for a better understanding of the audit committee and internal audit's role in ESG reporting assurance to assist the governing body in mitigating greenwashing, and it should provide valuable insights into academic and business knowledge on the study topic. These requirements qualified the study to be conducted by qualitative methods (Creswell, 2014). Other aspects that affected the decision to select a qualitative method are the research problem, question and the professional experience of the researcher. Creswell (2014) stated the research problem and the personal experience of the researcher and the audience who receive the study report as other factors that influence the choice of selecting an approach in addition to the philosophy, design, and methods. "Given that ESG assurance has been rarely studied in depth, it remains a poorly understood practice" (O'Dwyer, Owen and Unerman, 2011, p. 38). This justifies the selection of a qualitative technique to help establish a comprehensive understanding of the role of audit committees and internal audit in ESG assurance practice, as well as understanding its nuances and complexity (O'Dwyer, Owen and Unerman, 2011). Further, previous research recommended a qualitative study of ESG reporting assurance (Elamer et al., 2021). Furthermore, the role of the board, the audit committee, and the scope of ESG reporting assurance are not well defined in theory nor in practice for internal auditors. The researcher is a member of the global committee of the institute of internal auditors that oversees such professional practice guides, and the respective

professional bodies are still in the process of building knowledge of bodies around this subject matter, till the time of this study.

The advantage of a qualitative study is that the qualitative research approach is conducive to the researcher obtaining intricate and rich information (Corbin and Strauss, 1990). When it comes to qualitative research methods in management studies, interviews have always been considered to be the gold standard, particularly for research dealing with organisational change and emerging topics (Langley and Meziani, 2020). They also noted that interviews are frequently used for interpretive purposes, with a focus on capturing meaning and experiences through empathic engagement with interviewees.

Semi-structured interviews contain a list of key questions and allow the interviewer and interviewee some leeway to expand on developing themes (Vuori, 2017). It combines the merits of the other two ways (the extremely organised approach and the unstructured approach) and mitigates some of their related flaws (Vuori, 2017). DeJonckheere and Vaughn (2019) argued that the semi-structured in-depth interviews technique is frequently employed in qualitative research primarily for exploratory studies; typically, it consists of a dialogue between the researcher and participant, guided by a flexible interview protocol and supplemented with follow-up questions, probes, and comments. Interviews disclose some of the less conscious parts of cognition and emotions that other approaches cannot discover since the interviewer and interviewee can see each other (Vuori, 2017). It enables the researcher to collect open-ended data and explore participant thoughts, feelings, and beliefs about a particular topic that might be new or sensitive (Langley and Meziani, 2020). Therefore, it was determined that the method of the attainment of data for this study is semi-structured interviews with a purposive sample of global board members, audit committee, senior executives, subject matter experts of internal audit executives and ESG consultants. The main aim is to interview the

respondents in their element to identify their viewpoints which are at times subtle, sometimes verbally communicated, and other times communicated nonverbally. Semi-structured interviews are preferred in exploratory research as certain interviews are needed to be in-depth and detailed (Brinkmann, 2014). Semi-structured interviews favour personal and intimate encounters where "open, direct, and verbal questions are used to elicit detailed narratives and stories (Whiting, 2008). The semi-structured interviews with the relevant assurance key stakeholders, review of literature, and professional assurance providers to help establish a better understanding of the different roles for better assurance and enable more effective board oversight and create legitimacy in the reported information.

3.5 Data Sampling Techniques and Collection

3.5.1 The Population

In order to accomplish the aim of this study, which is to explore the role of the audit committee and internal audit in assisting the board in mitigating greenwashing through ESG reporting assurance. The data was collected from various global executive managers, board members, audit committee, internal audit, and ESG external auditors from various industries, legal forms (i.e., publicly listed, privately owned, NGO, large or medium size enterprise). The participants came from a variety of countries, with 70% from developed countries and 30% from developing countries. The sample included 13 different industries, representing a diverse range of industries. The gender distribution was also taken into account, with females accounting for 32% of the participants. Furthermore, the participants represented a wide range of ages, reflecting a wide range of experiences and perspectives.

3.5.2 Sampling Techniques

Non-probability sampling is the technique that enables samples to be systematically acquired for study while not giving all members of the population an equal chance of being chosen (Olatubosun, 2020). This strategy was used to choose the sample size in this work because it permits the researcher to include informed respondents in the sample who can provide relevant insights and enhance the study. Due to the fact that ESG reporting, and greenwashing are concerned with complex human behaviour, descriptive explanations and interpretations are often preferred over a representative sample. According to Small (2009) non-probability sampling is better appropriate for descriptive and in-depth qualitative research, where the emphasis is often placed on the comprehension of complex social phenomena. Bryman (2011) advocate non-probability sampling as the most acceptable method for obtaining information about an organisation by surveying people whose opinions are intended to reflect those of the organisation. This research implemented the non-probability sampling methods of purposive sampling, convenience sampling, and snowball sampling, and the justification for their use in this study is discussed in the following section.

3.5.3 Sample Size

Choosing an appropriate sample size for qualitative research is a subject of academic debate and practical inconsistencies (Vasileiou *et al.*, 2018). Saunders, Lewis and Thornhill (2019) argue that sample size depends on the nature of the population. Forty-seven (47) interviewees consisting of global executive managers, board members, audit committee, internal audit, and ESG external auditors have participated in the data collection. Representing organisations from diverse sectors, whether or not they are issuing full formal ESG reports. The selection of those global businesses in diverse forms

(i.e., publicly listed, privately owned, NGO, large or medium size enterprise), industries (i.e., financial services, healthcare, insurance, public sector, energy...etc), and experienced executives is to enable the development of a new and dynamically textured understanding of this evolving phenomenon.

Table 3- 1: Interviewees groups

	Category	Number
1	Board	15
2	Executive Management	9
3	Audit Committee	9
4	External ESG assurance	9
5	Internal Audit	5

The rationale for using a purposive technique is that based on the relevant literature of the subject and the pilot interviews, the researcher found out that certain categories of professionals may have critical, diverse, and important perspectives of the phenomenon under consideration that should be included in the sample (Robinson, 2014). Participants were selected based on their relevant experience with the research topic and were initially identified through the researcher's professional network, in a form of purposive and convenience sampling. Subsequently, the sample size was expanded as participants suggested other potentially knowledgeable members of their network to participate in this study, in a form of snowball sampling.

The rationale for selecting and accepting participants for this study was based on their experience, knowledge, relevance for contributing to the evolving subject of the study, and access to a diverse range of global perspectives. The following criteria were adopted in selecting the sample for the study:

- The participant is experienced and knowledgeable of the subject i.e., with more than ten years of professional or academic experience.
- Relevance of the participant to contribute to the evolving subject of the study, i.e., the participant has experience or knowledge within one of the primary categories of assurance provider' stakeholders, such as board, audit committee, executive management (e.g., CFO, CEO), internal audit,

and external ESG assurance.

- No restriction to industry or region; diverse business views are desired to formulate a deeper understanding of different practices related to this research topic.

Purposive Sampling

Heterogeneous purposive samples are most effective when studying a topical domain with knowledgeable subject matter experts in the sample (Glaser, 1998). There are several types of purposive samples, including typical cases, critical cases, extreme cases, heterogeneous, and homogeneous samples (Saunders, Thornhill and Lewis, 2019; Mexton and Kumar, 2020). Because the interview subjects i.e., participants are heterogeneous, representing most of the assurance providers' stakeholders from management, employees, NGO, board, audit committee, internal auditor, and external auditors. The rationale for employing a purposive method, at a first stage, is based on the review of pertinent literature, the degree of knowledge on the topic, and the pilot interviews. As this study progressed, it became evident that certain categories of participants would be most relevant to this exploratory study. The sample should consist of individuals who may have relevant but diverse perspectives on the phenomenon under study; these perspectives are consistent with the objectives of this study.

Convenience Sampling

Convenience sampling is a non-probability sampling approach in which respondents are picked systematically based on their proximity to the researcher and accessibility, (Saunders, Lewis and Thornhill, 2019). In this instance, the method is used to maximise the researcher's access to the targeted categories; boards, senior executives, and ESG reporting assurance professionals at the big-four audit firms, who were

accessible to the researcher through rapport with former co-workers at PwC, EY, KPMG, and Deloitte. This helped to ensure a high response rate for ESG external assurance professionals. According to Smith, Denzin and Lincoln (1994) convenience sampling, also known as opportunity sampling, is sometimes the only accessible method for collecting data from senior business executives with a high demand on their time and where a high level of researcher credibility is required for the dissemination of sensitive business information. Therefore, respondents were selected based on their knowledge and willingness to participate in the research. Some of those individuals referred other qualified potential participants, which contributed to the snowball sampling approach described below.

Snowball Sampling

Snowball, also known as chain referral, is a non-probability sampling approach in which, according to Bryman (2011) the researcher establishes initial contact with a small number of individuals who are relevant to the study subject, and then uses these individuals to make contact with others. It applies the analogy of a snowball enlarging as it rotates downhill; this sampling method supported expanding the research subjects based on the researcher's established network (Saunders, Lewis and Thornhill, 2019). Therefore, this sample technique is employed in this study to increase access to participants, particularly board members who are notoriously difficult to contact. The sample search continued until there were reappearances of similar data with no new or additional information appearing in the sample, in other words, when the data collection is saturated.

In accordance with Vasileiou et al. (2018), it was found that a sample size of 20 to 40 interviews would be sufficient to achieve data saturation in multi-site, cross-cultural study with diverse samples. Similarly, research focusing on a homogeneous interview-based sample found that saturation of themes might be achieved with as little as 12

interviews. Although data saturation was reached after 31 interviews, the researcher continued to interview until 47 interviews were collected. This was done to ensure that all possible points of view were represented in the data. Table 3-2 provides an overview of the data collected and how it benefited the analysis.

3.6 Data Collection

According to Saunders, Lewis and Thornhill (2019), there are two main types of research data: primary and secondary. Among the primary data sources are participant observations, interviews, and surveys. Secondary data are those that have previously been gathered and are easily accessible from other sources, such as archives, libraries, government agencies, etc. To fulfil this study's aim and address its research question, primary data gathering was used i.e., semi-structured interviews. Table 3.1 describes the kind and order of data collection methods. Saunders, Lewis and Thornhill (2019) suggested doing a pilot test interview to validate the research questions. The fact that the pilot interviews with ESG reporting assurance experts began in 2021 and was extended to 2022 for the complete sample and the time to interact with the ESG reporting and assurance community and determine the concerns that would influence the prospective interview questions.

3.6.1 Semi-structured Interviews

When it comes to qualitative research methods in management studies, interviews have always been considered to be the gold standard, particularly for research dealing with organisational change and emerging topics (Langley and Meziani, 2020). Semi structured virtual, over zoom and face-to-face interviews were held with 47 participants. After ensuring that ethical procedures are followed, before the actual interview begins, the

researcher always informs the participants that the entire process is intended to be more of a discussion and dialogue, to gain insights and a deeper understanding of the topic from the participants. With the exception of one interview, where a board member invited the director of corporate governance to join our meeting, all the interviews were conducted one-on-one with the participants. Saunders and Lewis (2019) listed several concerns that must be considered during the study design stage of qualitative interviews, including suitable attire, proper framing of the opening statement, the appropriate language of probing questions, and optimal timing of the interview.

Interview participants were audio or video recorded. To embrace participant openness in sharing their experiences. The researcher ensured the interviewees' anonymity in the study write-up. Before the recording of the interview, the researcher gave the interviewees an overview of the research, informed consent of anonymity, and a general guiding question list. The researcher recorded information by making handwritten notes and by video or audio recording the interviews. The recordings were then be transcribed into text in preparation for data analysis. Creswell (2014) and Saunders, Thornhill and Lewis (2019) suggested that researchers develop interview guides or interview protocols for qualitative interviews. The unit of analysis is the views held by the study participants on the subject matter. Creswell (2014) highlighted that qualitative researcher should pay full attention to participants' meanings. Therefore, the research focused on understanding the meaning of the research problem held by the participants, not only the meaning that the researcher experienced in practice or that is expressed in the existing literature.

The objectives of the interviews were to engage in enhancing the researcher's understanding of ESG reporting assurance and in addressing the research question. An interview is a dialogue between two or more people with the intention of collecting

genuine and trustworthy data pertinent to the study objectives (Saunders, Lewis, 2019). Due to the qualitative nature of interviews, they allow wider scope than other technique. Interviews allow the interviewer and interviewee to see each other, exposing some of the less conscious parts of cognition and emotions that are harder or difficult to recognize using other approaches (Vuori, 2017). Due to the exploratory nature of this research into a rapidly evolving domain and understanding of organisational roles, semi-structured interviews were employed to gather data. The interview is the only form of data gathering that can adequately capture all of these difficulties. In this case, a semi-structured interview allowed for spontaneous responses as well as the ability to investigate any problems that needed explanation from the respondents while enabling them to freely express themselves. Semi-structured interviews are less formal and allow the researcher to discover new facts or data about the study issue (Saunders, Lewis, 2019).

Concurrently with the semi-structured interviews, the researcher conducted informal conversations with academic subject matter experts, peer researchers, and professionals, who were unable to participate in a formal interview, to learn about their school of thought on ESG reporting and assurance, as well as the role of the audit committee and internal audit in mitigating greenwashing. Jeacle and Carter (2022) argued that informal conversations could be as enlightening as the presentation as a scientific presentation or formal interview. These off-camera, informal conversations followed the ethical process as formal interviews and provided the opportunity to gain insights and understanding of the phenomenon and participants' experience.

Table 3-2: A summary of collected data and how it benefitted the analysis

Data Source	**Total # of items**	**Duration (Hours)**	**Use in Analysis**
Semi-Structured Interviews	47	50 (approx.)	- Exploring the roles of the audit committee, internal auditor, and other assurance actors for more effective corporate governance and mitigation of greenwashing. - Understand the lived experiences of participants in ESG reporting and associated assurance. This included the thoughts and opinions of participants regarding the evolving ESG reporting assurance requirements. - External and internal key assurance stakeholders' global perspectives on ESG reporting assurance were gathered.

3.7 Data Quality and Assurance

According to Braun and Clarke (2022, p. 268) the quality of data in a qualitative study using reflexive thematic analysis "depends not on notions of consensus, accuracy or reliability, but rather on immersion, creativity, thoroughness, and insight". While, Delgado-Rodríguez and Llorca (2004) highlighted bias in research and defined it as a lack of internal validity or an inaccurate examination of the relationship between an exposure and an effect in the target group or context in a study. Yusof and Ali (2011) argued that the reliability of a study is concerned with using the same procedures by another researcher, is likely to yield the same conclusion while the generalisability refers to the extent to which the findings may be used in different contexts. Aspects of validity that are important are access to participants' knowledge and experience, as well as the researcher's ability to deduce meaning from those experiences and information that the participants wanted to share (Yusof and Ali, 2011). These aspects are discussed in further depth in this section. Moreover, in order to avoid common data quality issues, Braun and Clarke (2022, p. 269) outlined a 15-point quality checklist for good reflexive thematic analysis, which was adopted for this study. Reflexive thematic analysis is discussed in greater detail in Section 4.2 of Chapter 4.

3.7.1 Trustworthiness, Validity and Reliability of the Data

The trustworthiness of qualitative research analysis is frequently expressed using terms such as "credibility, dependability, conformability, transferability, and authenticity" (Elo *et al.*, 2014, p. 1). Kortjens and Moser (2018) examined trustworthiness in qualitative research, according to the authors, there are four components of trustworthiness: credibility, transferability, dependability, and confirmation. The trustworthiness of findings is the foundation of high-quality qualitative research (Birt *et al.*, 2016). In qualitative research, trustworthiness is defined by the rationalistic paradigm of rigour as

measured by the criteria of reliability, validity, and objectivity, among other things (Amankwaa, 2016). The results of this study were consistent with the research question, data collection, and data analysis methods used in the study.

Bengtsson (2016) pointed out that in qualitative analysis, the researcher must contemplate their experience of the phenomenon to be studied to reduce their interpretation influence bias. To support validating the interview data, several qualitative researchers agree on strategies that promote reliability in a study (Creswell *et al.*, 2007; Merriam, 2009; Boyd, Gove and Solarino, 2017; FitzPatrick, 2019). Merriam (2009) described these strategies that may include, but not limited to the following:

- Saturation, or data collection to the point where more data add little learning.
- Audit trail—a detailed record of data collection and rationale for decision-making.
- Peer review or consultation with experts. In this study the researcher consulted several experts in the field of ESG, assurance and corporate governance, as stated in Table 3- 2.
- Members check – debriefing within participants' group. This study had a debriefing within small group of five interviewees. Refer to 'Appendix 5: example email to interviewees for results de-brief'.

The researcher used triangulation of the literature and interview data analysis, saturation, members check, and audit trail tactics to validate the findings. Triangulation is when a researcher uses two or more independent sources of data to confirm how he or she interpreted the results (Saunders, 2019). Creswell (2014) argued triangulating data as a means of seeking convergence across data collection methods. Thick description entails paying attention to contextual detail in observing and interpreting meanings when

conducting the interviews.

Member checking is a validation procedure utilised during the in-depth data processing phase of qualitative research (Birt et al., 2016). According to O'Donovan (2002) researchers can improve the credibility of their findings by conducting member checks. These checks can verify that the conclusions were regarded to be accurate by the original participants. To ensure that the findings were accurately understood, the researcher performed a group members check session on 1 June 2022, by inviting five participants to a 60-minute online presentation of the findings to verify that the findings were accurately understood by their source, refer to Appendix 5 for an example of a debriefing email to interviewees.

Triangulation and data saturation enabled the researcher to obtain a deeper knowledge and understanding of this research. In order to ensure data quality and build credibility with interview subjects, the following main elements are taken into consideration: a) the researcher's knowledge and professional credibility, b) planning and supplying information to study participants beforehand, c) the appropriateness of the interview length, location and means of recording, d) the rigour of the analytic process; coding, developing the themes and validating the accuracy of data. The purpose of coding is to achieve data saturation, which happens when no new information emerges during the study and throughout the coding process (Mallette and Saldaña, 2019). Saturation of the data set was attained in this research by the use of pattern matching techniques throughout the data analysis's grouping codes procedure. Saturation was reached when the potential of discovering new themes in the analysis of the participant replies had been exhausted, and the research question was fully addressed.

3.7.2 Transferability

The degree to which qualitative research idea or findings may be generalised or transferred to different settings or contexts is referred to as transferability (FitzPatrick, 2019). According to Amankwaa (2016) transferability in qualitative research is achieved by a thorough explanation of the study findings. The conclusions go beyond the content of the data to provide transferable findings that may be applied to a variety of circumstances, contexts, and people. The purpose of this study is to explore the audit committee and internal audit role in ESG reporting assurance from the participa'ts' perspectives. Therefore, the empirical findings presented in chapter five pertain to the perspectives of particular individuals regarding the practice of ESG reporting assurance. The perspectives of these participants may not precisely represent the position of their respective organisations or countries. Therefore, transferability or generalisations of the entire population may not possible.

3.7.3 Dependability or Reliability

Dependability or reliability refers to the consistency of outcomes across time and is achieved as a result of the thoroughness with which data interpretation is performed (Elo *et al.*, 2014). Amankwaa (2016) suggested the findings of a qualitative research explain how dependability activities help to verify that the research findings are inferences from the collected data. The researcher described the data sources used to support the research results. Thus, researchers can examine, observe, and expand on the study procedure (Korstjens and Moser, 2018). In order to analyse the research problems, the research design and its numerous components were integrated in a reasonable manner, as suggested by Korstjens and Moser (2018). Increased dependability in a qualitative study indicates greater openness and less bias in the execution of the research. In qualitative research, confirmability, also known as external reliability or validity, refers to the level

of confidence in the results being based on information supplied by participants rather than representing the researcher's bias (Silverman, 2017). The possibility and risk of developing interpretations of the findings based on the researcher's ideas rather than the collected data suggest distorted data, emerges when the responses of the participants are separated from the line of enquiry (Yin, 2018). Providing findings that do not represent the researcher's underlying motives, viewpoints, prejudices, and interests aids in the confirmation of study validity (Vigneau, Humphreys and Moon, 2015).

3.7.4 Bias in Research

Critical to the qualitative methodology is the explicit consideration of researcher bias or error (Norris, 1997). It is argued that the quality of the researcher's knowledge, the amount of information provided to and by respondents, and the location of the interviews are all factors that may lead to bias in research. According to Smith and Firth (2011) it is challenging to eliminate bias from all types of study and research designs, as bias can arise at every level of the research process, and it affects the validity and reliability of study results. Braun and Clarke (2021, p. 55) argued that "subjectivity is a strength rather than a weakness or a source of bias". The researcher view coding and data analysis as a process of meaning-making rather than truth-seeking. According to Saunders, Lewis and Thornhill (2019), credibility, validity, and reliability are crucial challenges that must be addressed to prevent bias in data gathering.

To maintain validity and dependability, the data sample comprised of experienced business executives and subject matter experts with more than ten years of experience in the subject. It could be argued that participants with more experience are likely to offer more in-depth and pertinent insights to the subject matter. According to Braun and Clarke (2022), for a qualitative study adopting reflexive thematic analysis, insight and thoroughness indicate quality and dependability. Internal dependability and thoroughness

were also accomplished by the use of data coding and analysis, in which the researcher followed through the six-step process outlined by Braun and Clarke (2020). Regarding the level of understanding and relevant knowledge expected of the researcher to be active; comprehend, thoroughly and correctly analyse the research data, a comprehensive literature review was conducted in order to gain a reasonable understanding of the main components of the research subject prior to interacting with research participants. Further, the researcher joined the relevant professional associations, such as The Institute of Environmental Management and Assessment (IEMA) and The Chartered Governance Institute UK & Ireland Chartered Governance Institute, in order to participate in active learning and networking events designed to increase his knowledge of ESG reporting assurance and diverse corporate governance practices. Furthermore, the researcher has visited several international conferences on the research topic during the past five years. The researcher has professional experience as an external and internal auditor. Consequently, the researcher was in a position to actively engage in and thoroughly interpret practical and academic terms and jargon during interviews and data analysis.

In order to maintain thoroughness and insight throughout this study, Braun and Clarke's (2022) perspectives on research data quality have been adopted. The perspectives of Braun and Clarke (2022) are the most pertinent to the reflexive thematic analysis approach adopted for data analysis. The 15-point quality checklist for good reflexive thematic analysis by Braun and Clarke (2022, p. 269) was implemented as shown in Table 3-3. These measures were taken to ensure the authenticity, credibility, dependability, and thoroughness of the data collected and analysed for this study.

Table 3- 3: The 15-point quality checklist for good reflexive thematic analysis

No.	Process	Criteria
1	Transcription	The data have been transcribed to an appropriate level of detail; all transcripts have been checked against the original recordings for 'accuracy'.
2	Coding and theme development	Each data item has been given thorough and repeated attention in the coding process.
3		The coding process has been thorough, inclusive and comprehensive; themes have not been developed from a few vivid examples (an anecdotal approach).
4		All relevant extracts for each theme have been collated.
5		Candidate themes have been checked against coded data and back to the original dataset.
6		Themes are internally coherent, consistent, and distinctive; each theme contains a well-defined central organising concept; any subthemes share the central organising concept of the theme.
7	Analysis and interpretation - in the written report	Data have been analysed - interpreted, made sense of - rather than just summarised, described or paraphrased.
8		Analysis and data match each other - the extracts evidence the analytic claims.
9		Analysis tells a convincing and well-organised story about the data and topic; analysis addresses the research question.
10		An appropriate balance between analytic narrative and data extracts was provided.
11	Overall	Enough time has been allocated to complete all phases of the analysis adequately, without rushing a phase, or giving it a once-over-lightly (including returning to earlier phases or redoing the analysis if need be).
12	Written report	The specific approach to thematic analysis, and the particulars of the approach, including theoretical positions and assumptions, are clearly explicated.
13		There is a good fit between what was claimed, and what was done - i.e., the described method and reported analysis are consistent.
14		The language and concepts used in the report are consistent with the ontological and epistemological positions of the analysis.
15		The researcher is positioned as active in the research process; themes do not just emerge.

Adopted from Braun and Clarke (2022, p. 269)

3.7.5 Ethical Assurance

The researcher must conduct their study within the boundary of ethical research (Miller and Friesen, 1984). The conduct of this research has considered ethics as one of the critical considerations. Prior to data collection, ethical considerations were discussed with the supervisory team and ethical permission was obtained by the Ethics Committee, at which time potential risks were assessed and mitigation measures were designed. Both Emlyon Business School and Durham University, where this researcher registered as a student, have robust procedures in place on ethical standards, and that doctoral researcher must obtain ethical approval before collecting the primary data. In the process of obtaining the University's ethical clearance, there were no ethical concerns identified. The procedure established by Durham University was consistently applied. For example, consent was obtained before data collection, and the researcher ensured anonymity was retained in analysing interview data.

Informed Consent

As the research evolves, obtaining informed consent from participants is not a one-time event, but rather a continuous process. To do this, it was vital to communicate precisely what was expected of participants at all times. Throughout the research process, the researcher remained transparent about what the researcher was seeking from interviews, which the researcher found useful because it resulted in some of the participants recommended relevant data sources, other participants who are experts in the research domain. The researcher used an information sheet to brief participants about the nature of the study and what was expected of them in order to get their informed consent, refer to Appendix 4 for a sample participant information sheet. Due to the geographically diverse nature of the participants and the desire to protect participant anonymity, the

researcher emailed information sheets to potential participants containing the research's brief, aims, how they would be contributing; anonymity, as well as the supervisors' contact information, should the participant have any questions or concerns. Interview participants were audio or video recorded. Before conducting any interviews, the researcher would present participants with a copy of the same information sheet, if they had not previously read it, and a summary of the participation requirements. The researcher would always get participant's permission prior to video or audio recording.

Anonymity

Bryman (2011, p. 128), referencing Diener and Crandall (1978), breaks down ethical concerns into four categories, including "a) avoiding harm to participants" (in terms of their health, self-image, relationships, employment, and other aspects of their lives. b) informed consent (participants be informed about the purpose and nature of research, with certain exceptions); c) not infringing participants' privacy; and d) not misleading participants (unless doing so is intended to obtain, for example, more honest feedback). Despite the fact that participants were informed of their anonymity, and due to the confidential nature of audit-related information, it was initially anticipated that some participants would be hesitant to provide all of the information required by the study. There were no cases of doubt about the validity of the provided information from any of the participants during this study.

All participants provided all information requested, and they were informed that their anonymity would be maintained, and that the dissertation will be made public. To do this, all study data were stored in a password-protected folder on the OneDrive account supplied and secured by Durham University. Personal and third-party identifiable information were coded and transferred from transcripts to the data analysis sheet as soon

as possible. The respondents were sought for permission to record the interviews in order to maintain academic integrity, and it was made clear that the recordings would be utilised only for this research.

3.7.6 Chapter Summary

This chapter detailed the methodology deployed in this empirical study. This is accomplished by explaining the epistemological and ontological assumptions underlying this work and the research strategy, research design, data gathering method, and analysis of the collected data. This research takes an interpretivist researcher perspective, adopts a social constructionist ontology, inductive approach, and a qualitative research strategy since the reality of ESG reporting is indeed evolving, and there are no internationally unified standards for reporting, and its assurance practice by internal audit is new. This study adopted Braun and Clarke's (2020) reflexive thematic analysis approach for data analysis and their (2022, p. 269) 15-point quality checklist for good reflexive thematic analysis in order to maintain thoroughness and insight.

The researcher conducted semi-structured interviews and thought-leadership discussions with members and chairs of boards and audit committees, internal audit professionals i.e., chief audit executives, senior executives (i.e., Chief financial officers, executive officers, and other C-suite members) and ESG assurance professionals (i.e., ESG assurance providers from Big four accounting firms, ESG consultants or subject matter experts) in order to gain deep insights into the research topic. This allowed for direct access to and in-depth understanding of the perspectives of the assurance providers' key stakeholders. The data collection method used addressed the research question; 'How do the audit committee and internal audit assist the governing body in mitigating greenwashing by assuring ESG reporting?' The next chapter presents the data analysis, the findings and discussion.

Chapter 4: Findings & Discussion

4.1 Introduction

The purpose of this qualitative exploratory study was to gain an understanding of how the audit committee and internal audit can help the governing body fulfil its oversight role in mitigating greenwashing by assuring the ESG reporting. As described in earlier chapters, the research question is 'How do the audit committee and internal audit assist the governing body in mitigating greenwashing by assuring ESG reporting'? The researcher used the research question to guide the interview questions. This chapter consists of the descriptive findings, the procedures for data analysis, the results of the analysis, and the discussion of the findings.

4.2 Data Analysis

In qualitative research, data analysis is described as the process of systematically exploring and analysing interview transcripts, observation notes, or other non-textual resources accumulated by the researcher to improve knowledge and deepen comprehension of the phenomenon (Wong, 2008). The data for this qualitative study were collected through semi-structured interviews, diligently transcribed and examined for any themes that corresponded with this study's question. The concepts and notions emerge from the collected data represent a comprehensive comprehension of the participants' experiences, spoken words, activities, interactions, and voiced problems and concerns (Corbin and Strauss, 1998; Christensen, 2013).

The process of analysing qualitative data consists primarily of organising and coding the data, making sense of the most relevant data by identifying significant patterns, and eventually deriving meaning from the data and constructing a logical chain of evidence to address the research question and objectives (Wong, 2008). The researcher

analysed the dataset using Microsoft Word, Excel and 'NVivo' to undertake computer-assisted data analysis. The searcher adopted the reflexive thematic analysis six steps approach, as outlined by Braun and Clarke (2020) to identify, and explore recurring patterns and themes in the data, in which data with similar themes are grouped together (also known as "codes") and then reorganised into groups of findings, as presented in the next section of this chapter.

4.2.1 Reflexive Thematic Analysis

Campbell et al. (2021) stated that there are three subtypes of thematic analysis; reflexive thematic, codebook thematic analysis and coding reliability thematic analysis'. Scholars suggested that

"Reflexive thematic analysis' takes an organic approach to analysis and is classified as 'big Q thematic analysis', suitable for qualitative research conducted within an interpretivist paradigm, similar to this study. Secondly, codebook thematic analysis, which uses a structured coding process for analysis and is classified as 'medium Q thematic analysis'. And finally, 'coding reliability thematic analysis', which emphasises the reliability and accuracy of the coding and is classified as 'small q thematic analysis' (qualitative tools used within a positivist)" (Campbell *et al.*, 2021, p. 5).

Reflexive thematic analysis "offers an accessible and robust method for those new to qualitative analysis" according to Braun and Clarke (2022, p. 4). It is an easily accessible and logically flexible technique to qualitative data analysis that promotes the identification and study of patterns or themes within a given data set (Braun and Clarke, 2017; Byrne, 2022). It involves critical research reflection the researcher's interpretation of the data collected (Braun and Clarke, 2022, p. 5). Byrne (2022) argued that it is understood and even anticipated that no two researchers will cross the research criteria and arrive at the same themes in the same manner. Therefore, there should be no

assumption that codes or themes understood by one researcher may be replicated by another. Campbell et al. (2021, p. 5) argued that in contrary to other qualitative data analysis methods, such as grounded theory and interpretive phenomenological analysis, reflexive thematic analysis is defined as “independent of theory and epistemology”. This independence from a single theoretical framework allows for the wide and flexible use of the analytic method across a variety of epistemologies, including essentialist and constructionist paradigms (Braun and Clarke, 2006).

The reflexive thematic analysis was chosen for this study because it allows the researcher to determine the outcome and focus on the subject matter rather than being restricted by a certain framework. Reflexive thematic analysis is a flexible, iterative, explorative, organic method with a social justice orientation (Braun and Clarke, 2017). Braun and Clarke (2013) suggested that thematic analysis is filled with cultural, social, and academic subtleties that are unique to each researcher’s context. Reflexive thematic analysis was also chosen for this study because of the applied nature of this exploratory qualitative study and the researcher’s commitment to an interpretivist approach (Campbell et al., 2021). Braun, Clarke and Hayfield (2022) observed that, despite the fact that the process of reflexive thematic analysis may not prescribe specific data collection methods, though interviews and focus groups are the most commonly used data collection techniques. Further, this method of analysis recognises and values the subjectivity of the researcher as an integral part of the analysis process, rather than viewing it as problematic (Campbell et al., 2021;Braun and Clarke, 2020). The researcher’s experience and knowledge could be a positive contributing factor and an asset to the research by being active in the data collection, analysis and interpretation (Braun and Clarke, 2022). Braun and Clarke (2021, p. 56) argued that “we cannot just give participants voices while ignoring our own because one’s identity always impacts what we observe about our data

and the tales we tell about them". Therefore, as an internal audit professional, the researcher should be in a position to help calibrate the participants' perspectives into practical challenges, the big picture of assurance and governance, and deeply understand different perspectives on the subject under discussion. Terry *et al.* (2017) highlighted the organic nature of reflexive theme analysis, as researchers develop deeper levels of knowledge each time they read and analyse the data, leading to reflexive thinking and recursive coding.

Braun and Clarke (2006; 2020) developed a six-phase approach, which was marginally refined Braun and Clarke (2020), for guiding researchers, describing adaptable and nonlinear reflexive thematic analysis. Which was adopted for this study. According to Braun and Clarke (2020, p. 5), the framework for reflexive thematic analysis consists of six steps: 1) data familiarisation and writing familiarisation notes; 2) systematic data coding; 3) generation of initial themes from coded and collated data; 4) development and review of themes; 5) refinement, definition, and naming of themes; and 6) writing the report. The framework is described in more detail below (see Table 4-1), which demonstrates the steps that were taken in order to analyse the data.

Table 4- 1: Summary of analytic stage description and actions

Analytic Step	Phase Description	Actions
Data familiarization and writing familiarisation notes	- Immersing oneself in the data to understand depth and breadth of the content - Searching for patterns and meaning begins.	- Transcribing video or audio data - Reading and re-reading data set - Note taking.
Systematic data coding	- Generating of initial codes to organize the data, with full and equal attention given to each data item.	- Labelling and organizing data items into codes - meaningful groups.
Generating initial themes from coded and collated data	- Sorting of codes into initial themes - Identifying meaning of and relationships between initial codes.	- Diagramming or mapping - Writing themes and their defining properties - Iterate, when needed.
Developing and reviewing themes	- Identifying coherent patterns at the level of the coded data - Reviewing entire data set as a whole, iterate, when needed.	- Ensuring there is enough data to support a theme - Collapsing/ removing overlapping themes - Re-working and refining codes and themes.
Themes refining, defining, and naming	- Identifying the story of each of the identified themes - Fitting the broader story of the data set to respond to the research questions.	- To organise the story, cycle between the data and the identified themes.
Writing the report	- Presenting a concise and interesting account of the data's story, both within and across themes.	- Constructing an argument that answers the research questions - Writing that goes beyond a simple description of the themes.

Adapted from Braun & Clarke (2020)

Step 1: Familiarization with Collected Data and Writing Familiarisation Notes

In accordance with Braun and Clarke's six steps of reflexive thematic analysis, the researcher began with familiarisation and gained a thorough understanding of the data. Specifically, the researcher spent a considerable amount of time familiarising himself with the 47 interviews transcripts. This procedure began with the researcher's initial examination of the interview transcripts, which occurred simultaneously with listening to each interview's accompanying recording. Additionally, the researcher began taking notes in a Microsoft Word document, which supported the subsequent generation of initial codes to organise the data.

Step 2: Systematic Data Coding

After being immersed in the data and becoming progressively acquainted with the participants' descriptions of their thoughts and experiences, the researcher started the coding phase. The researcher followed a two-cycles coding approach, as recommended by Skjott and Korsgaard (2019) and Campbell *et al.* (2021). Descriptive (semantic) coding in the first cycle and the latent (interpretive) coding in the second cycle. The researcher started with semantic coding by exploring coding at the surface of the data, then moved to latent coding by focusing on a deeper understanding of the data and the implicit meanings. Semantic coding involved identifying the data's explicit meanings, while latent coding entails capturing underlying ideas, patterns, and assumptions. In practice, this process consists of reiterated analyses. i.e. data set reading and rereading. Campbell *et al.*, (2021, p. 4) found it useful to consider both semantic and latent analysis when conducting applied qualitative research. They argued that whereas semantic themes identify and summarise the content of the data and capture the surface meaning (i.e., reflect what was explicitly said), latent themes reveal the underlying ideas, assumptions, and conceptualizations within the data i.e., reflect the researcher's theoretical frameworks and

use concepts to help explain the data, (Campbell *et al.*, 2021, p. 4).

The researcher initially classified the 47 individual interview transcripts in Microsoft Excel spreadsheet using descriptive coding.

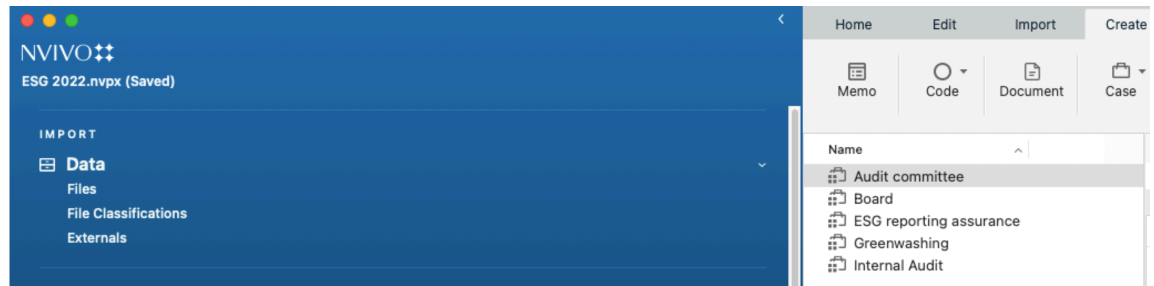
Figure 4- 1: A verbatim example of data coding in Microsoft Excel

A	S
Guiding Questions	What lessons or insights from financial reporting assurance can be applied to ESG Reporting Assurance?
P1	The audit committee should assist the board in overseeing the assurance process over financial and non-financial reporting. So far, corporate ESG data has been lacking in quality, consistency, and comparability, which makes it difficult for decision making. Central to making sustainability progress is elevating ESG reporting to the same level as financial reporting. Establishing robust metrics and disclosures to assess the impact of business on key sustainability issues would make a tremendous contribution in helping to protect both our people and planet. **Switching from voluntary to required disclosures is a must, not only to improve competition among peers in the race to the top but also to make boards and executives more accountable… what every business wants most of all, more loyal customers and engaged employees. Reliable reporting is essential as society and employees' pressures are rising; I noticed the employees shift and focus on ESG for self-fulfilment and their image in front of their families. Businesses that greenwashing are vulnerable and would be at a high exposure to fail.**

This example was cited and referred to P1 into chapter 4 of this study.

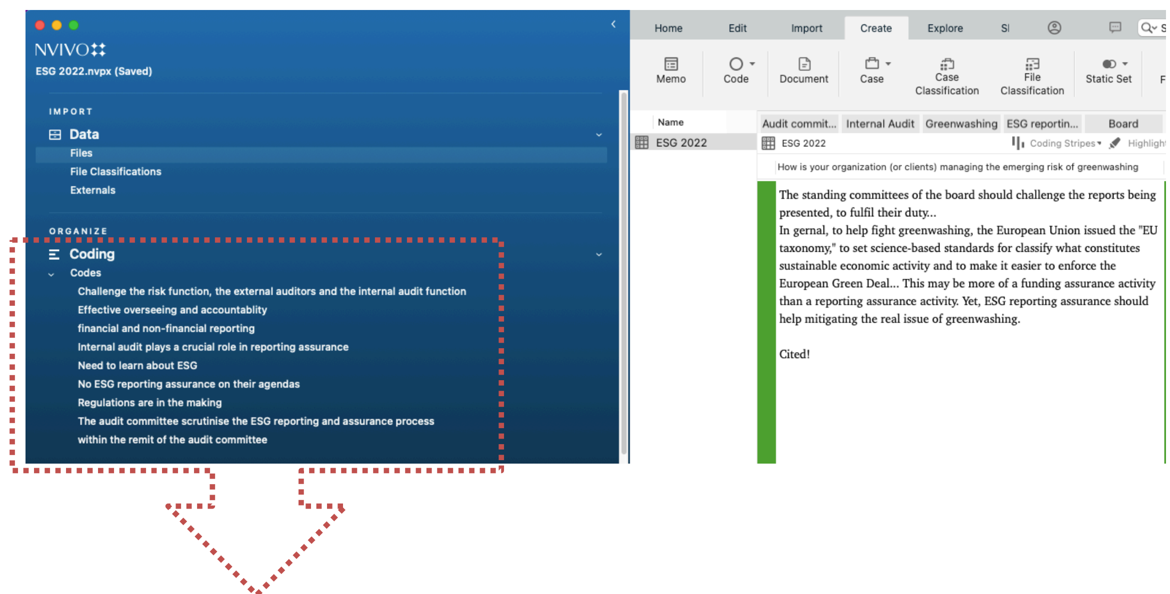
During the first cycle of coding, brief labels (some researchers called labels golden thread) were assigned to a participant's phrase or sentence to capture their perspectives (Miles et al., 2014). The labels served as both a golden thread and a north star in the process of aligning the data to the aim and question of the study.

Figure 4- 2: Coding labels (coding case or node in NVivo)



Codes and their descriptions were first maintained in an Excel spreadsheet before being transferred to NVivo to offer an automated approach for rearranging and organising codes for subsequent analysis.

Figure 4- 3: An example of verbatim data coding in NVivo



Refer to Table 4- 2 for a list of all codes

The review of each participant's transcript, the "meaning units", the words and sentences that conveyed similar meanings, are identified, and labelled with codes according to (Graneheim & Lundman, 2004 as cited in Belotto, 2018). The source of codes would be data-driven, based on the actual terms used by participants (Saunders, Lewis and Thornhill, 2019). The researcher followed a method of "structural coding", whereby the researcher labelled sentences with terms that were related to the research questions, Refer to Figure 4-2 Coding labels (coding case or node in NVivo). For example, the audit committee and internal audit have an important role in ESG reporting assurance and governance around ESG reporting; the governing body needs education on ESG reporting assurance and assurance requirements. 'Code' is a concept or meaning associate a particular segment of data and codes evolve through the coding process. Coding is a "meaning-making", and the researcher's knowledge and experience fuels the process according to Braun and Clarke (2021, p. 55). The reiteration and review identified chances to combine, divide, or rename codes, a process Braun and Clarke (2006) characterise as common due to the repetitive nature of coding.

Step 3: Generating Initial Themes from Coded and Collated Data

Once codes have been allocated to analysed data and data segments have been formed on the basis of their shared code, an analysis may begin to detect similarities among the various codes (Braun and Clarke, 2006). Using tables or physically writing and printing the codes and group codes with shared meaning, one may group codes into categories and subsequently into themes (Braun and Clarke, 2006). Braun et al. (2018, p. 3) found that while creating themes, researchers would use codes as building blocks, where "similar codes are collated with their related data into coherent clusters of meaning that convey a story about a particular element of the dataset". In this study, pattern, i.e., latent coding, was employed for second-stage coding, in which potential categories and

themes were initially discovered visually, akin to Braun and Clarke's piling approach, and then finished utilising the systematic capacity of NVivo. The primary phase in searching for themes began with coding (Braun and Clarke, 2006), the researcher constructed a comprehensive list of codes using an Excel spreadsheet. Each of the codes was allocated to five defined labels; twenty-six codes were reorganised into clusters that looked to have a shared or common meaning. Code label is a short phrase attached to a segment of data as a shorthand tag for a code. After many iterations, categories were formed based on common responses and their relevance to the research question. The creation of categories led to the formation of initial themes. Once codes had been initially assigned to categories, data were entered into NVivo. Transcripts were uploaded, and codes and their related category were entered and housed in NVivo. Using the organising capability in NVivo, the codes and their related categories were easy to view, consider, and move around in the software. Specifically, NVivo was an effective tool to visualise all the categories and codes in one place and quickly move a code to a different category or rename a category or code.

Step 4: Developing and Reviewing Themes

This stage, according to Braun and Clarke (2020), is a validation that prospective themes make sense in light of the coded pieces and the whole data set. This was an iterative procedure that occurred over time, beginning with a continual re-familiarisation of the data and the results of the first cycle's combined descriptive coding and pattern coding. Using the spreadsheet containing the codes and categories, the researcher repeatedly searched for connections between the categories that may eventually build themes that addressed the study question and met its objectives. Thus, the technique utilised to identify probable themes was predominately inductive. Braun and Clarke (2006, p. 83) defined inductive thematic analysis as 'coding data without attempting to fit it into a

predetermined coding frame' or a specific theoretical framework. Subsequently, when the data patterns and themes are evident and meaningful, the findings are checked against the theoretical framework to compare the findings to existing knowledge. It is worth noting that Braun and Clarke (2006, p. 84), also noted that a researcher's experience and viewpoint are intertwined with his or her categorisation selections, and hence "facts are not classified in an epistemological vacuum". Consequently, although themes were not predetermined, it is considered that the researcher's background and expertise in the issue informed her selections throughout the reflexive thematic analysis. During this stage, the finalisation of categories underwent many revisions, and the researcher started to establish study topics. After reviewing the concept of a theme as outlined by Braun and Clarke (2006), the researcher disregarded several topics pertinent to the participant group but irrelevant to the study objectives. For instance, the researcher initially identified "organisation do well by doing good" as a potential theme. When the researcher analysed the triple bottom line as a theme, it became clear that it characterised a set of participant replies but did not address the study objectives; thus, it was eliminated as a theme consideration.

The researcher understood that analytic thoroughness comes from knowing the foundations of qualitative research rather than the use of a specific program. Therefore, multiple tools were used, MS Excel, Word and NVivo, to process the data analysis at different rounds of the reflexive thematic analysis. The researcher has systematically analysed the dataset more than once, i.e., at least three times, when coding to ensure that the process is thorough. The researcher moved back and forth between interviews, making notes on previous interviews as well as the current interview under coding. In each different coding run, the researcher went through the data set in a different order. The researcher thought that mixing up the coding order, as recommended by Braun and Clarke

(2021, p. 71) in each round would help, disrupt the familiar flow for the dataset and ascertain that some data do not get more focus for extra depth of insight, while other miss out, risking an unevenly coded dataset. It should be noted that 'coding is never completed' according to Braun and Clarke (2021, p. 71) because the meaning is never final, in other words, there is no absolute endpoint for coding. Braun and Clarke (2021, p. 71) argued once you have gone through the dataset thoroughly a couple of times, finalise the code labels and checked coding for consistency, then you are in a good position to stop coding. This analytic task is to tell a particular story about the data to address the research question, not to represent everything in the dataset (Braun and Clarke, 2021, p. 88); 'it may be difficult to do justice to more than six themes, including subthemes, in a roughly 8,000-word report'. Accordingly, the study presented the five most prominent themes within the data set.

Step 5: Defining, Refining and Naming Themes

The researcher constructed themes table based on the iterative analysis that had been undertaken in earlier stages. According to Braun and Clarke (2006, p. 92), a researcher should be able to determine the essence of each theme and "what aspect of the data each theme captures" during this phase. With all codes, categories, and preliminary themes entered into NVivo, the researcher was able to quickly visualise their groups and proceed with renaming and assigning themes. In accordance with Braun and Clarke's recommendation, the researcher determined the themes that made sense based on the narrative that emerged from the categories and as part of the broader story in the data.

Table 4- 2: Coding summary

Labels	Codes	Sub-themes	Theme
Audit committee	1. The audit committee scrutinise the ESG reporting and assurance process 2. No ESG reporting assurance on their agendas 3. Regulations are in the making 4. Effective overseeing and accountability 5. Financial and non-financial reporting 6. Need to learn about ESG 7. Within the remit of the audit committee 8. Challenge the risk function, the external auditors, and the internal audit function	- Audit Committees should play an active and essential role in the assurance of ESG reporting - Audit Committees should receive training on ESG.	Audit Committees should play an active and essential role in the assurance of ESG reporting, but they should also receive training on ESG.
Internal Audit	9. Internal audit plays a crucial role in reporting assurance 10. ESG reporting assurance should follow the financial assurance path 11. Need to learn about ESG 12. Coordinate and integrate 13. Improve our processes,	- Internal audit plays a crucial role in ESG reporting assurance - Integrated assurance may be most valuable to organisations	Internal audit plays a crucial role in ESG reporting assurance, leading to integrated assurance that may be most

	save money 14. Internal Audit may be the best place for ESG assurance	- Internal audit should receive training on ESG.	valuable to organisations.
Greenwashing	15. Greenwashing risk is real 16. Greenwashing is a fraud 17. ESG reports are not subject to the same level of scrutiny 18. Assurance is essential	- Greenwashing is real - Greenwashing is a fraud - ESG reporting should be assured - ESG reporting will build credibility and trust - Assurance should be mandatory	Greenwashing risk is real, and ESG reporting should be assured to build credibility and gain trust.
ESG reporting assurance	19. Alphabet soup 20. Voluntarily 21. Regulations are in the making	- ESG reporting governance is inadequately defined - A major barrier to the effectiveness of ESG assurance	Governance of ESG reporting is inadequately defined, limiting effective assurance.
The Governing Body/ Board	22. ESG is evolving 23. Boards need to catchup 24. Governance transformation 25. Need to learn about ESG 26. According to their respective mandates or bylaws.	- Board understanding of ESG - ESG reporting assurance is important.	Most boards currently lack ESG expertise and may underestimate the significance of ESG assurance.

As recommended by Terry *et al.* (2017) themes were analysed as a final step to ensure alignment with the research question, interview questions, and data set. The researcher then compared the five themes to the existing literature and discovered that each of the five topics was present. In several instances, such as with the theme of "Audit Committees play a crucial role in the assurance of ESG reporting, but ESG training and

expertise are needed” dominated the research (Eluyela *et al.*, 2018; Arif *et al.*, 2020; Hammami and Hendijani Zadeh, 2020). The next section describes the sixth and last phase of reflexive thematic analysis, which is the report writing process.

Step 6: Writing the Results

Braun and Clarke, (2006) described this final phase of reflexive thematic analysis as the last opportunity to analyse the data, digest the results and convey its story. Terry *et al.* (2017) said that making a report may not seem like a step in the process of analysing data, but it is the last and most important step in reflexive thematic analysis. There was “a distinct final period of focus and refinement, where the researcher weaves together data, analysis, and connections to literature to produce a specific output that answers their research question’s)" (Terry *et al.,* 2017, p. 25). The researcher compared the discovered themes with scholarly literature to determine the validity of the findings. This stage also prepared the researcher for the process of authoring this manuscript’s results, discussions, and conclusions sections. Due to the repetitive nature of the reflexive thematic analysis, writing the findings, discussions, implications and conclusions was the final phase in the study, as it allowed the researcher to re-examine the data and resulting analysis. Consequently, the act of synthesising the analysis into the “findings section”, next section, of this dissertation was the final step in the process of a reflexive theme analysis.

4.3 The Findings

Th researcher discovered five main themes in this study's data set that, in different permutations, provided answers to the research question; 'How do the audit committee and internal audit assist the governing body in mitigating greenwashing by assuring ESG reporting'? These formed five themes; (1) competent audit committees should play an active and essential role in ESG reporting assurance, (2) internal audit can play a crucial role in ESG reporting assurance, leading to integrated assurance that may be most valuable to organisations, (3) greenwashing risk is real, and ESG reporting should be assured to build credibility and gain trust, (4) governance of ESG reporting is inadequately defined, limiting effective assurance, (5) most boards currently lack ESG expertise and may underestimate the significance of ESG assurance. Detailed in this section as follows:

4.3.1 Theme one: Audit committees that are competent and have an understanding of ESG should play an active and essential role in ESG assurance

This first theme that emerged from the data analysis is reflected in three patterns: (a) the current state of involvement of the audit committees in ESG assurance, (b) the role the audit committees should play, (c) and the need for audit committees to recive training to increase their knowledge and understanding of sustainability.

The audit committee, as described in previous literature, is made up of independent directors who serve to strengthen the independence, integrity, and effectiveness of corporate governance by providing independent oversight of internal and external audit work plans and results, assessing audit resource and qualification needs, and mediating the audit's' relationship with the organisation. The audit committee is one of three necessary standing committees established by corporate governance codes around the

world, most notably the Financial Reporting Council's UK code of corporate governance 2018.

According to participating board members

A board member of two public listed companies in the EU, and the UK, emphasised that the audit committee, similar to the current practice for financial reporting assurance, should oversee ESG reporting assurance".

> *"My observation is that many boards and audit committees do not have ESG reporting assurance on their agendas. But this will not last for too long, as the regulators here ... in the UK & the EU are in the making of relevant regulations for overall internal controls and ESG reporting assurance to avoid greenwashing and attract investments. I think one of the recent and important changes came out of Brydon's review.... check Brydon's recommendations. I also think the audit committee should continue overseeing processes and controls both financial and non-financial... [".]" (P1).*

This interviewee brought up the fact that many boards and audit committees do not have ESG reporting assurance on their agendas, possibly because such requirements are not yet mandatory. In addition, the interviewee stated that some regulatory requirements are in the works that will increase audit committee responsibility and role in ESG reporting assurance.

A board member of a UK public listed corporation and ESG independent consultant suggested that the assurance of ESG reporting falls under the audit committee's purview, as they are responsible for disclosure and controls. The board and its standing committees carry out their duties in accordance with their respective mandates and governing documents. These mandates should be revised or adapted to reflect accountability for ESG reporting assurance"

> *"The practice is clear, and if one seeks consultation from a big-4 audit or law firm,.. they will tell.. the responsibility of ESG reporting assurance is within the remit of the audit committee because they are responsible for disclosure and controls. However, some companies have set up an ESG management committee, and they are expecting the ESG committee to put related recommendations to the audit committee and other standing committees of the board. A very few*

organisations assure their ESG report because it is voluntary. Typically, the board and committees carry out their responsibilities according to their respective mandates or bylaws. To effectively carry out their duties, I believe that the standing committees of the board should challenge the reports that are presented. Typically, the audit committee is charged with assurance, risk, and controls"[]" (P9).

This interviewee mentioned that some companies had established an ESG management committee, with the expectation that the ESG management committee will make relevant recommendations to the audit committee. The audit committees should challenge the reports that the management committee presents.

According to participating audit committee member

An audit committee member and a former Chief Audit Executive of an American multinational automotive manufacturer shared a similar opinion, stating that the assurance process should not be fragmented; the audit committee is required to oversee the assurance process, and assurance over non-financial reporting is a part of it"

"The audit committee is responsible for the financial and non-financial reporting assurance process. They [AC] should ensure that ESG reporting is included in the internal audit's risk assessment and audit plan creation processes. The board and audit committee should follow global best practices, especially in multinational corporations... Our health and safety committee oversees most of the ESG operations matters." (P5).

This interviewee stated that the board of directors and audit committee should follow global best practices, particularly in multinational corporations. Also, the audit committee should ensure that ESG reporting is incorporated into the risk assessment and audit plan development processes of the internal audit.

According to participating external auditor

ESG reporting assurance director of an international accounting firm (Big Four accounting firm) concurred with the previous statements and emphasised that the audit committee should develop their knowledge of ESG-related topics in order to oversee the assurance process for financial and non-financial reporting".

"Audit committee should oversee the assurance process over financial and non-financial reporting[..] the committee members require training in sustainability techniques and controversies. Asking questions and challenging the process to ensure its effectiveness and accuracy" (P34).

This interviewee emphasised the importance of the audit committee asking questions and challenging the process to ensure its effectiveness and accuracy. Nonetheless, Audit committees should get educated in techniques related to sustainability.

ESG Director of an international consulting firm is in view that the audit committee need to upskill and adapt to a changing world and assist the board in overseeing ESG reporting assurance".

"The audit committee should assist the board in overseeing ESG reporting assurance. Also, the audit committee's framing of the time horizon and scope of work has to be changed because climate risk or biodiversity risk will show up five years down the line or longer. And they must consider the interrelationships of different sections and not at narrow functional areas" (P35).

This interviewee suggested that the audit committee would also need to broaden the scope of its responsibilities, coordinate with the activities of the board's other standing committees and integrate their work.

According to participating internal auditor

An audit committee member and a former Chief Audit Executive of an American multinational automotive manufacturer shared a similar opinion, stating that the assurance process should not be fragmented; the audit committee is required to oversee the assurance process, and assurance over non-financial reporting is a part of it.

"...the board delegates the assurance related activities to the audit committee; in turn, the audit committee should challenge the different assurance providers, the external auditors and the internal auditors, quality assurance providers etc." (P5).

This interviewee emphasised the audit committee's responsibility for ESG assurance. The board delegates to the audit committee the responsibility of assurance-related activities, which include both internal and external auditing.

According to participating senior executive

The Director of the strategy in the financial services sector from Nigeria reiterated the audit committee's responsibility for the assurance process over financial and non-financial reporting".

> *"From what I know, the audit committee is responsible for the assurance process over financial and non-financial reporting. Currently, no requirements to report or assure ESG reporting; hence we do not do it. In general, the Audit Committee is well placed to provide assurance to the board over ESG reporting, as they do for financial reporting; that being said, it is subject to having a consistent and clear reporting standards/ framework" (P13).*

This interviewee indicated they do not report on ESG because there are no regulatory requirements for assure or ESG reporting.

Managing Director, sustainable finance of a multinational financial holding corporation, shared their ESG governance structure, showing audit committee position and responsibility"

> *"There are three parts to our ESG governance structure: the board, the audit committee, and the ESG Working Group. The overall strategy and performance are overseen by the Board of Directors. The Working Group is responsible for putting the ESG concept and strategy into action, coming up with ESG goals and action plans, and giving regular reports to the Audit Committee. The Audit Committee keeps an eye on the overall performance and monitors how the goals and ESG responsibilities are being carried out…". (P21).*

This interviewee provided a comprehensive perspective on the ESG governance structure, demonstrating the clarity of roles and responsibilities at one of the world's leading financial institutions. The board, the audit committee, and the ESG working group make up their ESG governance structure. The Board of Directors oversees the group's global strategy and performance. The working group is responsible for implementing the ESG concept and strategy, developing ESG goals and action plans, and providing the Audit Committee with regular updates. The Audit Committee monitors the group's overall

performance as well as the goals and ESG responsibilities.

Chief Risk Officer and Audit Committee member at telecommunication corporation in Australia emphasised the role of the audit committee in overseeing the lines of defence and control: the risk function as the second line of defence, the internal audit function as the third line and the external auditors"

> *"The audit committee should scrutinise the ESG reporting and assurance process by effectively overseeing and challenging the risk function, the external auditors and the internal audit function" (P7).*

The interviewee stated that the external and internal assurance key providers, which emphasise their role in assisting the audit committee in fulfilling their oversight role over the ESG assurance process

Participants highlighted the necessity of educating audit committees on ESG-related activities. Consistent with Arif *et al.* (2020) said that having a competent audit committee is essential for improving the quantity and quality of ESG reporting and related assurance in the financial sector.

Audit committee member and former Chief Audit Executive of a multinational American automaker emphasised the need for ESG-related training and development for audit committee member'.

> *'[..]The Audit Committee should be in charge of the 'assurance' aspect of ESG reporting, but committee members should be trained in ESG-related issues, techniques, and controversies. In order to mitigate critical risks such as greenwashing and reputation damage, they must ask questions and challenge the process to ensure its effectiveness and accuracy" (P5).*

Another interviewee, an ESG Director of an international consulting firm, expressed a similar viewpoint, emphasising the need to educate the audit committee on ESG issues"

"The audit committee should assist the board in monitoring the assurance process for financial and non-financial reporting. However, the majority of board and audit committee members are ill-equipped to deal with ESG technical knowledge; therefore, teaching them about ESG issues and utilising external specialists would be critical, at least in the interim." (P35)

The above two interviewees stressed the need to upskill audit committees and equip them to deal with ESG technical knowledge.

A board member at publicly traded companies in the EU and the UK emphasised that the audit committee should acquire sustainability knowledge in order to be more effective.

[..]The audit committee's primary responsibilities include risk management, process and control effectiveness and assurance, but it is not responsible for ESG strategy, policies, and measurements. Because the audit committee does not routinely monitor issues such as gender, ecology, and diversity, it is difficult to draw conclusions. Nonetheless, the audit committee should develop in these areas and coordinate with other standing committees, i.e., the specialists, to be more effective" (P1).

This interviewee highlighted that sustainability-related disclosures and reporting areas are expanding over time, some of its topics may be within the audit committee, such as reporting assurance, but ESG strategy formulation and implementation may be assigned to a more specialised committee of the board.

An ESG independent consultant and a member of the board of a publicly traded company in the United Kingdom stressed the significance of educating the board and its committees about the consequences of "greenwashing" and the growing attention given to *sustainability* disclosures by stakeholders"

"Generally speaking, the audit committee is responsible for assurance, risk, and controls. Upskilling the board and its committees are essential so that they have a greater understanding of what constitutes greenwashing and the increasing requirements and emphasis on sustainability-related disclosures and reporting" (P9).

The interviewee highlighted the fact that sustainability-related disclosures and

reporting are evolving and gradually expanding over time. Accordingly, educating the board and its committees on ESG, greenwashing risks and the growing emphasis on sustainability-related disclosures and reporting is essential.

It is reasonable to infer from the above-mentioned perspectives that the competency of the audit committee has an impact on a company's financial and non-financial reporting. These perspectives are also aligned with Rahman (2015).

The following interviewees stated that their organisations are not required to provide ESG reporting assurance and that ESG reporting assurance is not on the audit committee's agenda.

An interviewee, a board member of an audit committee chairperson of an investment organisation in the UK, had a view that adding more responsibilities and items to the audit committee's agenda could make the committee less effective or take its attention away from its most important task".

> *"By not reporting, we, the board of directors, believe that signing up voluntarily for something that is not required would not be sensible. Currently, the audit committee members are very conscious of their responsibilities and adding any additional task to their agenda might be a burden… … In the future, the audit committee's charter and agenda can be changed in the future, when we know more about the regulation.. risk assurance duties are within the scope of the audit committee. Without a doubt, assurance increases trust in the reported information, which is beneficial to the organisation's credibility... discourage managers from engaging in greenwashing" (P2).*

This interviewee emphasised that the board of directors has decided not to report on ESG initiatives until it is mandated. Once reporting is mandated by the respective regulators, the audit committee will support the board in fulfilling its risk assurance responsibilities to mitigate reputational damage, greenwashing, inaccurate filing, and disclosure penalties.

An interviewee, the Chief Audit Executive of a Middle East-based corporation, revealed that the audit committee does not oversee ESG and reporting assurance-related activities“

> *"Currently, ESG and related reporting assurance points are not on the agenda of the audit committee or the board… But, in the future, the audit committee should support the board in fulfilling its fiduciary responsibilities to safeguard the organisation by assisting it in its assurance oversight duty" (P8).*

According to this interviewee, the audit committee should assist the board in fulfilling its fiduciary responsibility to protect the organisation by assisting it in its assurance supervision duty.

An interviewee, an ESG Director of an international consulting firm, is in view that the audit committee need to advance and adapt to the new remit and changing world“

> *"Not all organisations are assuring their ESG report; most of my clients ESG assurance clients are large corporations. The audit committee should assist the board in overseeing assurance over ESG reporting but seem not like audit committees are involved or knowledgeable enough of ESG to challenge management reporting" (P35).*

According to this interviewee, not every organisation assures its ESG report; the vast majority of ESG reporting assurance is performed by large firms.

Similar perspectives from a board evaluation expert and a former Chief executive officer of a global leading chartered governance institute“.

> *"Sustainability and ESG reporting assurance should be on the board’s agenda, and depending on the size of the organisation, its governance maturity and sustainability appetite, the board should appoint a standing committee to help them perform their oversight responsibilities. Large organisations, for instance, should have a separate sustainability committee because the audit committee’s agenda is packed with other crucial matters. Adding to the audit committee’s agenda may have an impact on its effectiveness or dilute its focus away from its core critical activities. Mid-sized organisations can combine roles with audit committees to provide confidence to the board about the integrity and reliability of reporting" (P4).*

This interviewee suggested that sustainability and ESG reporting assurance should be on the board's agenda and that the board should appoint a standing committee to assist them in attaining their oversight responsibilities. Appointing a separate standing committee or an existing committee such as an audit committee would be subject to the size of the organisation, its governance maturity, and sustainability appetite.

This theme was largely relevant in meeting the research aim and answering the research question; 'How do the audit committee and internal audit assist the governing body in mitigating greenwashing by assuring ESG reporting'? In particular, the role of the audit committee in the ESG reporting assurance.

4.3.2 Theme two: Internal audit can play a crucial role in ESG assurance

The second theme that emerged from the data analysis is reflected in three patterns: (a) internal audit can play a significant role in the assurance of ESG reporting, (b) internal audit can support the audit committee and the board in reducing the likelihood of ESG risks and monitoring performance through Internal audit advisory, and (c) internal audit needs to be educated on ESG.

Internal audit can play a significant role in ESG reporting assurance, according to 90 per cent of participants, with diverse viewpoints on how this function should be carried out. The remaining 10% of respondents had insufficient interaction with the internal audit to formulate an opinion. An interviewee, ESG Director of an international consulting firm, highlighted a number of factors that contribute to the importance of internal audit in performing ESG Reporting Assurance activities“:

> *"Internal audit is well-positioned to perform ESG reporting assurance activities for a number of reasons: First, just like financial reporting, ESG reporting is prone to significant mistakes and even fraud if the data is not properly managed and the organisation's controls are poorly defined. Second, the ESG assurance process should be conducted by an independent expert that 1) can freely identify inconsistencies and 2) knows what she\he is doing and looking at in the right context (for example, I had seen too many times when non-professionals tried performing ESG assurance and mistakenly mixed various kinds of metrics or did not know how what leeway is "normal" and what should be suspected as an inconsistency). And third, just like in the case of financial assurance, the results of the ESG assurance should be reported to the senior management and the board members, which in turn can make sure that any gaps are mitigated" (P35).*

This interviewee emphasised internal audit's authority and independence within the organisation play a critical role in ESG reporting assurance to mitigate significant mistakes and fraud. This interviewee also emphasised the importance of (technical expertise) professional internal auditors as assurance experts and a direct function of the board of directors.

Similar perspectives were expressed by a Russian board member in the Metals &

Mining industry, who emphasised the critical role their internal audit function plays in supporting the fulfilment of corporate regulatory requirements and the remediation of significant compliance issues“

> *"Assurance and advisory are within Internal audit remit, and they are responsible to the audit committee and the board. Our audit has a great role in fulfilling our regulatory requirements and supporting remediating major compliance issues. If I would suggest... they should:*
> - *apply the same rigour to verifying the quality of ESG reporting it maintains with respect to the financial reporting,*
> - *encourage open and regular discussions of the ESG risks and opportunities, and*
> - *monitor the ESG reporting metrics, make sure procedures and standards are in place to collect and verify ESG data" (P10).*

This interviewee also suggested that internal audit apply the same rigour to assuring the quality of ESG reporting as it does to the financial reporting, such as assurance over processes, procedures, performance metrics, and the associated risks and opportunities management.

The CFO and board member of a private equity firm based in Serbia highlighted the organisation-wide value of internal audit and its importance in assuring the reliability of the report“.

> *"The Internal audit department interacts with all departments across the company, and it audits financial as well as operational issues. The accuracy and ratings of ESG reports are usually questioned. Internal audit can help track performance and assure the reliability of the report... and competent ESG internal auditors can support the business an internal advisor to enhance the process before auditing." (P25).*

This interviewee suggested that an internal audit can assist the business advisory and assurance capacity. The advisory role can be fulfilled by collaborating with the business manager to provide insights and advice to enhance the process before auditing and monitoring ESG performance and enhancing the report’s credibility.

An entrepreneur and board member from India's Energy sector stated that a competent internal audit might be ideal for providing assurance of the ESG reporting activities unless an external audit is also required"

> *"Internal audit may be best suited to do a large part of the ESG reporting assurance, which would reduce the need for external auditors and save money, and time, and build on their knowledge to the organisation. If there is no need for an external audit, it may be best for an internal audit to do the assurance over ESG activities. But this will require those internal auditors to learn about ESG and how it affects reporting. As ESG is a new field for many auditors, there could be a high risk of greenwashing due to lack of confidence and competence, which gives more chances for bad managers to mislead auditors" (P12).*

This interviewee suggested that the involvement of internal audit has multiple benefits, including reducing external audit efforts and scope, saving money, saving time, and enhancing the organisation's knowledge. In addition, according to this interviewee, incompetent internal auditors run the risk of failing to detect greenwashing because ESG is a new field, and they lack confidence and knowledge of it.

An ESG independent consultant and a member of the board of a publicly traded company in the United Kingdom highlighted that internal audit assurance work should include procedures to improve identifying material issues in the process of getting to a good ESG reporting and decision papers to the governing body. This emphasis that Internal Audit assurance process should start before the issuance of ESG report.

> *"Assurance would enhance the confidence of the different stakeholders in the organization and enhances its legitimacy. Further, I think internal audit should work to improve identifying material issues in the process of getting to a good ESG reporting. And they should play a role for decision papers. You know, I think that too often, companies get decision papers that are like 20 pages long, and they are too complex or too vague. They achieve nothing. So, a decision paper should only be two to four pages. And it should be really specific around context, what is the decision that needs to be made? What are the competitors doing? What are the risks? And how are we going to go about implementing this? You know, what is*

the money? So, I think decision papers, and the other thing is scenario planning, is a great risk management approach. In my experience boards are not doing enough scenario planning. So, if the government suddenly puts a huge tax on aviation, what are all the leisure hotel holiday companies goanna do? You know, I think they just companies need to be much more proactive about that scenario planning and internal audit can support in this process" (P9).

This interviewee noted that the scope of internal audit work should include scenario planning as a critical risk management approach.

Internal audit plays an important role in ESG reporting assurance, according to 50% of respondents, resulting in an integrated assurance that may be most valuable to organisations.

According to the Nigerian financial services industry's Director of Strategy. Internal audit is authorised and positioned to provide assurance across the entire operation of an organisation. Furthermore, an integrated assurance approach by the different assurance providers for both financial and non-financial risks would be more beneficial"

"ESG factors should be part of [integrated into] the business, and non-financial reports give the organisation both opportunities and risks that could affect its ability to reach its goals. Making sure these reports are correct should be part of an internal audit... It is also logical for all assurance actors to have an integrated assurance approach across financial and non-financial risks. Internal audit, depending on the size of the organisation and its ESG maturity, is suited to perform ESG assurance and advisory because it has the mandate, its staff has an enterprise-wide view of risk and functional responsibilities, they have the competency and knowledge to perform assurance work, and their work is governed by professional standards, and the Audit Committee already oversees their work" (P13).

This interviewee suggested that ESG reporting creates opportunities but also poses risks for the organisation and it may hinder its ability to achieve its strategic goals; therefore, ESG reporting assurance is essential and should be implemented. The independent assurance of risk management is an integral part of the role of internal audit and falls within its professional domain of expertise. Moreover, this interviewee

emphasised that organizational size and ESG maturity determine the scope of assistance Internal Auditors can provide to their organisation.

Chief Risk Officer and Audit Committee member at telecommunication corporation in Australia, emphasised that internal audit is most familiar with the organisation, its people, processes, and systems than any other party. When activities are coordinated and integrated, there are significant time and cost saving".

> *"One important point, I see, is the quality of assurance as the audit committee and internal audit can give more insights, assurance, and comfort in making informed decisions. Internal audit knows the organisation, its people, processes, and systems more than any third party. Time and cost savings are two prominent benefits when the activities are coordinated and integrated" (P7).*

This interviewee suggested that the audit committee and internal audit can provide valuable insights and assurance to promote confidence in making informed decisions.

According to the Director of Business Improvements in the healthcare sector from UAE, argued that Internal audit efforts directed toward Integrated assurance activities would save money, minimise duplication of effort, and reduce the burden on the business managers.

> *"For more objectivity, ESG reporting assurance should include both internal and external actors... Integrated assurance efforts would save money, cut down on wasted work, and make business assurance easier, but there should be clear rules and regulations in place…" (34).*

Furthermore, this interviewee believes that for greater objectivity, ESG reporting assurance should include both internal and external assurance providers.

Board evaluation expert and a former Chief Executive Officer of a global leading chartered governance institute highlighted that internal audit work would provide comfort

and assurance to the board while reducing the scope of work for external auditors through an integrated assurance approach“

> *"Internal auditing will give the board peace of mind… yes, that's what I needed in the board room... and it would boost the organisation's credibility as well... credible reporting... would reflect a transparent and credible business. An effective and coordinated approach to assurance will reduce the amount of work that needs to be done by outside assurance providers. FRC and FCA in the UK should make a good case for why internal audit should be assigned for ESG reporting assurance, at least as the first level of assurance" (P4*).

Additionally, according to this interviewee, regulators should make a compelling case for assigning internal audits as the initial level of assurance for ESG reporting.

The Director of Engineering for the Oil & Energy Sector in Brazil emphasised that internal audit efforts should enhance the accuracy of reporting as an internal stakeholder prior to the involvement of an external reviewer“.

> *"Inaccurate ESG and non-financial reporting could put the organisation at risk of losing customers, market share, etc. The goal of an internal audit should be to improve the accuracy of reporting as an internal stakeholder before an external reviewer" (P15).*

This interviewee stated that inaccurate ESG reporting could place the organisation in jeopardy, including the possibility of losing customers and market share.

Managing Director, sustainable finance of a multinational financial holding corporation, emphasised that businesses could benefit greatly from integrating assurance activities across all assurance providers and harmonising committee activities“.

> *"The assurance of ESG reports and the engagement of internal audit depends on the firm, its size, regulatory requirements and sustainability appetite. Our bank did not assign ESG reporting to audit committees. The sustainability committee, which was formed for other reasons, monitors ESG Reporting. Perhaps assurance is the next stage, but here is where the skill gap exists since the sustainability committee is not competent to oversee financials and process controls. Bringing these committees and assurance activities together across all assurance providers would be a game-changer" (P21).*

This interviewee stated that the assurance of ESG reports, and the use of internal audits are dependent on the company's size, regulatory requirements, and sustainability appetite. Moreover, it was suggested that integrated assurance would be of great benefit to businesses because it would alleviate skill gaps, preclude duplication of efforts, and boost collaboration.

According to a Non-Executive Director and Chairperson of the Audit and Risk Committee at a global financial holding corporation, external assurance providers may be involved in addition to internal audit assurance activities over ESG reporting, depending on the organisation and its governance maturity, regulatory environment, and complexity"

> *"Internal audit is independent of management...we fully empower our internal auditors, so they are positioned to provide assurance. Internal audit should play a role in the ESG reporting process as a consultant and quality checker, and it should report its results to the audit committee. However, depending on the organisation and its governance, regulations and complexity, other external providers may be involved... this may become a mandatory requirement soon. Also, they might need some orientation or training in the ESG field to be able to effectively conduct the ESG reporting audits" (P3).*

This interviewee suggested that an internal audit should play a role in the ESG reporting process as a consultant and assurance provider, and it should report its results to the audit committee.

Global Director of Digital Insurance Products at a multinational insurance company said that coordination with external auditors would be beneficial, saving cost, having the necessary expertise, and understanding how the organisation operate".

> *"Internal Audit may be the best place to do the ESG reporting assurance by itself. It would be helpful to work with our auditors to improve our processes, save money, and dig deeper into the business and its reporting" (P23).*

This interviewee suggested that there is a compelling case for coordinating internal

audit activities with the first and second lines of management in order to streamline the business and save money.

A business owner and board member in the energy sector from India emphasised the importance of ESG reporting assurance in mitigating greenwashing and other risks. It would also be ideal for integrating assurance and having a single source of truth“.

> *"Assurance is required to ensure the quality of reported information and to avoid self-interest by management members. We all remember the financial crisis that happened, and its cause was weak general control and inaccurate reporting. So, we do not want to just repeat that under ESG reporting... it is best to integrated assurance and see one source of truth" (P12).*

According to this interviewee, boards and management should learn from previous financial and corporate crises, and those lessons could be useful in avoiding the same in ESG reporting and thus bring Integrated assurance.

According to the Management Director of Sustainable Finance of a multinational financial holding corporation, an internal audit should be a key player in the ESG reporting assurance process, as well as the starting point for coordination with internal and external assurance provider“.

> *"Non-financial data are not subject to the same level of scrutiny as financial data. The sources, reliability and accuracy of data should pass basic data integrity tests and other relevant assurance work such as risk assessment, controls testing, and coordination with internal and external assurance parties. I think internal audit should be a key player in this assurance process" (P21).*

This interviewee suggested that ESG data be scrutinised in the same way that financial data is it should pass data integrity tests and other relevant assurance activities.

In contrast, two participants indicated that ESG reports could not be audited effectively unless the internal auditor is skilled in sustainability. Consequently, the audit

committee should engage consultants for assistance.

ESG assurance director at one of the "Big Four" audit firms indicated that unless the internal audit is skilled in environmental sustainability, they will be unable to effectively audit ESG reports. As a result, the audit committees engage consultants to assist them with the ESG assurance activities“:

> *"Unless the internal audit is an expert in environmental sustainability, it is unlikely that they will be able to audit ESG reports effectively. So, the audit committees appoint consultants to assist them. (P38).*

This interviewee believes that internal audit may lack expertise in environmental sustainability; therefore, it is unlikely that they will be able to audit ESG reports in an efficient manner. Therefore, audit committees hire consultants to assist them with ESG assurance work.

A Director at one of the "Big Four" audit firms suggested that ESG is a specialised field, so internal audit would not be able to do an ESG assurance process if they did not have the right professional background. They should get help from outsiders and learn more about ESG by hiring consultant“.

> *"ESG is a specialised field, Internal audit would typically be unable to complete an ESG assurance process if they lacked the necessary professional background... They should hire outside consultants to help them to join the audit and or learn more about ”SG" (P40).*

This interviewee suggests that internal audit may not have enough expertise in sustainability practices. Therefore, they should seek the assistance of external consultants.

4.3.3 Theme three: Greenwashing is a real phenomenon, and ESG reporting must be assured to gain credibility and trust

The third theme that emerged from the data analysis is reflected in four patterns: (a) Greenwashing is a real phenomenon, (b) Greenwashing is a fraud, (c) Assurance of ESG reports is essential, (d) ESG reporting should be mandatory and more comprehensive to include reasonable assurance rather than just limited assurance. Greenwashing is the practice of businesses masking their negative actions by promoting their positive ones (Gregory, 2021). Greenwashing is real and it is a fraudulent act that must be stopped. It can have a harmful effect on the environment and businesses, whether intentional or unintentional. Greenwashing has environmental, societal, and economic consequences, including misleading investors and people into unsustainable behaviour, which harms a company's image. As a result, mitigating greenwashing is critical. Greenwashing is happening and practised by an overwhelming majority of businesses, according to 98% (46 of 47) of the interviewees.

An interviewee, a board member of a UK public listed corporation and ESG independent consultant, cited a publication by the marketing society in the UK, stating that 80 per cent of companies reported on their ESG activities, particularly on the environmental aspects primarily engaged in greenwashing. The interviewee also stated that the most of the ESG reports contained mostly words and little to no real ESG activities.

> *"According to the marketing society in the UK, 80% of companies that reported on their ESG activities, in particular on the environmental aspects, were primarily greenwashing… Yes, it was just words.... Also, the big complaint was that there were lots of overstatements and the use of green credentials in a sort of a marketing way. And when auditors reviewed the annual reports, very few organisations were able to provide evidence of what they had actually done and its impact. It is crucial to provide assurance in order to counteract these unsubstantiated claims" (P9).*

Moreover, according to this interviewee, some greenwashing cases were uncovered through auditing, and auditors play a crucial role in uncovering and combating fraud and greenwashing.

Private equity and venture capital executive in Croatia has stated that there is a trend toward "greenwashing" In addition, the interviewee made a connection between greenwashing and money laundering in the financial services and private equity industries“

> *"Greenwashing is happening…let me relate that to the anti-money laundering acts, that I am most familiar with, which prevent suspicious funding and easily accessible financial information for data-relevant loopholes in the financial ecosystem. Similarly, the outputs from the intermediation processes between the finance and marketing activity without a form of assurance create enormous potential for greenwashing. In the connotation of the private equity and venture capital industry in Croatia, to avoid the process of greenwashing, there is a substantial need for deliverables and ESG reports to be assured. In that way, the organisation will have done its share to earn the trust of its stakeholders and protect its reputation and retain its legitimacy to exist. In short, transparency breeds trust, and trust in turn breeds accountability" (P33).*

According to the interviewee, in order to avoid corporate greenwashing, ESG reports, and other public reports must be assured, and by doing so, businesses would have done their part to earn the trust of their stakeholders.

An entrepreneur and board member in the energy sector from India expressed similar views, stating that greenwashing is a significant challenge for the energy industry and poses a significant threat to its long-term viability and sustainability. They went on to say that more than 70% of ESG reports are greenwashed.

> *"Greenwashing is a significant challenge for the industry and a significant threat to the ESG factors. I estimate that more than 70% of environmental, social, and governance (ESG) reports are greenwashed. You may cite me on that" (P12).*

This viewpoint, as well as the cited percentage of greenwashing, was shared by a

board member of a UK public listed corporation and an ESG independent consultant (P9), who cited a publication by the Marketing Society in the United Kingdom, which stated that 80 per cent of companies that reported on their ESG activities, particularly on the environmental aspects, were primarily engaged in greenwashing.

A Chief Audit Executive from Utah's Healthcare and Public Sector suggested that greenwashing is closely linked to marketing. When the ESG is prepared, owned, and published by the marketing department, it is not always accurate because they will not dig for data but will instead identify trends or appropriate market activity. As a result, there is a need for assurance.

> *"In general, the marketing department owns and publishes the ESG report; hence Greenwashing is associated. Usually, they will not dig for data but will identify trends or appropriate market activity. Thus, assurance is required. For example, collecting what's departments might be doing to promote to the public…In the State of Utah, the green agenda is seen as a political distraction, so there is no pressure to greenwash. Environmental issues are addressed only when practical details are available—clean water, who gets the water, cities or towns, factory emissions… etc." (P17).*

The interviewer suggested that environmental issues would be addressed once basic needs and practical details were readily accessible. It was also stated that the green agenda would be viewed and used for political purposes in Utah, the USA.

A former partner of a Big Four accounting firm and a sustainability subject matter specialist in the financial services from the United Kingdom said that greenwashing had been an issue for at least 15 years; it is not a recent occurrence, and that independent report assurance is an effective approach for combatting such claim".

> *"Greenwashing has been an issue for at least 15 years; it is not a recent phenomenon." I appointed PwC in 2004 to provide external ESG report assurance for the [Bank] group environment and CSR reports due to stakeholders claims "f "greenwashing" in our initial 2003 report. Consequently, external report*

assurance is an effective method for combating such claims. Additionally, assurance of ESG reports is voluntary; hence the current verification process to mitigate inaccurate reporting is less formal than full or reasonable assurance process" (P18).

This interviewee emphasised the reality of greenwashing and the fact that stakeholders are paying close attention to the practice, as well as the fact that they sometimes demand auditing ESG reports. However, the assurance of ESG reports is not mandatory; rather, it is a voluntary decision. As a result, the nature of the current assurance practice is limited when compared to the reasonable assurance. The procedures and scope of reasonable assurance are significantly more extensive than those of limited assurance.

Board members and Corporate Governance specialist in the Public Sector of the Kingdom of Saudi Arabia emphasised that greenwashing is occurring and may threaten the viability of businesses. Businesses engage in greenwashing to mislead investors and increase their desire to invest in their company.

"Greenwashing is a reality. I cannot speak for a specific organisation, and the organisations I represent are not reporting on ESG, but many organisations are greenwashing because they want to stimulate investors' appetite for to invest on their on a company, which is not sustainable for both the environment and for businesses." (28).

The interviewee also showed that their organisation does not report on ESG, indicating the immaturity of the ESG agenda in the Middle East region at this time.

A board member for two publicly traded companies in the EU and the United Kingdom drew attention to the fact that greenwashing occurs and is acknowledged by the European Commission, which has issued a guideline and regulations to combat it.

"[]…To help fight greenwashing, the European Union issued the "EU taxonomy," to set science-based standards for classify what constitutes sustainable economic activity and to make it easier to enforce the European Green Deal... This may be more of a funding assurance activity than a reporting assurance activity. Yet, ESG

reporting assurance should help mitigating the real issue of greenwashing (P1).

The interview emphasised that ESG reporting assurance combined with regulations and governing guidelines are effective mechanisms to combat the real issue of greenwashing.

The Internal Audit Manager at a global non-governmental organisation said that greenwashing is real. The board is accountable for ESG strategy, and the audit committee is responsible for risk management and assurance, e.g., mitigating greenwashing risk and assuring ESG reporting".

> *"Greenwashing occurs more than we would imagine. The board should bear full responsibility for ESG strategy, and the audit committee should be responsible for mitigating greenwashing risk by assuring sustainability or ESG reporting and managing the associated risks... As a global non-governmental organisation, we promote good corporate governance principles, such as transparency, integrity, and accountability. And work with governments and large organisations around the world to make them happen… our priority is long-term development rather than short-term gains…" (P6).*

The interviewee stressed the importance of good corporate governance principles that businesses should adhere to in order to be more effective. Those principles, include transparency, integrity, and accountability. Similarly, the interviewee emphasised that businesses should prioritise long-term growth over short-term profits.

ESG Director of an international consulting firm emphasised that greenwashing is fraudulent and must be stopped. In this regard, ESG reporting assurance can play a crucial role. In addition, ESG reporting assurance can enhance a company's "social licence to operate" by enhancing confidence in its ESG activities and publications.

> *"Most of my clients are engaging with public relations "PR" agencies to mitigate the Greenwashing risk (instead of just making sure they are not greenwashing… Sad, I know, that is terrible but that is how it works. Making sure the ESG data is correct is ok, but when a media crisis occurs, they only depend on the PR storytelling and not the data itself. ESG reporting assurance can significantly support and improve a company's "social licence to operate" because it provides*

> *greater confidence in its ESG activities and reporting. It should support the prevention of greenwashing fraud. Based on the audit procedures, any statement in the report that is not supported by verifiable data must be eliminated" (P35).*

This interviewee, as a subject matter expert of ESG reporting assurance, suggested that assurance or audit procedures should be stricter i.e., reasonable assurance, as opposed to only providing limited assurance in nature and scope, as is the common procedure at present. These views are also in accordance with those of the participants 'P18'.

ESG Assurance Director at one of the Big Four firms emphasised and clarified the purpose of ESG assurance as well as its benefits, which range from mitigating greenwashing tendencies to fostering confidence in organisations, improved governance, accurate and trustworthy reporting, and more.

> *"The purpose of ESG assurance is to instil confidence. In principle, all externally reported information must be accurate and trustworthy. Obtaining assurance has numerous advantages for the organisation and stakeholders notably mitigating greenwashing tendencies. It also improves the reliability of the reported information, challenges the organisation, and encourages the implementation of more robust processes and better governance… ESG assurance will be mandated soon. The European Commission's recently published corporate sustainability reporting (CSRD) directive asks for a mandatory audit of the ESG Reports, starting in 2023, to ensure reliability and accuracy as the investors make decisions based on the reports. This requirement for auditing ESG reports is driven by the public and investors based on consultation and a survey by the European Commission during the development of the CSRD" (P39).*

This interviewee brought up the recent change that the European Commission made regarding the requirement of ESG assurance. In particular, the newly published directive on the reporting of sustainability initiatives by corporations. This shift is in line with the findings of the research and the opinions expressed by participants, who believe that mandatory requirements for reporting and assurance can reduce instances of greenwashing and ensure that sustainability goals are accomplished.

The chairperson and a majority owner of a publicly traded Egyptian transportation and logistics holding company provided a unique perspective on greenwashing. The interviewee ruled out the possibility of Greenwashing in their organisation and on the Egyptian market. Justified as a result of the robust corporate governance and business ethics: strict code of ethics, compliance, and imitation of best practices.

> *"Greenwashing is neither a part of our language nor our culture. Our Group discloses adverse incidents prior to favourable ones. Everyone adheres to and abides by our strict code of ethics. We all agree that transparency is one of the pillars of our corporate governance. Since 2006, while the principles were still voluntary and not necessary, our Group has used corporate governance standards; we did so because we believed in what we were doing, not because we were required to" (P11).*

This interviewee extended an invitation to the corporate director to participate in our research discussion so that both parties could share their respective experiences and knowledge. The corporate director has also extended the meeting for a second one-on-one in order to provide more in-depth insights. These perspectives were completely consistent with the perspectives of the chairperson, which indicated a high level of transparency and consistency.

A board evaluation professional and the former Chief executive officer of a global leading chartered governance institute underlined that corporate greenwashing could be prevented when the board and its committees, especially the audit committee for risk management and auditors exercise effective oversight and control".

> *"Greenwashing at the organisational level is more likely to be prevented when the board and its committees, especially the audit committee for risk management, and auditors (internal and external) exercise effective oversight. Further, transferring the responsibility for ESG Reporting or Integrated Reporting from the marketing department to the CFO greatly reduces greenwashing. This makes the CFO accountable for ESG reporting to the board (P4).*

This interviewee brought up a recommendation for transferring the responsibility for ESG Reporting and Integrated Reporting from the marketing department to the CFO. It was argued that this measure would significantly reduce greenwashing. This makes the CFO responsible for reporting on ESG matters to the board.

4.3.4 Theme four: Governance of ESG reporting is inadequately defined, limiting effective assurance

The fourth theme that emerged from the data analysis is reflected in two patterns: (a) the current state of ESG reporting standards is fragmented and underdeveloped, (b) inadequate governance of ESG is a major barrier to the effectiveness of ESG assurance. This study found that there are a number of different ESG reporting standards, each with its own strengths and weaknesses. The study also found that there is no clear reporting governance and is voluntary in many jurisdictions, and there is a need for greater consistency and governance in ESG reporting. ESG reporting may involve both qualitative and quantitative analyses (Tamimi and Sebastianelli, 2017). Aspects of qualitative discourse include workforce diversity, pay equity, employee working conditions, health, safety, and well-being. In comparison, quantitative measures may include assessments of a company's performance in relation to ESG risks, opportunities, and related strategies. Users of ESG reports, including investors and society, are typically looking for transparency in ESG initiatives and expect high-quality, accurate, reliable, and comparable reporting (Tang and Higgins, 2022). The assurance of ESG reporting is meant to assist with these aims. Effective reporting assurance, on the other hand, involves consistent and comparable criteria.

The Chief Financial Officer of a multinational logistics and maritime services company claimed that there are several ESG reporting standards, and it might seem like an alphabet soup of guidelines and standards. Because of the voluntary and opaque governance around reporting, organisations have been able to serve their own interests by cherry-picking data and assurance services to report.

> *"When it comes to ESG reporting, I feel like I am drowning in an alphabet soup of frameworks and standards…. Several reporting standards, such as GRI, SASB, CDP and TCFD, just to name a few. Voluntary and unclear governance*

surrounding reporting created opportunities for organisations to be self-serving and cherry-pick reporting items and assurance services. There are now mature processes and tools for financial reporting; there should be education regarding ESG reporting and consistent reporting standards. In addition, the board should ensure that tools and enablers exist to assist management in achieving agreed-upon objectives" (P8).

This interviewee brought up another important point, which is that there are already developed procedures and instruments for financial reporting. Similar efforts should be carried out in relation to the reporting and assurance of ESG.

Chief Risk Officer and Audit committee member at a telecommunication corporation in Australia brought up an important point that it would be difficult to define "greenwashing" while "net zero" goals are long term i.e., decades from now. As these goals are by their very nature long-term, they should be supported by a credible, well supported and attainable plan that includes phases and performance targets. Therefore, reporting should also detail progress toward these goals.

"Governance around ESG and its reporting are not well defined, and it is hard to say what "greenwashing" is because there "net zero" goals are for 30, 40 years from now. If we had goals for tomorrow and a clear list of things to do, it would be easy. So, I think that what's inside the reports is more important than how they look. This includes the purpose of the reports, what's in the reports, and whether or not 'we've thought of the problems and taken steps to stop greenwashing. These ideals can be reinforced by effective assurance" (P7).

This interviewee brought up another key point, which is the purpose of the ESG reports, as well as their contents and the actions associated with them, rather than the marketing and appearance of the reports.

Managing Director, sustainable finance of a multinational financial holding corporation, stated that establishing a baseline for ESG reporting standards and providing assurance would help contribute to building confidence in the process as well as the organisation. This point demonstrates how important it is to have consistent ESG reporting

standards in order to streamline processes and reduce efforts and costs, all of which could be put toward the support of the creation of long-term value“.

> *"Creating a baseline ESG reporting standards and assurance would assist in developing confidence, freeing a generous pool of capital available to support enterprises focused on long-term value creation. This, in turn, might encourage a real green recovery from COVID-19" (P21).*

This interviewee went on to demonstrate the effect that consistent and well-governed ESG reporting standards and assurance could have in achieving a genuine, environmentally friendly recovery from COVID-19.

A board member of a public listed corporation in the UK, audit committee chairperson and a former partner at a Big Four accounting firm stressed the importance of a consistent and globally accepted ESG reporting framework. Mandates from the government would be the driving force behind developing such a consistent and widely accepted ESG reporting framework“.

> *"...In my opinion, what gets measured gets done. The only way is that the carrot does not work, leaving only the stick. Regulators play an important role in achieving ESG and net-zero goals, and they should mandate a consistent and globally accepted standards framework" (P2).*

Throughout our interview, this interviewee reiterated the phrase "what gets measured gets done," emphasising the significance of monitoring matrices and well-governed ESG reporting assurance to achieve its desired goals.

A board member of two premium-listed UK companies and a previous audit committee chairperson, they emphasised the importance of mandatory and consistent ESG reporting as an essential component of better corporate governance, which increases the accountability of boards of directors and executives while also providing a competitive advantage.

"… switching from voluntary to required disclosures is a must, not only to improve competition among peers in the race to the top but also to make boards and executives more accountable… what every business wants most of all, more loyal customers and engaged employees. Reliable reporting is essential as society and employees' pressures are rising; I noticed the employees shift and focus on ESG for self-fulfilment and their image in front of their families. Businesses that greenwashing are vulnerable and would be at a high exposure to fail" (P1).

This interviewee is an experienced professional in corporate governance who was also a member of an international committee that developed a leading code of corporate governance. This interviewee had a wealth of experience and knowledge to draw from, and they discussed the foundations of a well-governed process and its potential outcome. Some of these outcomes include enhancing the organization's legitimacy, better risk management, and increased levels of competitiveness. It was suggested that assurance would increase the trustworthiness of reporting, and that reliable reporting is essential given the increasing pressures on businesses from multiple stakeholders.

Similar perspectives from board evaluation professional and the former chief executive officer of a global leading chartered governance institute underlined the current state of ESG reporting practices and the requirements for assurance.

"I 'don't think ESG reporting assurance is effective or mature right now because ESG reporting standards and the requirements for assurance are not well governed" (P4).

This interviewee is of the opinion that the current state of ESG reporting assurance is ineffective and immature due to the absence of clearly defined governance supporting it.

A board member and owner of a diversified business from Japan stated that are some mandatory sustainability reporting requirements for large organisations in Japan.

Despite this, the interview suggests that the landscape for ESG reporting, and assurance is still hazy due to the alphabet soup of international ESG reporting standards.

> *"There are some mandatory sustainability reporting requirements for large organisations in Japan. However, my company does not fall under this category, so we are exempt from these regulations. Even though ESG practices are becoming more common, the alphabet soup of ESG reporting standards—including GRI, SASB, CDSB, IIRC, and TCFD—makes it more difficult to compare and benchmark reports for decision-making purposes. Because of this, it was difficult to understand what was going on, which scared people who simply wanted to share their ESG story" (P43).*

This interviewee also reveals that the presence of various ESG reporting standards has made it challenging for businesses and their respective reporting and assurance professionals to fully understand the ESG landscape and communicate their ESG story.

A board member of a public listed corporation in the UK, an audit committee chairperson and a former partner at a Big Four accounting firm highlighted a critical point because the information is not assured, the organisation does not report on ESG activities, and they would not invest in ESG reporting assurance because they are not subject to mandatory requirements.

> *"We [board's decision] do not report because the information is not assured, and we do not invest in assurance because it is not mandatory. In order for ESG reporting to be meaningful and improve decision-making, reporting and assurance must evolve from a voluntary practice to a mandate. This is vital to provide more comparability and openness, ensuring the same degree of consistency and rigour is given to those disclosures similar to the financial reporting" (P2).*

This interviewee also reveals that more comparability and transparency are needed, as well as ensuring the same level of governance and rigour is applied to ESG reporting and disclosures similar to financial reporting.

The Director of Finance for a Canadian investment firm demonstrates that the ESG reporting landscape in Canada is evolving and that assurance of ESG reports remains

voluntary.

> "*The regulatory landscape related to ESG in Canada is evolving. Assurance of ESG reports is voluntary; hence all current verification process is less formal from reasonable assurance" (P19).*

This interviewee reveals as well that the level of assurance on ESG reports is limited and less formal than reasonable assurance. Globally, reasonable assurance is the standard level of assurance for financial statements.

Business owner of Trade technology corporation and sustainability subject matter expert and trainer at the Cambridge Institute for Sustainability shared unique perspectives. This interview claims that the standardisation of ESG reporting could be a source of risks such as possible error misconduct or greenwashing because it reduces the opportunity to communicate nuances and complexities.

> "*Standardisation of ESG reporting is helpful for efficient communication, but it might also be a source of risks, such as possible error, misconduct, or greenwashing because it reduces the scope to communicate nuance and complexity. This is a bigger problem for ESG than standard financial reporting assurance" (P20).*

This interviewee brought up the point that the ESG reporting data set is significantly more complicated than the financial reporting data set.

4.3.5 Theme five: The majority of boards lack ESG expertise and may underestimate the importance of ESG assurance

The fifth theme that emerged from the data analysis comprises two main patterns: (a) Boards have insufficient knowledge and expertise, (b) Educating boards on ESG is crucial for effective governance. Ninety-eight percent of those who were interviewed believed that boards need training and development in order to keep up with the continuously evolving requirements of ESG, ESG reporting, and ESG assurance. A board member of a public listed corporation in the UK, an audit committee chairperson and a former partner at a Big Four accounting firm shared similar perspectives, arguing that the board lacks a thorough understanding of the ESG *topics* and the significance of ESG reporting assurance“

> *"The board does not truly understand ESG topics; therefore, I question whether the significance of ESG reporting assurance is fully understood by most of the boards... Boards are now (after COVID19) paying more attention to ESG. Several years ago, when I first brought up ESG issues in the boardroom, I was met with laughter… And it seemed like one of those things that would never happen, but ESG is evidently happening now" (P31).*

The interviewee shared a first-hand story from the boardroom to demonstrate the board's knowledge and understanding of the topic and to demonstrate that COVID19 increased attention to ESG highlighting the training for board.

ESG reporting assurance director of a Belgium-based Big Four accounting firm suggested that many boards require training and development in order to keep up with the constantly evolving requirements of the ESG landscape. Effective and knowledgeable boards view ESG-related issues as business necessities, according to the interviewee's experience. These boards capitalise on opportunities and mitigate risks to position the organisation for long-term success and create value for all of its stakeholders.

"ESG issues are business imperatives for effective and leading boards. They manage risks and take advantage of opportunities, like telling their story and explaining their long-term strategy, to set the organisation up for long-term success and provide value for stakeholders. Laggards, on the other hand, aren't interested in the topic in general or still see ESG as a way to check a box for doing good or philanthropic projects... Most boards are laggards, yes, sad… In this evolving and technical landscape of ESG' I've seen that many boards need training, advice, and support from ESG experts" (P39).

In contrast, this interviewee suggested that ineffective or incompetent boards continue to perceive ESG as a method to tick a box for doing good or philanthropic initiatives.

An ESG independent consultant and a member of the board of a publicly traded company in the United Kingdom emphasised that most boards are completely unprepared to deal with ESG due to its complexity and their underestimation of inaccurate reporting"

"Most boards are entirely ill-equipped to deal with ESG, I think it reflects the fact that companies really do not know what to do, because it is so complicated. They're trying to get some clarity. So, they, you know, they're going into all different areas. And I guess my response to that would be overly cautious about thinking that you could do it for yourself, and perhaps go to an external consultant like [firm…] if 'we're serious about this, it will be quite an uncomfortable experience because they are going to hold up a mirror to you. ... So, the danger is when all these committees and executives is that you might just be sort of wasting an awful lot of time, labour, and money. Whereas perhaps going on to an expert like [firm…] and actually getting them to help you in…And I think for some organizations, it might be hard. 'It's like when you write your own CV, 'it's hard to be objective"… " (P9).

In addition, the interviewee suggested that serious boards engage an experienced external consultant to fill the gap in ESG expertise and to boost objectivity.

A board member of two public listed companies in the EU and the UK underlined the significance of assuring ESG reporting and that it would increase the stakeholders' trust in the organisation. Similarly, the interviewee added that assuring the ESG report would show the public that the organisation is "living in accordance with its

mission, strategy, and desired social legitimacy." Nonetheless, several boards have just started their ESG journey with limited knowledge of the subject, and they will need to learn more about it and place greater emphasis on ESG-related topics in the future.

> *"The ESG reporting assurance would increase the stakeholders" confidence in the organisation. It would indicate to the public that the organisation is "living in accordance with its purpose, strategy, and intended social legitimacy… [] Many boards may be new to or at the start of their ESG journey, and they must now increase their focus on ESG" (P1).*

The interviewee emphasised the significance of corporate purpose, strategy, and social legitimacy in the discussion about the board and ESG reporting. Furthermore, it was stated that assured ESG reporting improves and demonstrates these critical corporate governance pillars.

A board member of a public listed corporation in the UK and audit committee chairperson stated the ESG report goes directly to the board of directors, which oversees it. Though, the interviewee emphasised that the board lacks sufficient ESG-related expertise and knowledge.

> *"There is no separate committee of the board for ESG, but the ESG report comes straight to the board, and it oversees it… I agree with Paul Polman when he says, "there's no way around the fact that most directors and executives have laughable ESG qualifications right now, and mandatory reporting requirements would be the stick to make boards and executives better and more accountable" (P3).*

The interviewee highlighted the importance of mandatory ESG reporting requirements as the impetus for the board to become more effective and accountable.

Chief Audit Executive and Audit committee members in the FMCG (Fast Moving Consumer Goods) and Technology sectors of the Kingdom of Saudi Arabia emphasised that ESG is not on the agenda of the board. Certain board members discuss it, but not in a systematic manner.

"The topic of ESG is not on the board's agenda. Some board members discuss certain aspects of it, but not in a systematic way. Internal Audit should play a role, as a trusted advisor, in educating the board of directors on ESG related risks and opportunities and the significance of reporting assurance" (P14).

The interviewee brought up the point that ESG is not on the agenda of the board because of their lack of knowledge in the subject, and that Internal Audit should educate the board of directors on the importance of reporting assurance as well as ESG-related risks and opportunities.

Similar perspectives from a board member, a board evaluation professional, and a former CEO of a global leading chartered governance institute revealed that some board members discuss ESG-related information in the boardroom, particularly in relation to environmental issues, in response to pressure from external stakeholder".

"... some board members talk about ESG, especially environmental issues, in the boardroom because of pressure coming from external stakeholders... I 'don't think boards are driving ESG or ESG reporting assurance right now. Boards 'don't know enough about ESG, so they need support" (P4).

The interviewee reinforced the point with direct experience that the board requires training and assistance in ESG related topics due to their lack of knowledge of ESG subjects. This interviewee's statement was based on their professional evaluation as a board evaluation specialist and their observation of multiple boardrooms.

The Director of Strategy for a pharmaceutical company in the European Union pointed out that the ESG landscape is changing and that boards of directors should get regular training on it to stay up to date.

"The ESG landscape is evolving, and boards of directors should receive regular training on it in order to stay current" (P22).

The interviewee reiterated the need for training and assisting the board on ESG-

related matters.

ESG directors of an international consulting firm revealed their observations to several boardrooms and shared their findings with numerous boardrooms, emphasising that while the ESG environment is quickly expanding, boards of directors are still inexperienced with the implications and ramifications of this evolution.

> *"The ESG landscape is rapidly increasing, and many boards are still unfamiliar with the implications and ramifications of this development… Businesses may want new and diverse board members with ESG capabilities" (P37).*

The interviewee stated once again the need to provide the board with training and assistance on ESG-related matters and bring in new, diverse and ESG competent board members with ESG capabilities.

ESG Director of a Big Four accounting firm based out of the Middle East stated that ESG is a quickly evolving landscape, and several boards are still unfamiliar with its various components or reporting standards.

> *"While Boards begin to understand the importance of ESG activities and reporting, most of them still lack understanding in the field and therefore cannot properly oversee the management's performance in this field. The Board would typically use their internal audit as its "eyes on the ground" to guarantee of their ESG reporting. This would usually be managed by an external expert(s), such as Big Four audit firms, who would conduct the assurance process on behalf of the IA on all relevant locations of the company" (P35).*

The interviewee reaffirmed the importance of providing the board with ESG-related training and assistance in order to close the current skill or knowledge gap.

4.4 Discussion

This section discusses the results that were presented in the first section of this chapter. This study found out that greenwashing poses risks to the environment, society, and the economy, as well as severe consequences to businesses. These risks and consequences include misleading investors and consumers into engaging in investments and behaviour that is not sustainable. This can be detrimental to a company's reputation and puts its social and legal licences to operate in jeopardy. Also, ESG reports became investment decision critical however, usually voluntary, lack generally accepted standards and are prone to interpretation and greenwashing tendencies that may threaten the organisation's legitimacy. Internal audits play a critical role in this process by improving the reliability of ESG information. However, the lack of a clearly defined role set, and useful information could make it tricky for the audit committee and the board to properly govern an organisation. As a result, this study aimed to increase awareness of how the audit committee and internal audit can assist the governing body in assuring ESG reporting and mitigating greenwashing.

Discussions are presented and organised into the five identified themes from the first section of this chapter. These themes are:

- Theme one: Audit committees should play an active and essential role in the assurance of ESG reporting, but they should receive training on ESG.
- Theme two: Internal audit can play a crucial role in ESG reporting assurance, leading to integrated assurance that may be most valuable to the business
- Theme three: Greenwashing risk is real, and ESG reporting should be assured to build credibility and gain trust
- Theme four: Governance of ESG reporting is inadequately defined, limiting effective assurance

- Theme five: Most boards currently lack ESG expertise and may underestimate the significance of ESG assurance

These themes will be analysed and correlated to the components of the neo-institutional theory and literature. The neo-institutional theory was found to be applicable to the context of ESG reporting assurance because it examines the relationship between organisations and their environment beyond the organisational boundary. Prior neo-institutional research has demonstrated that assurance and audit professionals are active participants in the institutionalisation process. Some researchers (Smith, Haniffa, and Fairbrass, 2011; Adams and Larrinaga-Gonzalez, 2007) believe that neo-institutional theory could be an effective tool for examining the processes of managerial capture and greenwashing.

The research question for this study was, 'How do the audit committee and internal audit assist the governing body in mitigating greenwashing by assuring ESG reporting'? In order to provide an answer this research question, the researcher carried out semi-structured interviews with 47 global executive managers, board members, audit committee members, internal auditors, external ESG assurance providers, as explained in chapter 1 and 3, and listed in Table 3-2 for a summary of collected data and how it benefited the analysis. The data collected for these interviews were analysed using reflexive thematic analysis. This chapter will conclude with a summary of the study findings and the discussions.

4.4.1 Audit Committees should play an active and essential role in the assurance of sustainability reporting, but they should also receive training on ESG

As described in the prior literature, the audit committee consists of independent directors in order to strengthen the independence, integrity, and effectiveness of corporate governance by providing independent oversight of internal and external audit work plans and results, assessing audit resource and qualification needs, and mediating the auditors' relationship with the organisation. The audit committee is one of the three mandatory standing committees established by global corporate governance codes, including the 'UK code of corporate governance 2018' "UK code of governance, 2018" issued by the Financial Reporting Council "FRC". The UK code of governance, (FRC, 2018, p. 8) stated that "The board and its committees should possess a combination of skills, experience, and expertise.… to effectively achieve objectives".

This theme has three patterns: a) the current state of involvement of the audit committees in ESG reporting assurance, b) the role the audit committees should play and c) the needed skills and knowledge to fulfil this role.

The current level of audit committee involvement in ESG reporting assurance

This study found that the current state of audit committee involvement in ESG reporting assurance is limited i.e., 16% of the companies participated, engage their audit committee in the ESG reporting process.

Table 4- 3: Summary analysis of interviewee responses

	Description	Number	%
1	Number of companies that issue ESG report	18	45% of participated companies (excluding the 7 participating audit firms)
2	Number of companies that submit ESG report to Audit Committee	3	16% of companies issuing ESG report.

All interviewees underlined what audit committees should be doing, and it was noted that only three interviewees said that their audit committee are currently engaged in the process of ESG reporting assurance. All interviewees emphasised that the audit committee is typically, and should be, responsible for the financial and non-financial reporting assurance process.

Moreover, 85% (the 34 out of the 40) of the interviewees (participated executives and board members, not including the 7 participants from consulting firms) stated that their organisations are not yet required by their respective regulators to provide ESG reporting assurance and that ESG reporting assurance is not on the audit committee's agenda. This practice is aligned with the importance of the coercive pressures (DiMaggio & Powell, 1991b; Scott, 2001) to influence institutions adopt desired behaviours and actions. An overall four interviewees stated that the ESG report is on the board agenda, after being submitted by an ESG management committee (or management working group) or the audit committee. This may be justified that currently, only a few global capital market authorities such as FCA in the UK (a coercive influence) require only large-listed corporations to disclose or report on some of their ESG-related information. Examples from the interviews included the UK, the EU, and Egypt.

The interviewees attributed the fact that many boards do not currently include ESG reporting assurance on their agendas due to the absence of regulatory requirements (i.e., coercive pressures) for ESG reporting assurance in the majority of jurisdictions. This

practice underlines the importance of the coercive pressures to influence institutions adopt desired behaviours and actions (DiMaggio & Powell, 1991b; Scott, 2014). Nonetheless, some interviewees expressed the opinion that assurance of ESG reporting is beginning to attract more attention than it ever has before, and that this is becoming an opportunity to increase the creditability of ESG reporting regardless of whether or not regulatory requirements are present. Some board and audit committee members address some aspects of ESG reporting controls and assurance, although they may not do so in a systematic manner.

Furthermore, some interviewees stated that regulatory requirements (i.e., coercive pressures) are being developed that will increase audit committee responsibility and role in ESG reporting assurance. For example, (P1) stated that

"*in the UK & the EU are in the making of relevant regulations for overall internal controls and ESG reporting assurance to avoid greenwashing and attract investments. ..[]*".

These perspectives on the current level of audit committee involvement in ESG reporting assurance are higher than, but both show low level of engagement, a recent study by Deloitte, (2022), refer to Figure 4-4, suggested that only 1% of the audit committees of S&P 500 companies oversee ESG reporting assurance. This research by Deloitte also demonstrates that there is currently a great deal of variation in board oversight of ESG; some companies have delegated oversight responsibility for ESG-related reporting and assurance to the nominating and governance committee, while others have established a formal ESG/Sustainability committee, and many have the full board in charge. In addition, according to Deloitte, 28 percent of S&P 500 businesses still do not disclose how the board has structured the governance structure, despite the growing interest of stakeholders and the greater accountability for board oversight of ESG.

Figure 4- 4: Summary of the Deloitte study on ESG oversight

Source: Deloitte's study, 2022

The role that audit committees should play

Audit committees are typically tasked with helping to manage financial reporting, audit processes, internal controls, compliance and ethics programmes, and external and internal auditing. All interviewees concurred that, similar to the financial reporting assurance process, the audit committee is well placed to provide assurance to the board and should assist the board in overseeing and being responsible for the ESG reporting assurance. These viewpoints support the integrated assurance approach. For example, (P7) emphasised the importance of the audit committee closely examining the ESG reporting and assurance process by effectively overseeing and challenging the risk function, external auditors, and internal audit function. These views are aligned with the normative pressures Powell and DiMaggio (2019) and Scott (2014) demonstrated by the institutional actors adapting to change and adopting initiatives and new practice which 'conforms with normative expectations' (Contrafatto, 2014, p. 4).

Nonetheless, two interviewees (P3 and P4) emphasised that the audit committee's agenda is already packed with crucial items, and that adding more responsibilities and

items to the audit committee's agenda could reduce the committee's effectiveness or divert its attention from its most important responsibilities. It was also noted that the responsibilities of the committees would vary depending on the organization's size. According to (P4), "Large organisations, for instance, should have a separate sustainability committee because the audit committee's agenda is packed with other crucial matters. Adding to the audit committee's agenda may have an impact on its effectiveness or dilute its focus away from its core critical activities. Mid-sized organisations can combine roles with audit committees to provide confidence to the board about the integrity and reliability of reporting."

ESG encompasses numerous components, including ESG strategy, ESG-related risk, and opportunity, as well as ESG disclosures and reporting. The board is ultimately accountable to shareholders and other stakeholders for the organization's performance and impact on the economy, society, and environment. This demonstrates that the board has a vital role to play. However, ESG is a broad subject, and the board should consider delegating several aspects of oversight to its standing committees, including the audit committee. A recent paper "How to Identify Top ESG Priorities, 2022" by the Harvard Law School Forum on Corporate Governance suggested the board and its standing committees as stewards of long-term corporate performance play an essential role in mitigating ESG related risks, and it is not a best practice, but a fulfilment of the directors' fiduciary duty, which includes "duty of care". It also suggested a board committee structure for ESG oversight, with examples such as an audit committee focusing on ESG-related material financial risks, a compensation committee best suited to oversee employee issues such as diversity and inclusion, and pay equity, and a Nominating and Governance committee best suited to ensure directors with appropriate ESG expertise serve in these committee roles.

Boards can best orchestrate ESG oversight by amending the charters of one or more board committees to include formal responsibilities related to ESG reporting assurance (i.e., regulative-normative institutional element, according to (Contrafatto, 2014)). For continued accountability and transparency, the contents of a governing charter are crucial for an effective committee.

Since the Sarbanes-Oxley Act (SOX) a coercive pressure according to DiMaggio and Powell (1983) and Scott (2014) was enacted in 2002 in the United States and subsequently adopted in other regions, audit committees have evolved in order to fulfil, their expanding responsibilities regarding financial controls and reporting assurance (an isomorphic change, according to (Powell and DiMaggio, 2019). Similar external regulatory requirements coupled with aligned institutional governance structures should allow for effective audit committee oversight. These perspectives on the audit committee's role and responsibility are consistent with the literature (Williamson and Powell, 2006; Chedrawi, Osta and Osta, 2020;O'Dwyer, Owen and Unerman, 2011) for the evolving role of audit committees and the increasing demands for organisations to exhibit greater accountability and transparency. In particular, given the importance of ESG reporting and the consequences of greenwashing, Audit committees should participate more actively in ensuring that reporting requirements are met, in the most reasonable, complete, and accurate manner.

Increasing knowledge of sustainability in order to adapt to a changing business and stakeholders' expectations

The findings show that the audit committee's inability to play an active and effective role may be due to a lack of sustainability-related expertise. All interviewees highlighted that the competency of the audit committee has an impact on a company's financial and non-financial reporting; these perspectives are also aligned with Rahman (2015). The interviewees emphasised that the landscape of sustainability is extensive, encompassing elements such as carbon reduction, inequality, ecology, business ethics, and diversity, which are typically not overseen by a single standing committee. Expertise of the audit committee is associated with enhanced disclosures regarding risk management (Hay, Stewart and Botica Redmayne, 2017).

Few members of boards or audit committees have the technical expertise necessary to deal with questions of sustainability. The majority of board members and audit committee members are not well equipped to address sustainability-related technical issues. Consequently, training them on sustainability-related topics is essential. Aureli *et al.* (2020) and Eulerich, Bonrath and Lopez-Kasper (2022) argued that ESG-related skills on the part of audit committee and internal audit is crucial for promoting ESG maturity and, by consequence, ESG reporting. As ESG programs mature, the audit committee will likely have a more prominent role in setting the tone regarding the importance of assurance on ESG information, assisted by internal and external auditors. Factors such as meeting frequency and the number of independent directors affect the compliance with GRI guidelines and the quantity of ESG disclosures. Appuhami and Tashakor (2017) argued that an independent and engaged audit committee could provide efficient oversight that is required to balance the managerial and stakeholder objectives in the context of ESG disclosures.

This theme was highly relevant in terms of addressing the research aim and providing an answer to the research question; 'How do the audit committee and internal audit assist the governing body in mitigating greenwashing by assuring ESG reporting'? Particularly, the audit committee's role in ESG assurance and assisting the board in discharging its duties to mitigate greenwashing. The interviewees provided insights into the existing status of the audit committee's involvement in ESG reporting assurance and what should they do. It also suggests that institutions are paying more attention to ESG reporting assurance in order to meet external expectations and achieve legitimacy. These results are consistent with the neo-institutional theory (Meyer and Rowan, 1977; DiMaggio and Powell, 1983;Deegan, 2002).

4.4.2 Internal audit can play a crucial role in ESG reporting assurance, leading to integrated assurance that may be most valuable to organisations

Consistently, ninety percent of interviewees agreed that internal audit can play a significant role in the assurance of ESG reporting, just as it does for the overall internal controls and financial reporting. However, this study noted that currently most of those organisations either do not report on ESG or their internal audit function is not providing assurance and assurance is provided by external auditors (at a limited level), when required.

These findings are similar to the outcomes of the IIA 2021 internal audit conference in Los Anglos, United States, where it was found out that only 10 percent of the 120 respondents reported that their organisations issue a standalone ESG report, and that internal audit provides assurance, as depicted in Figure 4-5.

Figure 4- 5: The IIA Conference Poll Results for Internal Audit's Role in ESG Reporting

Source: IIA conference

Given the importance of providing independent, objective assurance and advice, internal auditing's role in ESG reporting is crucial (The IIA, 2021). Internal audit is one of the few functions that can examine ESG reporting enterprise-wide in order to determine what is already working and what needs to be improved (Pugliese, 2021, p. 1). It is argued that Internal audit may play a vital role in the assurance of ESG reporting, which I refer to as "double opportunity".

Opportunity one: in the absence of mandated external assurance, Internal audit can serve as the primary source of assurance for the board and other stakeholders' requirements. Internal audit can review the internal control structure supporting ESG information and validate the completeness and correctness of the data used for reporting. Eulerich, Bonrath and Lopez-Kasper (2022) conducted research on the role that internal auditors play in ESG matters by using a dataset consisting of 107 global internal auditors and concluded that Internal auditors do not have access to supporting guidance, despite

the fact that they are keen and willing to engage in this area. In addition, they suggested that "it is imperative to position internal audit as a significant player in the ESG sphere in order to improve ESG reporting and assurance (Eulerich, Bonrath and Lopez-Kasper, (2022). The ESG-related actions that are carried out by internal and external auditors should therefore be regarded as complimentary.

In the absence of mandatory external assurance requirements, boards and audit committees should decide whether the benefit to stakeholders outweighs the investment of assurance (Allegrini and Greco, 2013). The board gets assurance from many sources, not only internal or external audit. For instance, on a specific objective or key performance indicator (KPI), three sources of assurance could be: a) management verification can occur "at second line" to verify the management-established controls, but there is no formal reporting process other than to the board and its committees, b) an independent external audit can provide assurance and challenge, resulting in the issuance of a public report, c) an internal audit will typically perform an internal independent examination and review, which will be the subject of an internal report.

Nonetheless, it may be argued that internal audit can serve as the primary source of assurance for the board in the absence of mandated external assurance. In most cases, the cost and amount of time required for an internal audit of an assurance engagement is much less than what would be required to engaging an external assurance provider. Further, some boards and other internal stakeholders prefer ESG issues and reporting to be assured by internal audit and perceive internal assurance as sufficient. This may be attributable to the board's confidence in and familiarity with their internal audit, time and cost optimisation purposes, and the internal audit's comprehensive knowledge of the organisation and its operations. To recap some of the supporting interview's' statements:

- *"Internal Audit may be the best place to do the ESG reporting assurance*

by itself. It would be helpful to work with our auditors to improve our processes, save money, and dig deeper into the business and its reporting" (P23).

"... [] Internal audit, depending on the size of the organisation and its ESG maturity, is suited to perform ESG assurance and advisory because it has the mandate, its staff have an enterprise-wide view of the risk and functional responsibilities, they have the competency and knowledge to perform assurance work, and their work is governed by professional standards and audit committee already oversees their work" (P13).

"One important perspective I look at would be the quality of assurance as audit committee and Internal Audit can give more insights, assurance, and comfort in making informed decisions. Internal Audit knows the organisation, its people, processes, systems more than any third party. Time and cost savings are two prominent benefits when the activities are coordinated and integrated" (P7).

These perspectives that internal auditing has an important role to support and enhance the reliability of ESG reporting are consistent with those of (Edgley, Jones and Solomon, 2010). Edgley, Jones, and Solomon (2010) argued that multiple stakeholders, and half of their research participants, believe that assurance of sustainability reporting provided by internal audit may be sufficient to improve the reliability of ESG reporting.

Opportunity two: where mandatory requirements for external assurance of ESG reporting exist, internal audit should coordinate the assurance efforts, share a comprehensive understanding of the organisation, minimise costs and time, and testing work toward an integrated assurance approach. Parkinson and Andrew (2022) suggested that Internal audit can support the audit committee and the board reducing the likelihood of ESG regulatory risks or legal actions. Internal audit can evaluate the internal control structure supporting publicly available information and validate the completeness and accuracy of the data used for reporting.

To recap some of the supporting interview's statements:

- *"Internal audit involvement will give comfort and assurance to the board and enhance the organisation's legitimacy while minimising the scope of work of external assurance providers ... []" (P4).*

"For enhanced objectivity, both internal and external assurance in the form of integrated assurance should take place. Integrated assurance efforts would save money, reduce duplication of effort, and lighten the burden of business assurance, but, clear measures and regulations, should be in place"(34)

- .

"...[]Internal audit efforts should improve reporting accuracy as an internal stakeholder before an external reviewer" (P15).

"... [] Bringing these committees and assurance activities together across all assurance providers would be a game changer" (P21).

These views are consistent with the literature and professional body of knowledge (Perego and Kolk, 2012;The IIA Global, 2022), which suggests that the inclusion of internal audit in the ESG assurance process increases organisational accountability for sustainability and maintains its legitimacy. Also, it is consistent with the neo-institutional theory, where it shows that regulatory pressures could be a healthy coercive mechanism that can direct businesses to embrace ESG assurance practices. It also mirrors the 'organisational field' of institutional life for assurance services, in the case of assurance services, the organisational field includes organisations such as accounting firms or consulting firms, where participants interact with one another more frequently and fatefully than with actors outside the field to establish legitimacy (DiMaggio and Powell, 1983; Scott, 2014). Possibly, this is because they share a common understanding of the norms and standards that govern the field. According to a recent global knowledge brief published by the Institute of Internal Auditors,

> *"ESG assurance landscape is complex and the global reporting standards and evolving, nevertheless as assurance providers for their organisations, internal auditors are already mandated to monitor a complex risk environment that includes emerging fraud, cybersecurity and technology-related threats, demanding financial reporting standards, and data privacy issues, among others" (The IIA Global, 2022, p. 13).*

This demonstrates that the breadth of the ESG assurance landscape requires a wide

knowledge combined with experience. The internal audit team must be equipped with the necessary skills and knowledge. As required by the IIA Professional Standards, competence is crucial to the credibility of internal audit to provide assurance on ESG reporting. If internal audit lacks the necessary skills and knowledge, the organisation must first provide the means to acquire them, whether through direct hiring, rotational staff, or third-party co-sourcing. Furthermore, Eulerich, Bonrath and Lopez-Kasper, (2022) argued that the assurance that is provided by internal audits should comprise not only the expression of an auditor's view, but also good governance, risk management, and control over all ESG processes. Within the context of the assurance framework, the ESG-related actions that are carried out by internal and external auditors should therefore be regarded as complimentary, and there integration could be valuable (IIA UK 2020).

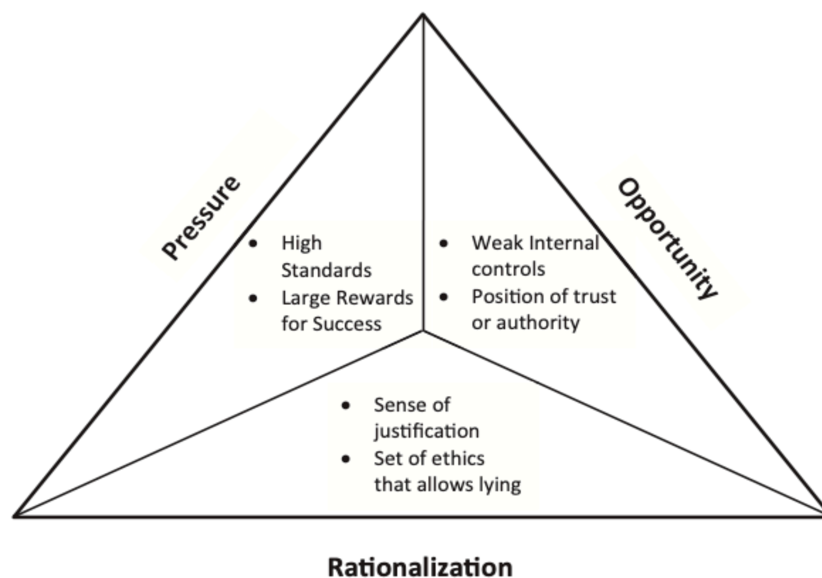
4.4.3 Greenwashing is a real phenomenon, and ESG reporting must be assured to gain credibility and trust

The findings show that corporate greenwashing has ramifications not only for the environment, but also on society and the economy. These ramifications could include misleading a) governments in meeting net-zero goals, b) shareholders and potential investors for investment decisions, and c) sustainable choices by consumers and the public. According to 98% of the interviewees, the vast majority of businesses are engaged in greenwashing and some ESG reports contained mostly words and little to no real ESG activities. Prior research found that businesses either intentionally or unintentionally engage in greenwashing (Burbano, 2011; Torelli, Balluchi and Lazzini, 2019; Yang *et al.*, 2020; Chen *et al.*, 2022; Darnall *et al.*, 2022; García-Sánchez *et al.*, 2022).

In this study, several interviewees emphasised that greenwashing is a fraudulent act and must be stopped or prevented (examples, P5, P35, P40, P41, P42, P45). Such a fraudulent act continued to happen. Kurpierz and Smith (2020) suggested that the practice of greenwashing, which is illegal because it constitutes a fraudulent act, is generally facilitated by inaccurate reporting. They argued that greenwashers rationalise their behaviours, and are motivated by a combination of pressures from stakeholders and opportunities to mislead them. Kurpierz and Smith (2020, p. 1) suggested that greenwashing fraud has three elements in a triangle shape known as "fraud triangle" as presented in figure 4-7, these three elements are: a) pressures; can come from a variety of sources such as investors, regulators or rivals, b) rationalisations; justification of their unethical behaviour c) opportunities; can arise from the difficulty to verify claims or lack of expertise. For instance, the opportunity for greenwashing may come from the fact that it is difficult for stakeholders to verify the accuracy of a company's environmental claims i.e., it may be difficult for an investor to determine whether a company's green claims are

accurate, as they may be unaware of the practices of other organizations in the field (normative isomorphism). Therefore, one could argue that fraud triangle elements are akin to isomorphic forces for organisational change. The lack of assurance can make it more difficult for stakeholders to verify the accuracy of a company's environmental claims. This provides an opportunity for greenwashers to mislead stakeholders.

Figure 4- 6: The fraud triangle



Source: Donald Cressey (1953) other people's money

Recently, in May 2022, the US Securities and Exchange Commission charged "BNY Mellon Investment Adviser with making false statements and omissions regarding the ESG considerations used for investment decisions and strategy in some of its mutual management funds, and a $1.5 million penalty was agreed upon with the company" (SEC, 2022, p. 1). Moreover, a number of interviewers indicated that accurate ESG reporting is vital for cultivating a sense of purpose, attracting, and retaining talent. As these became essential factors for society and employees. For example (P1),

> *"I noticed the employees shift and focus on ESG for self-fulfilment and their image in front of their families. Businesses that greenwashing are vulnerable and would be at a high exposure to fail."*

The findings show that it would be challenging to define "greenwashing," where's "net zero" goals are decades away. As these goals are necessarily long-term, they should be supported by a credible and attainable plan that includes phases and performance objectives. Consequently, reports should also detail progress towards these goals. These findings are consistent with De Jong, Harkink and Barth (2018) who argued that corporate greenwashing has environmental, societal, and economic consequences, including misleading investors and people into unsustainable behaviour, which harms a company's image. Prior studies indicated that ESG reports are too complex, poorly targeted, jargon-heavy, and lacking in fundamental comparability, dependability, and accuracy characteristics (Lokuwaduge and De Silva, 2022; Bakarich, Baranek and O'Brien, 2022; ;Arvidsson and Dumay, 2022;Darnall *et al.*, 2022). There is a vast amount of data being reported, but it is unclear how it relates to actual performance and real progress (Tang and Higgins, 2022). For instance, a bank may disclose renewable energy financing while omitting the percentage of the bank's whole portfolio. Second, as an illustration, emission figures are frequently presented without benchmarks, which makes interpretation difficult. Occasionally, it may be difficult to determine whether the selected performance indicators are relevant and suitable for the organization's reporting objectives and objectives. Managers can use sustainability reports to portray their companies in a more sustainable light i.e., greenwashing (Lyon and Maxwell, 2011; Alsahali and Malagueño, 2021; Walker and Wan, 2012).

According to the neo-institutional theorists, organisations that are under institutional pressure are more prone to "decouple" their normative structure from their practical activity, resulting in reporting or policy and practice differences (Meyer and Rowan, 1977, p. 340; de Grosbois, 2016). This "decoupling" according to Meyer and

Rowan (1977, p. 340) happens more often when institutional norms put different or high expectations on companies. Effective boards and corporate governance could reduce the likelihood of decoupling the ESG-related disclosure and reporting, according to Sauerwald and Su (2019). Consequently, it can be argued that effective assurance, as a key component of corporate governance, reduces the likelihood of decoupling the ESG-related disclosure and reporting. Spence and Gray (2007, p. 23) argued that many organizations routinely omit "bad news disclosures" and significantly alter their ESG reports in a favourable direction. The inherent 'managerial' bias in these accounts contrasts with the 'accountability' principles of corporate governance, in which corporate management provides a neutral and comprehensive account of their ESG impacts in order to show responsibility for their actions and be fully accountable to its stakeholders and society as a whole (García-Sánchez *et al.*, 2022).

This study suggests that corporate governance, in general, and boards and audit committees, in particular, have an impact on assurance decisions. Examples from participants

- *"The audit committee should assist the board in overseeing the assurance process over financial and non-financial reporting []" (P1).*

- *"[].. depending on the size of the organisation, its governance maturity [], the board should appoint a standing committee to help them perform their oversight responsibilities. Large organisations, for instance, should have a separate sustainability committee because the audit committee's agenda is packed with other crucial matters. Adding to the audit committee's agenda may have an impact on its effectiveness or dilute its focus away from its core critical activities. Mid-sized organisations can combine roles with audit committees to provide confidence to the board about the integrity and reliability of reporting" (P4).*
- *[].. the audit committees appoint consultants to assist them" (P38).*

The size of the organisation and the effectiveness of its corporate governance structures play a significant role in the reporting and assurance decision of sustainability reports (Kend, 2015). In addition, a study examining the CSR reporting practices of listed

banking companies found that CSR disclosures were positively correlated with firm size, board size, ownership structure, and independent non-executive director on the board (Das, Dixon and Michael, 2015). Effective corporate governance reduces the likelihood of decoupling the ESG-related disclosure and reporting, according to Sauerwald and Su (2019), although the mechanisms through which corporate governance influences ESG decoupling are unknown. The IIA (2020, p. 5) stated their professional expectation of the governing body, “the board oversees and monitors the company’s strategic, operational, financial and compliance risk exposures, and it collaborates with management in setting risk appetite, risk tolerances, and alignment with strategic priorities”. The board usually delegate the oversight of financial, compliance risk exposures and assurance to the audit committee.

It could therefore be argued that it is crucial to protect businesses from engaging in greenwashing (Lokuwaduge and De Silva, 2022). As the findings show getting the ESG reports assured has numerous advantages for the organisation, and other stakeholders. It, assurance, can significantly support and improve a company’s "social licence to operate" because it provides greater confidence in its ESG activities and reporting. Assurance of ESG reports can also decrease the likelihood of regulatory noncompliance and legal action. The interviewees suggested to avoid corporate greenwashing, ESG reports, and other public reports must be assured, and by doing so, businesses would have done their part to earn the trust of their stakeholders. Moreover, some interviewees, who are a subject matter specialist of ESG reporting assurance at Big Four accounting firms, suggested that ESG assurance scope and procedures should be wider and more comprehensive i.e., reasonable assurance, as opposed to only providing limited assurance in nature and scope, as is the common procedure at present. Kuo, Lee and Lee (2022) argued that ESG report with reasonable or high assurance is significantly more credible than one with limited or

moderate assurance. Furthermore, these results are consistent with the survey of 325 global investors conducted by PwC in 2021, which found that investors are increasingly demanding assurance of ESG reporting and expressing concerns over greenwashing (ICAEW, 2021). As ESG grows in importance, effective and competent boards, and audit committees that embrace the governance principle of long-term shareholder value, invest in learning and understanding ESG reporting metrics and credibly communicate their sustainability story to the stakeholder groups would have a greater chance of overseeing companies that can achieve its purpose and prosper in the desired low-carbon and purpose-driven world (WEF, 2019, 2020; Eltobgy Maha and Guillot Janine, 2021). It is important for boards, audit committees, and internal auditors to be aware that greenwashing is a real phenomenon, that no business is immune to greenwashing, and that the consequences of greenwashing could be substantial.

4.4.5 Governance of ESG reporting is loosely defined, limiting effective assurance.

This study's findings show that there are various ESG reporting standards and voluntary ESG reporting and assurance requirements in many jurisdictions, resulting in inadequate ESG reporting governance. Some interviewees used metaphors such as

> *"I feel like' I'm drowning in an alphabet soup of frameworks and standards… when it comes to ESG reporting… Several reporting standards, such as GRI, SASB, CDP and TCFD, just to name a few…[]."*

The type, form, and structure of ESG information that organizations choose to report is inconsistent, in turn causing a comparability concern. Furthermore, this study found that regulations are essential in ESG reporting and assurance, and that without them, small and medium-sized businesses are less likely to issue and assure their ESG reports.

ESG Reporting Standards

Ninety-eight percent of the interviewees highlighted that financial performance reporting and disclosures are frequently more comparable across industries and businesses, providing investors and the public with external standards to assesses business's financial performance. ESG indicators, on the other hand, are more subjective and less similar across industries. They emphasised the fact that there are already established processes and tools for reporting financial information. It is recommended that similar efforts be made in relation to the reporting and assurance of ESG. Further, some interviewees argue that mandatory disclosures are necessary not only to improve competitiveness among peers in the sustainability journey, but also to hold boards and executives more accountable. Furthermore, interviewees argue that ESG reporting assurance effectiveness is generally aligned with the maturity of ESG reporting standards, governance and the requirements for assurance are not well governed.

Consistent with the literature, the absence of universal ESG standards made the evaluation of the relevance and comparability of data in ESG reports difficult (O'dwyer, 2011). This reporting issue not only affected the reporting firms, but also the assurance providers, who lacked guidance and information regarding the representation of information. This challenge again adds to the management to influence on negotiating the terms and scope of engagements making it self-serving. This adds to the reason that universal ESG standards would provide some roadmap and consistency in the information presentation (Manetti and Becatti, 2009;Casey and Grenier, 2012; Bebbington, Unerman and O'Dwyer, 2014).

On the contrary, an interviewee suggested that the standardisation of ESG reporting could be a source of risks such as possible error misconduct or greenwashing because it reduces the opportunity to communicate nuances and complexities.

> "*Standardisation of ESG reporting is helpful for efficient communication, but it might also be a source of risks, such as possible error, misconduct, or greenwashing because it reduces the scope to communicate nuance and complexity. This is a bigger problem for ESG than standard financial reporting assurance" (P20).*

This interviewee brought up the point that the ESG reporting data set is significantly more complicated than the financial reporting data set. These perspectives were consistent with Wallage (2000) suggesting that applying financial audit's GAAP standards to ESG would actually weaken the growth this evolving area. This is attributed to the reason that social and environmental issues and risks vary over time and differ by a firm O'dwyer (2011); therefore, it would be argued that firm's context matter to its ESG impact.

ESG Reporting Regulations

All interviewees cited that voluntary ESG reporting and the absence of ESG reporting regulations (i.e., the absence of coercive mechanisms) are the causes of inadequate and incoherent ESG reporting. It allowed organisations to be self-serving and cherry-pick reporting items and assurance services, according to the interviewees. For example,

“I don't think ESG reporting assurance is effective or mature right now because ESG reporting standards and the requirements for assurance are not well governed”. Second, insightful statements were made by (P2)“

"[]...signing up voluntarily for something that is not required would not be sensible” (P2). Additional example, “I agree with Paul Polman when he says“, "there's no way around the fact that most directors and executives have laughable ESG qualifications right now, and mandatory reporting requirements would be the stick to make boards and executives better and more accountable” (P1).

This was a debatable area in the literature, uncertainty surrounds the influence of disclosure regulations on businesses. Globally, reporting regulations attempt to incentivise corporations to improve their ESG performance (Ioannou and Serafeim, 2012). Increasing transparency through mandatory reporting laws and regulations might discipline and motivate corporations to improve their ESG performance. However, mandatory sustainability disclosure regulations might have negative externalities in that businesses with superior disclosure would have to take more effort and perhaps incur higher costs, means lower shareholders value, to differentiate themselves from the rest of the firms following the regulations (Ioannou and Serafeim, 2012).

Consistent with this study results, DeSimone, D’Onza and Sarens (2021) argued that there are many voluntary ESG reporting frameworks, such as GRI, SASB, TCFD, when it comes to ESG assurance standards, there are no generally accepted standards. Calls for mandatory ESG reporting are increasing worldwide (Prinsloo and Maroun, 2021). As stakeholders doubt the credibility of corporate ESG information, policymakers

are currently considering ESG disclosure regulations for corporations (Fanning, Hatfield and Sealy, 2022). A 2019 government paper in the United Kingdom, recommended that public firms and major asset owners align their corporate reporting with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) by 2022. Furthermore, the European Commission recently established a Corporate Sustainability Reporting Directive 'CSRD' that requires limited external assurance of disclosed ESG information (Council of the EU, 2022).

Different degrees of ESG reporting assurance vary from internal assurance provided by an independent function such as internal audit to third-party assurance provided by a third-party assurance provider. The type and depth of the ESG engagement also influenced third-party assurance providers, which ranged from evaluation (limited or reasonable assurance) from an independent accounting firm to certification services from engineering or GHG consultants (Matos, 2020).

The EU introduced the 'Action Plan: Financing Sustainable Growth' in 2018, which included various policy efforts aimed at reorienting private capital toward sustainable projects in order to meet the 2030 targets set by the EU as part of the Paris Agreement (European Commission the High-Level Expert Group on Sustainable Finance, 2018). It included a taxonomy for categorising sustainability activities, benchmarks and labelling for green financial products, and the development of sustainability benchmarks based on the EU 'high-level expert group on sustainable finance guidelines'. Subsequently, the EU announced the European Green Deal in December 2019, with the purpose of turning the European continent into the first climate neutral continent by 2050, resulting in a cleaner environment, more cheap energy, smarter transportation, new jobs, and an overall higher quality of life (European Commission, 2020). Similarly, in the US, the SEC requested, in March 2022, for public input on climate change disclosure, which

included serval ESG factors. ESG legislation is moving at varying rates in different parts of the world. The EU currently has an ambitious regulatory agenda underpinned by strong political backing for a transition to a low-carbon economy.

Regulations reduce greenwashing

This study found that regulations are extremely important for ESG reporting and assurance, and without them, small and medium-sized businesses are less likely to issue ESG reports. In addition, a number of large organisations that publish ESG reports do not have their reports assured. Example, (P2)

> *"By not reporting, we, the board of directors, believe that signing up voluntarily for something that is not required would not be sensible []...*

These results are consistent with previous studies, Chen (2018) argued that the voluntary nature of reporting is proportional to the size of organisations; the majority of voluntary reports are submitted by large corporations. Barrymore (2021) suggested that stakeholder pressure for ESG reporting with weak and ambiguous regulatory systems, fosters greenwashing at the institutional level. Government scrutiny and social norms on environmental outcomes both reduce greenwashing activities (Ramus and Montiel, 2005; Marquis, Toffel and Zhou, 2016). Regulation, on the other hand, can be insufficient. Kim and Lyon (2011) discover that the threat of government regulation, without government inspection or assurance, pushes enterprises to greenwash as a strategy to avoid the threatened regulation. Consistent with this study results, the neo-institutional theorists, argued that regulatory pressures are strong coercive mechanisms that can force businesses to adopt ESG assurance practices (Gillet-Monjarret and Rivière-Giordano, 2017). However, the results of previous empirical studies are incongruent according to Gillet-Monjarret and Rivière-Giordano (2017), while on one hand, researchers such as Kolk and Perego (2010) argued that ESG reporting assurance should rise when national institutional

processes are weak or non-existent, as is the case in some developing countries or environmentally unregulated industries such as trading or some manufacturing. On the other hand, Casey and Grenier (2012) suggested that novel ESG reporting assurance regulation would be irrelevant in a highly regulated sector with severe sustainability risks and controls; for instance, an environmentally regulated industries such as mining, railway would seek ESG reporting assurance with convenience.

4.4.6 Boards lack ESG expertise and knowledge

Boards lack competence of ESG and knowledge of its reporting assurance

Institutions, as defined by Scott (1995, p. 33), "consist of cognitive, normative, and regulatory structures and activities that provide meaning and stability to social behaviour". These perspectives focused more on institutional culture, cognitive beliefs, symbols, competency, and meanings than DiMaggio and Powell (1983), who focused on the homogenization of institutions that institutionalisation creates (isomorphism). For instance, Contrafatto (2014) argued that ESG reporting has become “a fact of life" and has grown in relevance and significance as a result of ‘reinforcement' through the hiring of new directors or personnel, the acquisition of new expertise, and the implementation of an ESG management, control, and audit system. Furthermore, scholars argued that ESG often serves as a symbolic gesture, an expedient response to coercive and normative pressures exerted by international stakeholders. This suggests that many boards may lack a thorough understanding of the value and significance of ESG reporting beyond its role in managing external pressures. This highlights the importance of boards developing a more substantive understanding of ESG issues and their relevance to the long-term success and sustainability of their organisations.

Despite the growing recognition of the importance of ESG activities and reporting, the majority of boards still lack knowledge in this area. Ninety-five per cent of the interviewees argued that, while boards are beginning to recognise the importance of ESG activities and reporting, the majority of them still lack knowledge in the field and are therefore unable to oversee management’s performance in relation to ESG activities and reporting. They also suggested that boards require training and development in order to keep up with the ever-changing requirements of ESG, ESG reporting, and ESG assurance.

The findings indicate that the majority of boards have only recently begun to focus on ESG activities and reporting for various reasons, including pressures from external stakeholders for environmental-related issues. Some interviewees suggested that board members lack ESG knowledge and therefore require assistance from an independent ESG expert. They argued that the ESG landscape is rapidly expanding, and boards of directors are not fully aware of the implications and ramifications of its development. In addition, the findings indicate that ESG is not on the board's agenda in mid-sized companies and emerging economies. Certain board members discuss particular aspects of it, but not in a systematic manner.

These results are consistent with recent research by the global internal audit foundation and EY (EY & IIA, 2022, p. 1), which suggested that "when it comes to ESG reporting and actions are taken on the governance side of the equation, it can sometimes be the hardest to understand and implement". Previous research shows that the organisation's success fundamentally depends on the board of directors (Dimma, 1998; Merendino and Melville, 2019). The board operates as a bond and a link between management and shareholders (Dimma, 1998). Previous research suggests that the firm's board, the board's composition and competency can influence its ESG performance and assurance (Birindelli *et al.*, 2018). Further, more than half of the 467 global board directors and senior executives surveyed by KPMG in September 2021 said that their boards' knowledge of climate change's impact on and of the business is limited or non-existent (KPMG, 2021). Eulerich, Bonrath and Lopez-Kasper (2022) conducted research on the role that internal auditors play in ESG matters by using a dataset consisting of 107 global internal auditors. They found that non-involvement of internal audit in ESG was due in part to a lack of understanding of ESG on the part of boards and senior management. Therefore, it may be argued that boards' and audit committee understanding of ESG

determine the level of involvement of internal audit in the ESG assurance process and its effectiveness. The SEC Chairman in 2019 stated "I would expect [board members and audit committee members] to take action if an issue—whether it is considered an ESG issue or not—will have a material impact on the company's bottom line or poses a significant risk to the business. If the matter is significant, I would also expect the company to disclose the matter and the steps being taken to address it. This is consistent with the general fiduciary responsibilities of directors and officers, as well as our disclosure rules" (Tahmincioglu, 2019, p. 1).

Educating Boards on ESG

Boards have 'two primary strategic functions a) conformance such as monitoring compliance with rules and disciplining managers and b) performance such as providing advice and access to resources, (Ntim and Soobaroyen, 2013, p. 473) citing (Jensen, 1993). Some board members may feel at ease when reviewing standard financial reporting, but they may struggle to grasp ESG measures and the ways in which a purpose-driven organisation that focuses on ESG can provide a competitive advantage. Effective and knowledgeable boards would direct, enable, and seek assurance from audit committees and internal audit to mitigate greenwashing risks. The following is a synopsis of what (P39) had to say about it:

> *"ESG issues are business imperatives for effective and leading boards. They manage risks and take advantage of opportunities, like telling their story and explaining their long-term strategy, to set the organisation up for long-term success and provide value for stakeholders."*

To close the current gap, some interviewees recommended that a) Internal Audit should play a role, as a trusted advisor, in educating the board of directors on ESG-related risks and opportunities, as well as the importance of reporting assurance, b) board

members seek assistance from independent ESG experts to bridge the skills set gap, and build knowledge or establish formal training programs, c) ESG-related issues should be given more attention and consideration by the boards for continued effective oversight, d) Businesses may want new and diverse board members with ESG capabilities.

Notably, none of the board members interviewed acknowledged that they lacked ESG expertise and knowledge. They referred in their discussions to boards in general or provided boardroom observations. In addition, some of the recommendations for board members to seek assistance or training from independent ESG specialists were made by the directors of the Big Four accounting firms. European Commission report (2018) suggested strengthening the governing body's duties related to ESG by advising them to consider longer-term consequences of decisions and the impact of the corporation's activities on its employees, the community, and the environment. Board members should be knowledgeable of ESG risks and understand and value stakeholders' ESG preferences (García-Sánchez *et al.*, 2022). According Sullivan *et al.* (2020) board of directors are responsible for overseeing management's progress on ESG efforts and for making clear, stakeholder-informed choices that position the organisation as a pioneer in its industry and among its rivals. They also emphasised that the competency and the maturity of the board's governance structure would increase with the evolvement of the ESG program. The IIA, (2020) argue", "the board usually delegate the oversight of risk exposures, reporting and assurance to the audit committee". The literature, as discussed in theme one, has also placed a strong focus on the role that the audit committee plays in the assurance processes by overseeing the assurance providers and ensuring transparent sustainability disclosures and reporting.

Drawing from a neo-institutional perspective as articulated by DiMaggio & Powell (1983) and Scott (2014), the significance of ESG information is escalating and it is

becoming an increasingly important factor for stakeholders. Competent directors serve as pivotal agents in bridging the legitimacy gap, Symbolising the alignment of corporate practises with societal or stakeholder expectations. As a result, it is critical to provide the board with comprehensive knowledge on ESG-related topics, with a particular emphasis on ESG reporting assurance. Given the increasing importance of ESG issues, boards must actively pursue education and training in this domain. This could include consulting with external ESG experts and participating in ESG-focused events.

A summary that relates the results to the theoretical framework

Neo-institutional theorists view the adoption of particular organisational practice and activities as the result of pressures and demands arising from institutionalised components within the macro-institutional environment to which the organisation belong (Meyer and Rowan, 1977; DiMaggio and Powell, 2019).

Table 1-1: Summary of the institutional elements of isomorphism change

The institutional elements of isomorphism change	**Coercive**	**Normative**	**Mimetic**
Reference or Source	Laws, regulation, and directives	Norms and standards including professional bodies requirements/ frameworks.	Ambiguity and uncertainty of activities.
The result or influence on institutions	To adopt actions and behaviours in compliance with legislations.	To adopt actions and behaviours in conformance with normative expectations.	Imitating leading comparable institutions that deemed to be successful.

Adopted from: *Contrafatto, (2014)*

The findings show that most boards have recently begun to consider ESG activities in response to associated pressures from external institutions (regulators, investors, and NGOs) and a few boards are mimicking comparable organisations to realise the green opportunity. According to Henisz, Koller and Nuttall, (2019) of McKinsey & Company, the five most important opportunities that ESG creates for businesses include greater top-line growth, decreased costs, lessened regulatory and legal involvement, increased productivity, and improved investment decisions. The external institutions pressures follow the same pattern of the institutionalisation according to (DiMaggio and Powell,

1983). Historically, most of these boards were not required to report or assure their ESG reports. With the increasing ESG regulatory requirements, stakeholder expectations, and business and investment opportunities, they started acting to satisfy those stakeholders.

Testa, Boiral and Iraldo (2018) in their global study of environmental practices and institutional complexity, suggested that the more the external pressures, the greater the importance that firms place on assurance practices. Deephouse and Carter (2005) argued that boards and organisations could act rationally or in their own self-interest by calculating the costs of nonconformity, or they can act only when pressures are intense. Prior research demonstrated that companies have increased their ESG reporting in recent years, but without necessarily assuring stakeholders of the accuracy of this information. Alex (2020) argued that the majority of Fortune 500 corporations do produce sustainability reports in 2020. Similarly, McKinsey & Company (2022, p. 1) stated that 'over ninety percent of S&P 500 corporations and over seventy percent of Russell 1000 firms currently publish ESG reports in some form'. More than 9,500 businesses from around the world have signed the United Nations Global Compact, pledging to uphold human rights, labour standards, and environmental protection (Chedrawi, Osta and Osta, 2020). Despite the fact that an increasing number of organisations have released sustainability reports in recent years. Nonetheless, the share of organisations certifying their sustainability reports has not increased proportionally and remains low (Junior, Best and Cotter, 2014; Elamer *et al.*, 2021; Rivière-Giordano, Giordano-Spring and Cho, 2018).

The proliferation of sustainability disclosures and reports, to reap the benefits of the rising green markets, without assurance i.e. a form of independent verification, has led to inaccurate reporting and greenwashing (Burbano, 2011; Yu, Luu and Chen, 2020).

According to the neo-institutional theorists, organisations that are under institutional pressure are more prone to "decouple" their normative structure from their practical activity, resulting in policy and practice differences (de Grosbois, 2016). Thus "decoupling" happens more often when institutional norms put different expectations on companies. Effective boards and corporate governance reduce the likelihood of decoupling the ESG-related disclosure and reporting, according to (Sauerwald and Su, 2019). Consequently, it can be argued that effective assurance, as a key component of corporate governance, reduces the likelihood of decoupling the ESG-related disclosure and reporting. It could be argued that inadequate internal controls, the absence of an audit committee, and the absence or ineffectiveness of internal audit create the opportunity for greenwashing.

Change in institutional behaviours

The neo-institutional theory rationalises the distinctions that might occur in the process of institutionalisation based on the institutional characteristics (Golrida *et al.*, 2020). Neo-institutional theory may also be deployed to analyse the complexity of ESG reporting characteristics and associated behavioural change by explaining how organizational and societal boundaries are established to influence a change (Brammer, Jackson and Matten, 2012; Golrida et al., 2020). Further, institutions, according to Scott (1995, p. 33), "consist of cognitive, normative, and regulatory structures and activities that provide meaning and stability to social behaviour". Contrafatto (2014) studying the dynamics of the institutionalisation process, argued that regulative institutional elements influence normative meso-institutional elements to adopt, enact, and reproduce organisational procedures and behaviours.

Given the increased interest in ESG-related information from many stakeholders

for the several reasons discussed earlier. It is anticipated that, the board's accountability will likely, change, increase. It is argued that boards must recognise that ESG issues are more than social or philanthropic gestures, and that ESG reporting assurance is crucial. Businesses may want new board members with ESG capabilities and educate boards on ESG matters. This is consistent with the neo-institutionalists' (Contrafatto, 2014) argument that as a result of 'reinforcement' through the employment of new director or personnel, the acquisition of new expertise, and the adoption of an ESG management, control, and audit system or processes, ESG reporting acquired "fact of life" status and having grown in relevance and significance. As ESG grows in importance, competent boards and audit committees that embrace the concept of long-term shareholder value, invest in learning and understanding ESG reporting metrics and credibly communicate their sustainability story to the stakeholder groups would have a greater chance of overseeing companies that can prosper in the desired low-carbon and purpose-driven world (WEF, 2022).

In order for researchers and business leaders to gain a better understanding of the causes and consequences of greenwashing, the researcher provides a summary of the study's key findings from the lens of neo-institutional theory in a framework, refer to (Figure 4-7). This framework demonstrates that institutional components of isomorphism; coercive, normative, and mimetic pressures, influence organisations to report on their ESG activities. The coercive pressures represented by the regulatory system's robustness and the respective ESG reporting regulations, such as CSRD in European Union. Alziady and Enayah (2019) defined normative pressures as the pressures resulting from the norms specified by institutions such as professional or industry associations. The normative pressures could be signified by national cultural development, professional association such as 'GRI', industry associations such as 'IPIECA' the global oil and gas association

for advancing environmental and social performance (IPIECA, 2022).

Scholars argued that sustainability reporting is greater in societies that are more culturally developed and have a stronger commitment to sustainability (Husted and Sousa-Filho, 2017; Martínez-Ferrero and García-Sánchez, 2017; Ko, 2019; Arayssi, Jizi and Tabaja, 2020; Jackson *et al.*, 2020). Past research in the field of sustainability reporting believes that national culture has an impact on voluntary disclosure. Martínez-Ferrero and García-Sánchez (2017) suggested that the moral norms that culture imposes on the corporate world may affect organisational initiatives, including sustainability reporting. Additionally, Jackson *et al.* (2020) suggested in their study of non-financial disclosures and reporting in twenty-four OECD countries, that firms in countries that mandate non-financial disclosure adopt significantly more sustainability activities. The majority of companies that issue ESG reports, regardless of location, are large corporations and institutions, according to this study. Some of these corporations operate in developed and developing countries i.e., global corporations.

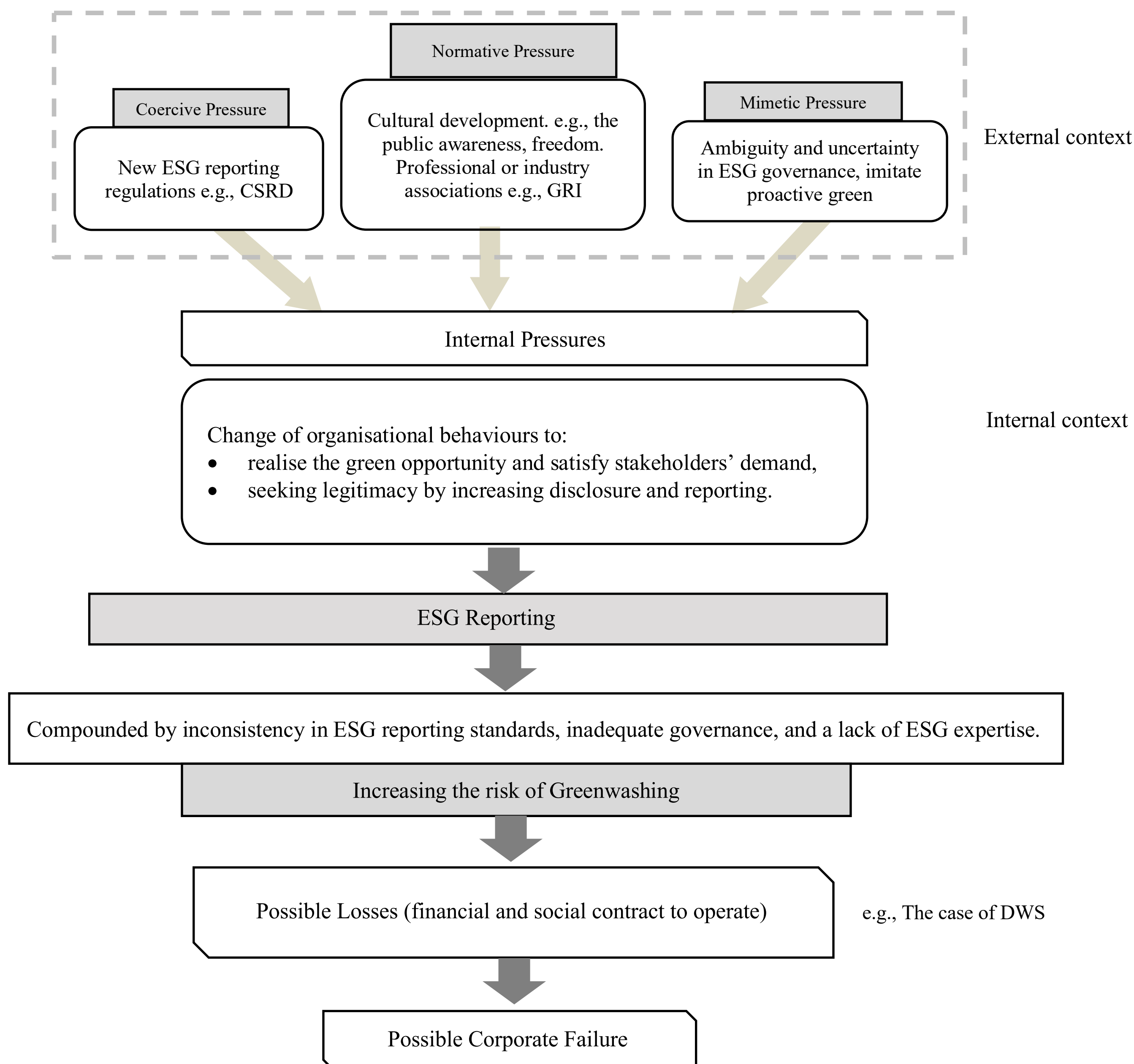
The final external institutional force is mimetic pressure, which occurs in situations of uncertainty where companies may adopt the behaviours of other organisations, industries, or countries. The mimetic pressure is prevalent in industries with high sustainability risks, such as Oil and Gas corporations. The three isomorphic forces usually operate together to exert effects in an institutional environment that impacts organisational isomorphism, rather than acting independently of one another, consistent with a study in China by Huang, Xie and Zhou (2022). In response to these external pressures organisations change behaviours in order to seize the green opportunity and pursue legitimacy in sustainability as part of a governance structure that includes more than just shareholders. The combination of these forces and incentives with a lack of ESG expertise increases the risk of greenwashing, as well as its consequences, which may

include possible financial and social losses, and could ultimately result in corporate failure.

DWS, for instance, raised its ESG disclosures and reporting in imitation of investment and asset management industry leaders such as BlackRock, in reaction to the ’EU's new corporate sustainability reporting laws, and as a consequence of the development of the notion of ‘sustainable development’. DWS overstated its ESG-related activities by more than half in its 2020 report in order to capitalise on the green market opportunity and gain legitimacy from potential investors, the general public, and other stakeholders. This increase in ESG reporting, without auditing, increased the risk of greenwashing, which materialised in a major greenwashing incident two years later. As a result, the authorities (police and financial regulators) raided their offices, and the CEO and several executives resigned from their positions. This has also resulted in considerable financial losses (shares fell 1.9% in a single day and continue to fall), brand impairment, uncertainties regarding pending litigation, predicted loss of customer retention, and talent loss (a loss to a number of key employees). The ramifications threaten DWS and raise concerns about the company’s viability and may result in its demise.

This study demonstrates that assurance can be an effective and useful tool for mitigating greenwashing. This risk could have been mitigated if ’WS's ESG reports had been overseen by the audit committee and assured by internal audit, or other assurance providers before being released to the public and the capital market. This is also consistent with the findings of Martínez-Ferrero and García-Sánchez, (2017), who supported the fact that businesses adopt sustainability reporting and assurance as a pattern of behaviour in response to external and internal institutional forces, and that the demand for voluntary sustainability assurance is driven by organisations’ desire to achieve ultimate legitimacy.

Figure 4- 7: A framework for better understanding some of the causes for greenwashing and its repercussions



4.5 Chapter Summary

This chapter presented the findings from the semi-structured interviews with 47 global participants: global executive managers, board members, audit committee members, internal auditors, external ESG assurance providers. The purpose of this qualitative exploratory study was to gain an understanding of how the audit committee and internal audit can assist the governing body to fulfil its oversight role in mitigating greenwashing by assuring the ESG reporting.

The data for this qualitative explanatory study were analysed following reflexive thematic analysis approach. The study concluded by identifying five themes; (1) Audit Committees should play an active and essential role in the assurance of sustainability reporting, but they should also receive training on ESG, (2) Internal audit can play a crucial role in ESG reporting assurance, leading to integrated assurance that may be most valuable to organisations, (3) Greenwashing is a real phenomenon, and ESG reporting must be assured to gain credibility and trust, (4) Governance of ESG reporting is loosely defined, limiting effective assurance, (5) Most boards currently lack ESG expertise and may underestimate the significance of ESG assurance.

This study suggest that competent audit committees should play an active and vital role in the assurance of ESG reporting. Internal audit can play a significant role in ESG reporting assurance, resulting in integrated assurance that organisations may find most valuable. Greenwashing is a real risk, and ESG reporting must be credible and trustworthy in order to gain credibility and trust. ESG reporting governance is poorly defined, limiting effective assurance. There are several practical implications for boards, audit committees, auditors, corporate governance, and business managers to consider. The study framework showed in Figure 4-7 offers a framework for better understanding of the causes of greenwashing and its repercussions.

The next closing chapter of this study contains an in-depth discussion of the implications, recommendations, and conclusions.

Chapter 5: Implications, Recommendations, and Conclusions

5.1 Introduction

This chapter discusses the empirical contribution and implications from this study to boards, audit committee, auditors, corporate development specialists and business managers to consider. This chapter provides some recommendations for future research and for practice. It also discusses the limitations of this study and finally, it presents the study's concluding statement, including a summary of the board, audit committee, and internal audit's key roles and responsibilities in ESG assurance to support clarifying these roles in such an evolving domain.

5.2 Contributions and Implications

This study has made several important contributions to the field of sustainability reporting assurance, particularly in the context of greenwashing, a form of corporate deception in which companies make false or misleading claims about their ESG performance. Firstly, it has provided empirical evidence of the existence and significance of greenwashing. This evidence is crucial as it substantiates the reality of this deceptive practice, which has been a subject of much debate and speculation. The study has not only confirmed the presence of greenwashing but also highlighted its significance in the corporate world, thereby emphasising the need for effective controls, and clear roles and responsibilities to combat it. Secondly, the study has identified a number of factors that contribute to greenwashing, such as the lack of regulations and the pressure to meet sustainability goals. By identifying these factors, the study shed light on some of the underlying causes of greenwashing, providing a foundation for developing strategies to address them.

Thirdly, this study has developed a framework that can be used by researchers and

business leaders to enhance understanding of the causes and consequences of greenwashing. This framework is a valuable resource for both researchers and business leaders because it provides a systematic approach to researching and addressing greenwashing. Fourthly, it has identified five significant findings and made recommendations for mitigating greenwashing. These findings include empirical evidence for the current level of AC involvement in ESG reporting assurance, which is found to be low, and the Boards and AC's level of knowledge, which is found to be limited. The study also provides empirical evidence for the value of Integrated Assurance, a combination of External Audit (EA) and IA. Furthermore, the study identified five key implications and made several academic and empirical recommendations to mitigate greenwashing. Based on the study's findings, these recommendations are intended to guide future research and practise in this area. Fifthly, the study focused on IA firms rather than EA firms, filling a gap in the literature. This emphasis on IA is significant because it sheds new light on the role of audit in mitigating greenwashing. Lastly, this study is one of the first global exploratory study to examine the role of audit committees and internal audit in mitigating greenwashing, in a comprehensive and systematic way. It has focused on understanding the causes of greenwashing as a legitimacy threat and techniques for mitigating it, whereas previous research in the field has focused on repairing legitimacy issues that have already occurred.

This study empirically examined ESG assurance as a practise to mitigate greenwashing through direct engagement with boards, audit committees and assurance professionals. During these interactions, the majority of participants emphasised that regulatory requirements are the primary drive of their business decisions and actions. Despite the fact that it may be inconsistent with their personal interests, values, or beliefs. This suggests that regulations and law enforcement tend to have a stronger influence on

behaviour than cultural norms. Examples from the finding“:

- *"[]...signing up voluntarily for something that is not required would not be sensible” (P2, based out of the UK).*
- *“When I first brought up ESG issues in the boardroom, I was met with laughter… And it seemed like one of those things that would never happen, but ESG is evidently happening now..[]” (P31, based out of EU).*

Personal commitment to sustainability and ESG principles does not always translate into action on the part of board members and audit committee chairs and members. This was evident from the fact that their business practices are not fully consistent with these values. Participants of this study, from board and audit committee members and chairs demonstrated a strong personal interest in and commitment to sustainability and ESG values. This was also made clear to the researcher during the course of the interviews. However, their business practices were not fully consistent with these sustainability values and good corporate governance principles. Surprisingly, this study found that 85 percent (34 of 40) of the interviewees (participating board, audit committees, and executives, excluding the 7 participating auditors and consultants from the Big four consulting firms) stated that their respective regulators have not yet mandated that their organisations provide ESG reporting assurance, consequently ESG reporting assurance is not on the audit committee's agenda. This case of disconnect between personal commitment and actual business practice was intriguing, as it was consistent across both developed and developing countries, despite previous arguments by neo-institutionalists and scholars that ESG reporting and assurance were more prevalent in developed countries and associated normative pressures and cultural developments (Husted and Sousa-Filho, 2017; Martínez-Ferrero and García-Sánchez, 2017; Ko, 2019; Arayssi, Jizi and Tabaja, 2020). This suggests that institutionalising ESG practises is more than just a matter of economic development. It is, rather, a complex process influenced by a variety of factors such as the regulatory environment, the competitive landscape,

organisation size, maturity and cultural norms. It is worth noting that the participants to this study were 70% from developed countries and 30% from developing countries.

It is noteworthy that this study revealed that most of boards and audit committees primarily base their business decisions and actions on regulatory requirements, despite the fact that they are accountable for establishing the ethical tone, corporate governance and culture for their respective organisations. It could be argued that mandating and regulating each and every ethical business behaviour and action is impractical, and regulation alone cannot guarantee ethical conduct. The ''G' in ESG, which refers to ethical business practices and culture, should be reinforced and not undermined by the governing bodies (Hodges, 2016). Moreover, this research suggests that businesses that voluntarily adopt practices promoting good governance and sustainability principles, including ESG reporting and assurance, can benefit in numerous ways.

As stated by one of the interviewees (P39), "ESG issues are business imperatives for effective and leading boards. They manage risks and take advantage of opportunities, like telling their story and explaining their long-term strategy, to set the organisation up for long-term success and provide value for stakeholders…[]" (P39). Another interviewee (P1) emphasised that "The ESG reporting assurance would increase the stakeholders' confidence in the organisation. It would indicate to the public that the organisation is "living in accordance with its purpose, strategy, and intended social legitimacy…[]" (P1).

ESG assurance is increasingly recognised as a good practise for organisations of all sizes. This study found that, regardless of location, large corporations and institutions are the majority of organisations that issue ESG reports and assure them. Some of these corporations are global corporations, and they operate in both developed and developing countries. This suggests that in the absence of coercive pressures, such as regulations, memetic pressures, such as imitating market leaders, can significantly influence ESG assurance practices.

Furthermore, this study has also showed some of the causes for greenwashing and

its consequences, as summarised in Figure 4-7. Based on this study's five findings, in particular: theme three: greenwashing is a real phenomenon, and ESG reporting must be assured to gain credibility and trust. As such, there are several practical implications that boards, audit committee, auditors, corporate development specialists and business managers should consider. The following are the main implications of this study:

5.2.1 Greenwashing is a recipe for corporate failure

The results of this study suggest that greenwashing is a fraudulent practice and can lead to corporate failure. As a result, some organisations are turning to public relations firms in order to restore the damage caused by their greenwashing when it is discovered. It has been suggested that such unethical behaviour would result in reputational issues, financial losses, and eventually result in the organisation losing its social contract to operate. Loewe, Zintl and Houdret (2021, p .1) define 'social contract' is "sets of formal and informal agreements between societal groups and their sovereign (government or other powerful actor) on their respective rights and responsibilities". When society finds that the organisation's activities do not respect its moral values, its social contract with the organisation may be revoked and may even lead to the organisation's failure (Loewe, Zintl and Houdret, 2021). Huang, Xie and Zhou (2022, p. 30) argued that "an organization's pursuit of legitimacy" entails adjusting to the institutional setting in order to survive and avoid corporate collapse. It may be argued that in the era of social media, with its emphasis on purpose and social connection, the social contract between the organisation and the society is more relevant and important than ever. When a business engages in greenwashing, making false claims about its commitment to sustainability, social responsibility, or ethics, it breaches this social contract.

Burbano (2011) using a firm communication typology model, showed that the essence of greenwashing is deception and a conflict between reported and real behaviour. Kurpierz and Smith (2020) suggested without doing much of actual effort, fraudulent greenwashers reap the social benefits and financial benefits of being sustainable organisation. Fraud and manipulation have a long history in the business world (Omoteso and Obalola, 2014). Corporate frauds are pervasive, multifaceted, and costly, and they have serious adverse effects on all stakeholders (Cole, Johan and Schweizer, 2021).

According to Kurpierz and Smith (2020) “Fraud” encompasses a vast array of dishonest and harmful acts. Pearce (2015) argued that all organisations experience inefficiencies because of 'management politics'. Previous major scandals and corporate failures of large corporations, including Enron, and WorldCom in the USA, and Wirecard in Europe were the result of misleading financial reporting. Nonfinancial reporting fraud could have similar consequences, given the noted trend of increased scrutiny and regulation. Recently, in June 2022 the Financial Times reported that “German authorities raided DWS, a German asset management corporation with about $1 trillion in assets, and Deutsche Bank on greenwashing charges. In response to complaints from a former DWS executive, the German financial authority initiated an inquiry into ’WS's deceptive assertions in its 2020 annual report regarding claims that more than 50 percent of the group’s $900bn assets were invested using ESG criteria” (Walker and Miller, 2022).

Further, prior studies stated that one of the primary distinctions between fraud and greenwashing is that financial disclosures and reporting are mandatory, whereas ESG disclosures and reporting are typically voluntary (Kurpierz and Smith, 2020). As noted earlier, ESG reporting requirements are progressively transitioning from voluntary to mandatory, as demonstrated by the European Commission’s Corporate Sustainability Reporting Directive ‘CSRD’ (CSRD, 2021) and SEC climate disclosures, 2022. The European Commission CSRD requires that member states when implementing the directive into domestic legislation, they must impose penalties for breaches of reporting responsibilities including provisions for criminal sanctions. The CSRD includes penalties such as: a public declaration describing the nature of the offence and identifying the guilty person or entity; a cease-and-desist order against the responsible person or organisation; and administrative monetary penalties. Consequently, it is argued that the severity of greenwashing, in addition to reputation damage, could result in substantial financial losses

and corporate failure, i.e., penalties or loss of the social and legal license to operate.

5.2.2 ESG reporting assurance can help mitigate Greenwashing

Assurance can help organisations in gaining and maintaining legitimacy by providing independent verification or assessment of their ESG claims. This can help organisations build trust with stakeholders while also discouraging them from engaging in greenwashing. Participants' examples:

..[] ESG reporting assurance can significantly support and improve a company's "social licence to operate" because it provides greater confidence in its ESG activities and reporting. It should support the prevention of greenwashing fraud. Based on the audit procedures, any statement in the report that is not supported by verifiable data must be eliminated" (P35). "Assurance would increase investors' confidence and attract investment opportunities. Investors are becoming more interested in ESG data because it helps them understand a company's long-term value creation plan and allows them to manage their investments based on ESG risks and opportunities. Assurance can improve the trustworthiness of ESG data by revealing the veracity of management's assertions, facts, and disclosures" (P14).

In light of the findings, the researcher urges businesses, where ESG assurance is still voluntary, to take the initiative to engage their audit committee, internal audit, and other assurance providers to assure their ESG reporting. Companies that take proactive steps to build confidence by increasing transparency, reporting their ESG activities, and assuring their information will mitigate critical risks and be in a position to realize associated opportunities. Ruiz-Blanco, Romero and Fernandez-Feijoo (2022) argued companies that publish sustainability reports and assure their accuracy are less likely to engage in greenwashing than those who do not. Trust is the ultimate currency of success

in market-driven economies, and reliable information from credible sources boosts trust (Andreoni, 2005; Pearce, 2015). Christensen (2013) found that firms that issue assured ESG reports are less likely to engage in misconduct the following year, and this relationship appears to be stronger for firms with a higher operational complexity. This study showed that assurance of sustainability reporting mitigates the risk of corporate greenwashing and boost stakeholders' trust in the published reports.

5.2.3 The audit committee's lack of commitment and failure to engage internal audit in assuring ESG reporting could expose the organisation to greater risks and incur additional costs.

The audit committee's lack of commitment

The audit committee is considered indispensable to a sound governance structure (Coetzee et al., 2021). Given the importance of this role, the corporate governance code of each country specifies the audit committee's primary responsibilities and mandate. In addition, the board can delegate and outline additional responsibilities and authority in a documented committee charter, so long as there are no conflicts or violations of the regulation. For example, The UK code of corporate governance by the FRC (2018, p. 10) stated that:

> *"The board should establish an audit committee with a minimum of three independent non-executive directors, or two in the case of smaller companies. The board chair should not be a committee member. The board should ensure that at least one member possesses recent and pertinent financial experience. The committee as a whole must have knowledge of the industry in which the company operates… the audit committee shall, amongst other things: a) monitor and analyse the efficiency of the company's internal audit function... reviewing the company's internal financial controls and internal control and risk management systems, unless… [], b) advising on whether the annual report and accounts as a whole are fair, balanced, and clear, and if the information required for shareholders to assess the company's position and performance, business model, and strategy is provided".*

The overall internal control and risk management systems fall under the audit committee's core responsibilities. This study showed that the majority of audit committees do not currently include ESG reporting assurance on their agendas, causing low level of audit committee engagement in ESG reporting assurance. It was suggested that this could be due to the absence of mandatory ESG reporting assurance requirements in the majority of jurisdictions. Lack of audit committee oversight of ESG reporting assurance as the governing body for risk management increases the likelihood of greenwashing. (UNEP Finance Initiative, 2014) suggested that ESG reporting, and disclosure is one of the audit committee's most important links to sustainability.

Furthermore, this study found a wide range of structures at (Tier 2) the standing committee responsibility. Which showed the range of activities audit committees could oversee from a) no involvement of the audit committee at all (no board delegation for ESG reporting), b) full delegation from the board to the audit committee to oversee ESG strategy, performance, and reporting assurance, and c) audit committee responsibility for ESG reporting assurance and risks management only, with other ESG factors assigned to the respective standing committee of the board.

Tier 1: Responsibility of the Boards

The Board is in charge of the overall strategy and performance of the company, including ESG. Shareholders and other stakeholders hold the board of directors accountable for a variety of aspects of the organisation, including its overall performance, strategic directions, internal controls, and risk management systems.

Tier 2: Scenarios for Engaged Audit Committee Responsibility

Scenario one, the Audit Committee is responsible for monitoring, reviewing, and researching ESG-related issues, suggesting ESG strategies and frameworks, identifying

key ESG risks and opportunities, supervising and evaluating ESG rules, strategies, policies, and goals, discussing the annual ESG report, and submitting the report to the Board for endorsement. The audit committee engages external consultants to support throughout the process.

Scenario two, the Audit Committee is responsible for identifying significant ESG risks and opportunities, supervising and assessing ESG rules and the annual ESG report, and submitting the report to the Board of Directors for approval. The audit committee fully engages internal audit and ensures that all assurance efforts are coordinated and effective. Based on the study results, the researcher has recommended this scenario to audit committees in the following section.

Tier 3: Scenarios for ESG Work Implementation

Scenario one*,* the ESG Working Group is in charge of carrying out the ESG concept and strategy, developing ESG objectives and action plans, and reporting to the Audit Committee on a regular basis. In addition, as part of its continued efforts to incorporate ESG requirements into everyday operations and management and improve ESG performance on an ongoing basis, the Company has assigned specialized staff to generate ESG reports.

Scenario two, sustainability function is in charge of carrying out the ESG concept and strategy, developing ESG objectives and action plans, and reporting to the Audit Committee on a regular basis.

Scenario three, the existing risk management, compliance, or corporate governance department is charged with carrying out the ESG concept and strategy, setting ESG targets and action plans, and regularly reporting to the Audit Committee. As previously stated, the board oversees and is ultimately responsible for the corporate governance and risk management system. The board delegates responsibility to the

committees and determines their mandate and scope of work. Lack of commitment on the part of the audit committee to fulfil their risk management responsibilities by challenging ESG data for accuracy and assuring its reporting could expose the organisation to substantial risks and incur financial and non-financial losses.

Failure to engage internal audit

The audit committee oversees and monitors the effectiveness and efficiency of the internal auditing function. This study demonstrated that internal audit could play a crucial role in assuring the assurance of ESG reporting, which I refer to as "double opportunity". In the absence of required external assurance, internal audit can serve as the primary source of assurance for the requirements of the board and other stakeholders. In the majority of situations, the cost and time required for an internal audit of an assurance engagement are significantly less than what would be required to engage an external assurance provider. Opportunity two: where mandatory requirements exist for external assurance of ESG reporting, internal audit should coordinate the assurance efforts, share their comprehensive understanding of the organisation in order to minimise external assurance costs and time, and testing scope towards an integrated assurance approach. As a result, failing to utilise internal audit to assuring ESG reporting could expose the organisation to greater risks and incur extra assurance fees.

Generally, internal auditors can have a positive impact on their organisation by contributing to and participating in ESG initiatives through assurance or independent advisory activities (Eulerich, Bonrath and Lopez-Kasper, 2022). ESG is an opportunity for internal audit to demonstrate its value as a trusted advisor by leveraging its expertise and influence to ensure that organisations are identifying, and mitigating risks associated with this critical domain. This can be accomplished by ensuring that organisations are utilising their expertise to identify and mitigate ESG-related risks.

5.2.4 The lack of ESG expertise and knowledge among boards, audit committees, and internal auditors can result in greater risk exposure and lower assurance quality

This study showed that ESG is evolving and that most boards, audit committees and internal auditors need to develop ESG knowledge and expertise. It is important that corporate development specialists and decision makers take this note into consideration and prioritize it into their training needs. The UK code stated, "The board should ensure that at least one member possesses recent and pertinent financial experience" (FRC, 2018, p. 10), and similar requirements should exist for non-financial reporting. Research has shown that audit committees' expertise is associated with enhanced disclosures regarding risk management (Hay, Stewart, and Botica Redmayne, 2017), as competency has direct impact on quality of assurance and risk management effectiveness. The UNEP Finance Initiative (2014) recommended that the board and audit committee learn more about sustainability and gain a full understanding of the challenges presented by the increasing demand for ESG transparency and disclosures.

5.2.5 Assurance cannot be as effective when the governance of ESG reporting is ambiguous

This is study noted the use of several reporting standards, such as GRI, SASB, CDP and TCFD. The type, form, and structure of ESG information that organizations choose to report is inconsistent, in turn causing a comparability concern, and confusion amongst ESG reporting and assurance professionals. This study showed that those various ESG reporting standards, disclosure frameworks, and voluntary reporting and assurance requirements in many jurisdictions, resulted in inadequate ESG reporting governance that

should be considered by assurance providers, policymakers or regulators, and boards. Further, even within a single ESG report the absence of a uniform framework for the “E,” “S,” and “G” aspects of ESG could result in inconsistencies. Example, when a business is under pressure from stakeholders to minimise the greenhouse gas emissions from its fleet of fossil-fuelled automobiles. The corporation adopts electric cars, which reduces its ESG-reported carbon impact. But what if the suppliers of raw materials for the batteries of electric vehicles employed conflict elements such as tin and tantalum that is being mined forcefully by indentured prisoners or slaves or children? (Kaplan and Ramanna, 2021). This causes greenwashing concern for businesses across the entire value chain.

The core reasons for a company's existence and its global impact should be ingrained and articulated in its corporate purpose (Alex, 2020; McKinsey & Company, 2022). In the absence of a generally accepted consensus on the purpose that organizations are supposed to play in society, making decisions on what to measure, how to assess it, or how to aggregate ESG data is ad hoc and open to manipulation. The circumstance creates a significant strain on internal auditors when reviewing ESG reports. Auditors often address this issue by delivering a double negative opinion, rather than assuring on the full facts; good, bad and what need to improve on (Kaplan and Ramanna, 2021). For example, the auditors would say something along the lines of "We discovered no indication of misreporting in the company’s ESG report”.

5.3 Recommendations for Practice

This study offers a number of recommendations to boards, audit committees, internal auditors, professional associations, and policymakers in order to mitigate greenwashing risks associated with ESG reporting through its assurance. Building on previous studies, existing academic literature, and the primary data gathered during the course of this research. The direct interaction through semi-structured interviews and discussions with international board and audit committees chairpersons and members, business owners, audit and ESG professionals, and business executives provided an opportunity to understand the current state of the research topic and some of their expectations for keeping up with this evolving and timely topic for more effective greenwashing mitigation controls and strategies. In addition, participants provided insights and some practical recommendations for boards, audit committees, and internal audit to help mitigate greenwashing through ESG assurance.

5.3.1 Recommendations to boards

The Board is in charge of the overall strategic direction and performance of the business, including ESG disclosure and reporting. The findings from this study show that most boards have recently begun to consider ESG activities in response to associated pressures from stakeholders or external institutions. Effective and knowledgeable boards would direct, enable, and seek assurance from audit committees and internal audit to mitigate greenwashing risks. It is recommended that the board engage and mandate its audit committee to oversee the assurance of ESG reporting and the interrelated controls and risks management. Consequently, the audit committee's core responsibilities should include identifying significant ESG risks and opportunities, monitoring and assessing ESG reporting requirements and the annual ESG report and submitting the report to the

Board of Directors for approval. ESG reporting requirements are progressively transitioning from voluntary to mandatory, as demonstrated by the European Commission's Corporate Sustainability Reporting Directive (CSRD, 2021) and SEC climate disclosures, 2022. Therefore, it will no longer be an optional activity for businesses, but a requirement.

Furthermore, given the increased interest in ESG-related information from many stakeholders for the various reasons discussed earlier. It is anticipated that, the board's accountability will likely increase. It is argued that it would be fundamental for boards to utterly understand that ESG matters are more than social or philanthropic gestures. This study found that the majority of boards are ill-equipped to oversee ESG, and some boards may rely on external consultants for ESG related activities. It is argued that this practice may be a temporary solution and that boards should be prepared for a more sustainable practice consistent with the long-term stakeholders value principle of the organisation. Additionally, shareholders and business owners may need to consider appointing new board members with ESG expertise and educating boards on ESG developments. As the importance of ESG increases, boards that embrace the concept of long-term shareholder value, invest in understanding ESG metrics and sustainable strategies, and communicate their sustainability story to stakeholder groups will have a greater opportunity to oversee and grow the business.

5.3.2 Recommendations to audit committees

This study showed that the majority of audit committees do not currently include ESG assurance on their agendas, causing low level of audit committee engagement in ESG reporting assurance. However, the overall internal control and risk management systems fall under the audit committee's core responsibilities. Therefore, it is

recommended that the audit committees' charters clearly state that they are responsible for identifying material ESG risks and opportunities, supervising and evaluating ESG regulations and the annual ESG report, and submitting the report to the Board of Directors for approval. In addition, the audit committees fully engage their internal audit function and coordinate all assurance efforts to save time, money, and effort. KPMG, in their 2022 report, suggested that businesses should engage Internal Audit and external assurance to assess and remediate any significant gaps. Further, they proposed that boards and audit committees should engage internal audit to do at least end-to-end walkthroughs of the processes for identified gaps.

5.3.3 Recommendations to internal audit

This study found that audit should play a significant role in the assurance of ESG reporting, just as it does for the overall internal controls and financial reporting. Internal Audit efforts pertaining to ESG should commence prior to the development or release of an ESG report. This study noted that many companies are at the begging of their ESG reporting journey. As a result, it is recommended that internal audit play a proactive role and support the business throughout the ESG journey, from ESG materiality or risk assessment, ESG risk and opportunities management, policy, and procedure development (i.e., ESG governance), and advise on developing specific internal controls for ESG reporting, ESG reporting metrics and performance measures (i.e., ESG controls), review reporting and disclosures for relevancy, accuracy, timeliness and consistency (i.e., ESG assurance). This recommended role can be fulfilled through educational, advisory, and assurance activities. Prepare their organisations for the increased emphasis on ESG reporting that is likely to result in mandatory assurance.

Focusing on reporting assurance role and in the absence of mandated external

assurance, Internal audit can serve as the primary source of assurance for the board and other stakeholders in particular investors and the public. Where mandatory requirements exist for external assurance of ESG reporting, it is recommended that internal audit coordinate the assurance efforts, share their comprehensive understanding of the organisation, minimise costs and time, and testing efforts of the audit universe in the form of an integrated assurance approach. This research found that integrated assurance is more beneficial for businesses than one sided assurance external assurance or internal.

Furthermore, this study found that competent internal auditors are in a position to support their organisation's' ESG programmes through a variety of internal educational, advisory, and assurance activities. An example of educational activity could be Internal Audit educating the board of directors on the importance of reporting assurance as well as ESG-related risks and opportunities. Advisory work involving supporting or ensuring that the organisation has the right data and records, identifying material issues in the process of getting to a good ESG reporting and perform scenario planning as a critical risk management approach (suggested by P9). An example of an advisory activity could be Internal Audit assisting the business in developing its ESG programme. This may involve identifying the data sources, facilitating workshops to raise awareness of ESG reporting elements, and determining how business units can be more effective and efficient in their reporting. Assurance work involves providing an independent assurance that the data is accurate, and claims are true. It is recommending that internal audit follow the respective professional standards for example, according to IIA standard number 2120 titled 'Risk Management", "internal audits must evaluate the effectiveness of risk management processes and contribute to their improvement" (The IIA Global, 2017, p.3)". In addition, "IIA performance standards number 2130 titled "Control" states that it is the duty of the internal audit function to provide assistance to the organisation in the maintenance of

effective controls by evaluating the effectiveness of those controls and promoting continuous improvement (The IIA Global, 2017). It is argued that the IIA standards numbers 2120 and 2130 establish a foundation for the role of internal audit in providing assurance over the ESG reporting processes and controls of an organisation, just as they do for financial controls.

Lastly, it could be argued that the internal audit team must possess the knowledge and skills necessary to carry out their duties effectively and professionally. The IIA Professional Standards requested competence to ensure the credibility of internal audit in each of these distinct roles, assurance, advisory, learning. If internal audit lacks the necessary skills and knowledge. The audit committee must first enable them by allocating resources to acquire the necessary skills and knowledge. Whether through direct hiring, rotational programs to internal audit personnel, or third-party co-sourcing.

5.3.4 Recommendations to internal audit professional association

This study showed that ESG is evolving and that most internal auditors need to develop ESG knowledge and expertise. The internal audit team must be equipped with the necessary skills and knowledge. According to the IIA Professional Standards, competence is essential to the credibility of an internal audit's ability to provide assurance. Despite the fact that the IIA has published a number of white papers to guide and encourage internal auditors to play a more responsible and proactive role in ESG assurance and advisory services (IIA Global, 2021; Pugliese, 2021; The IIA Global, 2022; EY:IIA, 2022). Internal auditors could benefit from increased ESG knowledge and certification. The Institute of Internal Auditors (IIA) is the internal audit professional association, and The Certified Internal Auditor (CIA) is the IIA's renowned professional certification. The CIA credential is a worldwide recognised certification for internal auditors and a baseline for

demonstrating competence and professionalism in the field of internal auditing (The IIA Global, 2022). Therefore, it is recommended that Internal audit qualification or certification materials to include ESG related information.

5.3.5 Recommendations to policymakers

This study found that ESG reporting assurance are limited in their scope and procedures comparing to reasonable assurance procedures. ESG report with reasonable or high assurance is significantly more credible than one with limited or moderate assurance. (Rivière-Giordano, Giordano-Spring and Cho, 2018) suggested that businesses should avoid picking the limited assurance, the lowest level of assurance, whenever possible since it could have a negative impact on the decisions made by investors when the assurance is voluntary. Therefore, it is recommended that reasonable assurance should be adopted as the standard assurance of ESG reports. Further, it is recommended that policymakers consider mandating reasonable assurance of ESG reporting. This study found that the recently issued Corporate Sustainability Reporting Directive 'CSRD'(2021) of the European Commission mandates assurance of ESG reporting but does not specify that it must have to be of a reasonable extent. Furthermore, this study showed that different ESG reporting standards and disclosure frameworks are used in various jurisdictions, resulting in inconsistencies, comparability issues, and inadequacy of ESG reporting governance, all of which have a negative impact on assurance effectiveness and efficiency (European Commission, 2021). The study also noted recent initiatives by the IFRC foundation to issue internationally accepted sustainability reporting standards, the International Sustainability Standards Board (ISSB), but they are still in development and the scope of their adoption is not yet defined for this study to discuss. Therefore, it is recommended that policymakers collaborate closely with international organisations to

create more unified ESG reporting and assurance frameworks.

5.4 Recommendations for Future Research

This study is exploratory in nature as it investigates the role of audit committee and internal audit in the ESG reporting assurance to mitigate greenwashing based on interview data (2021–2022) globally. This kind of qualitative research is required for deeper understanding of such a growing phenomenon. Future studies may explore to understand the impact and benefits of integrated assurance of ESG reporting or integrated reporting. This is study highlighted there could be potential benefits of integrating the assurance activities. The data analysis in this study was analysed through the lens of neo-institutional theory, to broaden the scope of knowledge in this field, particularly from the perspective of main institutional stakeholders (the regulators, society, and investors). Future research may explore the knowledge of the audit committee and internal audit function in ESG assurance through the use of additional theoretical viewpoints of their choosing. Further, the scope and findings of this study did not test the impact of individual isomorphism change elements. To expand the scope of knowledge in this field, future research can test the impact or correlation of each individual isomorphism change on or to ESG reporting production.

In addition, the research highlighted variability in ESG oversight by industry and by country that should be considered by future researchers. Not surprisingly, given core business objectives, regional regulatory requirements. For example, the energy, healthcare, and manufacturing industries have a higher level of focus on health and safety, ESG-specific, or other types of committees overseeing ESG. In contrast, within the consulting, technology, media, and telecom industries, environmental, health, and safety compliance requirements may not be as stringent. Many businesses created new

committees to oversee ESG, resulting in a notable variability of committee names. For example, the study revealed the existence of an ESG management committee or working group in the financial services industry.

As this study is predominately based on interviews from several industries and geographies, an in-depth case study research could provide additional insights and a more comprehensive perspective of the practice for a specific organization and region. Case studies are most useful for forming descriptive inferences and investigating complex phenomena and in-depth data relating to multiple variables for a single unit, individual, group, or community (Gerring, 2004). According to the findings of this study, ESG factors and materiality differ depending on industry, country (cultural development), and the effectiveness of each organisation's corporate governance. The end-to-end process, including all details and procedures, involved in coordinating the assurance efforts would be of significant interest. In addition, the assurance of ESG information is growing, but main challenges remain. An example of these challenges from this study findings include the ESG reporting and assurance governance, which warrant additional study. Furthermore, future researchers may investigate the necessary skills and competencies for effective ESG reporting assurance.

5.5 Strength and Limitation of The Study

5.5.1 The Strength

This study's main strengths are twofold. First, the research design, in particular the use of semi-structured interviews, provides a better understanding of the role of the audit committee and internal audit in the practice of sustainability assurance in order to prevent greenwashing. This research methodology provided a comprehensive understanding of the evolving topic of ESG reporting assurance and the associated risk of greenwashing. Previous research found that because ESG reporting assurance has only been the subject of a limited number of in-depth studies, the practice is still not very well understood (O'Dwyer, Owen and Unerman, 2011; Elamer *et al.*, 2021; Turzo *et al.*, 2022). In addition, Edgley, Jones and Solomon (2010) claimed that there had been little research into the views of management on whether or not to seek independent assurance of their ESG reporting. In particular, there has been few qualitative research and interview-based studies. Most of the research in this area to date has thus involved desk-bound empirical studies on external assurance, for example (Ball, 2001;O'Dwyer and Owen, 2005; Unerman and O'Dwyer, 2006; Elamer et al., 2021).

Second, the global and assurance multiple stakeholders scope of this research. Members of global boards, audit committee chairs and members, senior executives, internal audit executives, ESG consultants and external auditors were among these stakeholders. Nonetheless, a number of limitations should be taken into consideration.

5.5.2 The Limitation

5.5.2.1 Inductive Research and Generalisations of Findings

This research is based on the interview's' knowledge, and experiences, as with all qualitative interviewing data collection studies. Where inductive research methodology was adopted. The purpose of this study was to explore the current audit committee and internal audit practices and responsibilities from the participants' perspectives. Therefore, the empirical findings presented in chapter five pertain to the perspectives of particular individuals regarding the practice of ESG reporting assurance with some correlation to the theoretical framework. It is acknowledged that the perspectives of these participants may not precisely represent the position of their respective organisations or countries. Therefore, generalisations about the entire population are not possible. Vuori (2017) argued that the interview-based method can be limited by its reliance on people's reflections of their own experiences and professional activities. Moreover, it is worth noting that this research is interpretive in nature, meaning that the paradigms may have been impacted by the researcher's experience as an internal auditor. In such a circumstance, the background of the researcher may influence the data analysis and interpretation of the facts contained in this research, as they are interpretive. Notwithstanding this, all ethical and data quality requirements for this study have been met in full.

5.5.2.2 Scope and Sample Limitation

The majority of the sample for participating organisations is for large corporations; it included five corporations that are listed or classified in the Financial Times Stock Exchange (FTSE) 100 Index. Also, the participating interviewees from the Big Four accounting firms indicated that the majority of their clients are FTSE100 and Fortune 500 listed corporations. Therefore, the study may not be a complete reflection of the ESG reporting assurance practice at all corporations. Furthermore, this dissertation used a purposive sample of global board members, audit committee members, senior executives, internal auditors, and ESG external auditors with more than ten years of professional experience. Although the research objective was met in terms of experience, knowledge, relevance for furthering the study's evolving concepts, and access to a broad global perspective, younger participants could have provided diverse perspectives to the study.

Furthermore, a country-specific and an industry-specific study may yield different conclusions. Previous study of ESG reporting by Golrida et al. (2020) deployed a meta-analysis that integrates 55 various contexts studied between 1998 and 2017 using neo-institutional theory to explore and explaining the complexity of ESG reporting and its relationship with financial performance, suggested that the country and industry specific characteristics shape the forms and dimensions of ESG reporting measurements. Also, according to the new institutionalist Scott (2001), in order to gain a better understanding of the dynamics that resulted in the development and institutionalisation of ESG reporting, a case study examining the historical, social, and organisational context in which these dynamics occurred would be required. This study argued that institutionalization of ESG practices in developed countries happens through coercive isomorphism, i.e., strong institutional features, such as law enforcement, are more prevalent than in developing countries.

5.5.2.3 Findings Timeliness

The findings presented in this study relate to a specific point in time, when interviews were conducted, while the practices and regulation of ESG reporting assurance are rapidly evolving. Therefore, results timeliness should be checked for any further developments.

5.6 Summary of Findings and Conclusions

Organisations are under intense pressure to disclose and report on their ESG information. The growing awareness of the impact of climate change and social issues on business operations and reputation, responsible investing, and sustainability reporting frameworks and standards have increased pressure for ESG reporting and assurance. The COVID-19 pandemic has also highlighted the importance of purpose, resilience and social responsibility in business strategies and raised questions about the long-term sustainability of business and their impact on people and the planet. Investors and the general public have increased their demand for ESG assurance in order to support better investments decision-making and avoid greenwashing.

Despite the growing importance of internal audit and its development to assist board and management in achieving organisational goals, its role is not fully clear to stakeholders (Roussy, 2013). The complexity and diversity of ESG factors, as well as the lack of agreement on ESG definitions and standards, have posed challenges for internal audit in defining its role and scope in ESG assurance. Elamer et al. (2021) suggested that the research in the discipline of ESG assurance is still evolving and, therefore, seems to lack clarity for both academics and practitioners.

Establishing clear roles and responsibilities is one of the most important aspects of corporate governance (Subramaniam, Mcmanus and Zhang, 2009). Prior research has shown that the clarity of roles and responsibilities affects the performance of both the

individual and the organisation (Gil-Garcia et al., 2019). Therefore, it could be argued that it is crucial to clarify the roles of the Audit Committee and Internal Audit in supporting the board in executing their duties in mitigating greenwashing. The roles and responsibilities of the Audit Committee and Internal Audit in ESG assurance should be aligned with the overall governance framework and objectives of the organisation, as well as the needs and expectations of the stakeholders. There is general recognition that the audit committee and internal audit should be actively involved in the process of ESG reporting assurance. The remit of the audit committee role in ESG assurance can be determined by the board, shaped by the legislations and industry standards. Then, the audit committee can determine the role of internal audit to assist them in assuring the board in mitigating the greenwashing risk.

Neo-institutional theory has enhanced my understanding of an organisation's general response to external pressures in the form of environmental and investment risks and social activities. It also provided the framework for understanding how organisations change and adapt in response to external pressures. Researching in this field over the last four years have deepened my knowledge and skills in this sphere, which has been rapidly evolving since I started my research. In addition, ESG assurance is rarely studied and needed depth of understanding for both practitioners and researchers. My study has also improved my research skills and enabled me to conduct independent research that contributes to the thought leadership in the assurance filed. By utilising both academic and practical knowledge, I have been able to identify emerging trends and issues in the ESG assurance domain and offer new perspectives and solutions to address them. In addition, my research has allowed me to identify new areas of inquiry that can inform future research and practise in this critical area.

This study shows five significant findings and offers empirical contributions to the

field of ESG assurance, specifically in mitigating greenwashing through direct engagement with assurance professionals and providers. The study provides valuable information and insights into current practices, as well as recommendations to boards, audit committees, internal audit, and other assurance providers who are confronted with multiple challenges in this rapidly changing domain. The study's findings suggest that competent audit committees should play an active and vital role in ESG assurance. Internal audit can play an important part in ESG assurance, supporting integrated assurance, that many organisations may find to be the most valuable assurance activity. Greenwashing is a real risk, and ESG reporting must be credible and trustworthy in order to gain credibility and trust. Currently, ESG reporting governance is poorly defined, limiting effective assurance. Table 5-1 provides an overview of the key roles and responsibilities that the board, audit committee, and internal audit should assume in ESG assurance to mitigate greenwashing.

The Board

The board is accountable to shareholders and stakeholders for the overall performance of an organisation, its strategic directions, internal controls and risks management systems, amongst other things. The Board is in charge of the overall strategy, risk management and performance of the company, including ESG. Boards that take proactive steps to build confidence by increasing transparency, reporting their ESG activities, and assuring stakeholders on their information will mitigate critical risks and be in a position to realize associated opportunities (Vanclay and Hanna, 2019).

Table 5-1: A concluding summary of the board, audit committee, and internal audit's key roles and responsibilities in ESG assurance

The Board	Audit Committee	Internal Audit
Key assumed responsibilities - set clear sustainability objectives and overseeing the organisation's ESG strategy, reporting practices, and disclosures, - monitoring risks associated with ESG strategy and reporting. - enabling standing committees, auditors and management - protecting and enhancing long-term value of the organisation. - set the ethical tone for the organisation, its corporate governance and culture. - promote a culture of sustainability within the organisation.	Key assumed responsibilities ▪ support the board in executing their duties including: - safeguarding the integrity of corporate reporting process; including financial and non-financial reporting. - overseeing risk management, internal controls, compliance, external audit, internal audit and other assurance providers. e.g., Ensuring that the ESG report subject to independent assurance. - Reviewing the ESG report with management and the board. - making recommendations to the board on the organisation's ESG reporting.	Key assumed responsibilities ▪ provide advisory and assurance support, depending on the size of the organisation and level of ESG maturity; including: - support the board and the audit committee in their oversight of ESG reporting. - monitoring the ESG reporting metrics and governance to improve performance, - auditing the ESG report, - support integrated assurance activities. - conduct materiality or risk assessments on ESG; e.g., help to identify opportunities and risks, and develop strategies to mitigate ESG risks. - advise on the design, development, and implementation of ESG policies and procedures, including specific internal controls for ESG reporting

Audit Committee

The Audit Committee is a standing committee of the board that supports the board in executing their responsibilities. The board delegates responsibility to the committees and determines their mandate and scope of work. Lack of commitment on the part of the audit committee to fulfil their risk management responsibilities by challenging ESG data for accuracy and assuring its reporting could expose the organisation to substantial risks and incur financial and non-financial losses. The audit committee oversees and monitors the effectiveness and efficiency of the internal auditing function.

Internal Audit

There is no doubt that the misconception that the work of internal auditors overlaps with that of external auditors and finance contributed to misunderstandings regarding the role of internal auditors (Roussy, 2013). This study showed that the role of Internal Audit and the type of support it can offer depends on the size of the organisation and level of ESG maturity at their respective organization. For example, small or less developed organisations would require more advisory or consultative services to lay the groundwork for ESG programme and reporting, whereas more developed organisations, such as large banks or multinational conglomerate companies, would require audit support, such as data validation, report and governance reviews. This study demonstrated that internal audit could play a crucial role in assuring the assurance of ESG reporting. By being the source of assurance for the board and other stakeholders or coordinating the assurance efforts, share their comprehensive understanding of the organisation with external assurance providers, such as external auditors and regulators, in order to reduce external assurance costs, time, and the possibility of duplication of effort.

There are several practical implications for boards, audit committees, auditors, corporate governance, and business managers to consider. The following are the main

implications drawn from the findings of this study: greenwashing is a recipe for corporate failure; previous major scandals and corporate failures of large corporations, including Enron, and WorldCom in the USA, and Wirecard in Europe were the result of misleading financial reporting. Non-financial reporting fraud could have similar consequences, given the noted global trend of increased significance, scrutiny and regulations. ESG reporting assurance is a mitigating measure of greenwashing by validating the accuracy and completeness of reported information. The audit committee's lack of commitment and failure to engage internal audit in assuring ESG reports could expose the organisation to greater risks and incur unnecessary losses. A lack of ESG expertise and knowledge among boards, audit committees, and internal auditors would result in increased risk exposure and diminished assurance quality for businesses. Lastly, assurances cannot be as effective as they otherwise could be if the governance of ESG reporting and associated assurance requirements are not clearly defined.

In conclusion, this research shows how important it is to have confidence in ESG reporting and how the board, audit committee, and internal audit can help establish that confidence. Effective assurance activities are necessary to reduce the likelihood of greenwashing. Effective ESG reporting governance is necessary to ensure that assurance efforts are effective. Boards, audit committees, and auditors must take proactive steps to build confidence and increase transparency in ESG reporting to mitigate risks and realise opportunities.

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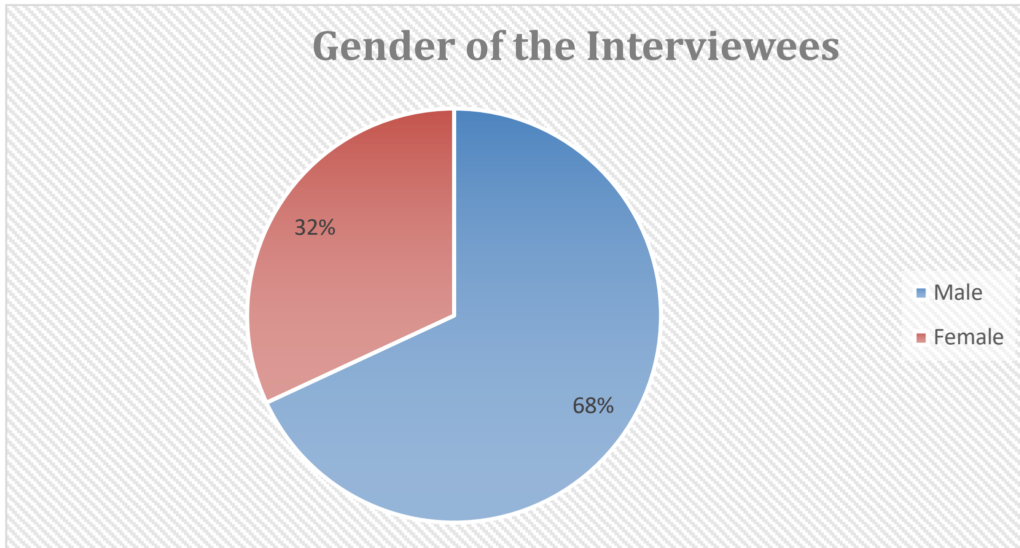
Appendices

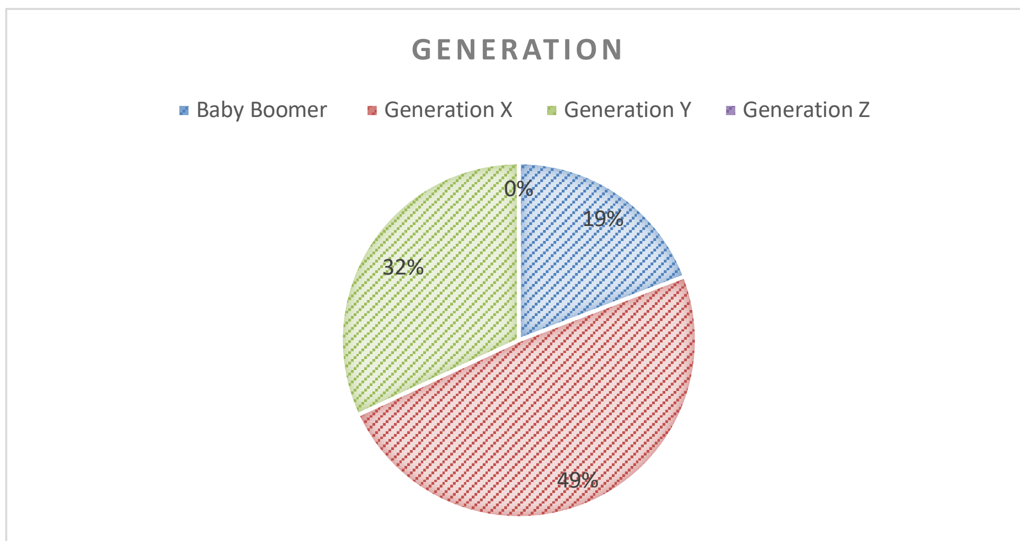
Appendix 1: Semi-structured Interviews Guiding Questions

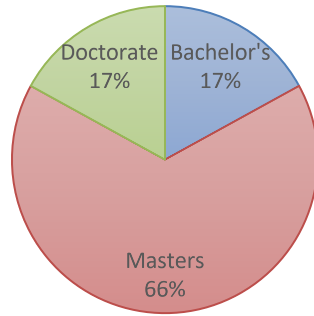
List of Main Interview Questions

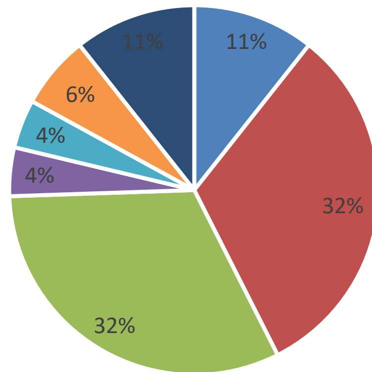
- What is your definition of ESG? or how do you define ESG?
- Could you share some examples of ESG activities in your organization (or client/s)?
- Which ESG factors are more important? e.g., E or S or G.
- In your organization (or at your client/s), what is the practice of ESG reporting assurance? i.e.
    - Who performs ESG Reporting?
    - Where does the board get its ESG reporting assurance? i.e. Is the ESG reporting assurance performed by an internal or external team?
- How should the board oversee ESG, in particular its reporting assurance? i.e. What is your perspective about (leading practices) of the board oversight of ESG reporting assurance?
- Who manage ESG activities in your organization (or client/s)?
- To your knowledge and experience, how do the board of directors make sense of the importance of ESG reporting assurance?
- What role do the Audit Committee and Internal Audit currently play in the assurance of ESG reporting?
- In your opinion, what should they do?
- Can you provide reasons why Internal audit would be (or not) suited to perform ESG reporting assurance activities?
- What lessons or insights from financial reporting assurance can be applied to ESG reporting assurance?
- In your opinion, how effective is the ESG reporting assurance in your organization (or client/s)?
- How is your organization (or client/s) managing the emerging risk of greenwashing?
- In your opinion, what are the benefits to your organization from an independent assurance (either internal or external) of the ESG reports?
- How do you think ESG reporting assurance can influence an organization’s legitimacy now and in the future?
- Any other/ or final thoughts you may have for this study?

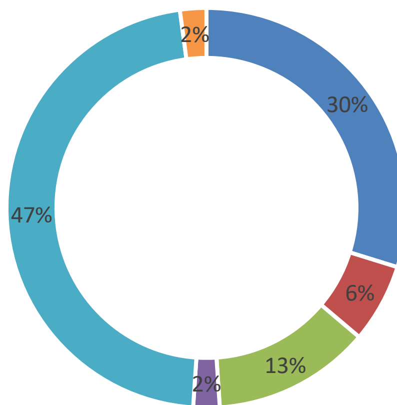
Appendix 2: Demographics of interviews' participants



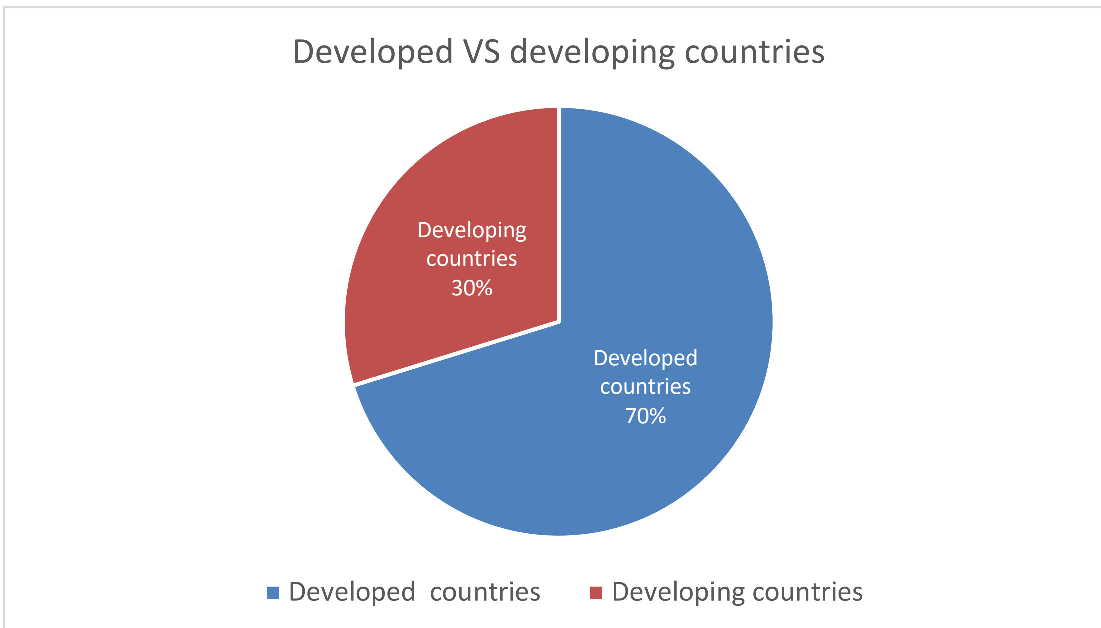



Education
Doctorate
17%
Bachelor's
17%
Masters
66%
Bachelor's
Masters
Doctorate


Professional experience in years
11%
11%
6%
4%
4%
32%
32%
11 - 15
16 - 20
21 - 30
26 - 30
31 - 35
36 - 40
> 41


Geography
2%
30%
47%
6%
13%
2%
Asia
Africa
North America
South America
Europe
Australia

SECTOR
Healthcare
Consulting - Big4
Financial Services
Hospitality
Metals & Mining
NGOs
Diversified
Public Sector
Manufacturing
Transport & Logistics
Oil & Energy
Insurance
Telecommunications
3
7
8
2
2
3
5
4
4
2
3
2
2


Developed VS developing countries
Developing countries 30%
Developed countries 70%
Developed countries
Developing countries

Appendix 3: Example of Participant Consent Form

Participant Consent Form

Title of Project: **Exploring the Audit Committee and Internal Audit's Role in ESG Reporting Assurance to Mitigate Greenwashing** Name of Researcher: **Ahmed Shawky Mohammed**		
Please tick the appropriate boxes	**Yes**	**No**
Taking Part in the Project		
I have read and understood the project information sheet and the researcher has explained to me. (If you will answer No to this question, please do not proceed with this consent form until you are fully aware of what your participation in the project will mean.)	☐	☐
I have been given the opportunity to ask questions about the project.	☐	☐
I agree to take part in the project. I understand that taking part in the project will include being interviewed and video or audio recordings of the interview being made and for transcripts of these anonymised recordings to be used in the research.	☐	☐
I understand that by choosing to participate as a volunteer in this research, this does not create a legally binding agreement nor is it intended to create an employment relationship with Durham University.	☐	☐
I understand that my taking part is voluntary and that I can withdraw from the study at any time; I do not have to give any reasons for why I no longer want to take part and there will be no adverse consequences if I choose to withdraw.	☐	☐
How my information will be used during and after the project		
I understand my personal details such as name, phone number, address and email address etc. will not be revealed to people outside the project.	☐	☐
I understand and agree that my words may be quoted in publications, reports, web pages, and other research outputs. I understand that I will not be named in these outputs unless I specifically request this.	☐	☐

I understand and agree that other authorised researchers will have access to this data only if they agree to preserve the confidentiality of the information as requested in this form.	☐	☐
I understand and agree that other authorised researchers may use my data in publications, reports, web pages, and other research outputs, only if they agree to preserve the anonymity of the information as requested in this form.	☐	☐
So that the information you provide can be used legally by the researchers		
I agree to assign the copyright I hold in any materials generated as part of this project to Durham University.	☐	☐

xxx	xxx, 2022	x
Name of Participant	Date	Signature
____________________	________________	_______________
Name of Researcher	Date	Signature

To be signed and dated in presence of the participant

Copies:

Once this has been signed by all parties the participant should receive a copy of the signed and dated participant consent form, the letter/pre-written script/information sheet and any other written information provided to the participants. A copy for the signed and dated consent form should be placed in the project's main record (e.g. a site file), which must be kept in a secure location.

Appendix 4: Example of Research Participant Information Sheet

Project Title: Exploring the Audit Committee and Internal Audit's Role in ESG Reporting Assurance to Mitigate Greenwashing

Invitation: You are being invited to take part in a research study. This research is a part of a Doctor of Business Administration project at Durham University and Emlyon Business School carried out by Ahmed Shawky Mohammed. Participation in the project is entirely voluntary. Before you decide, it is important for you to understand why the research is being done and what it will involve. Please take the time to read the following information carefully and discuss it with others, if you wish. Please ask Ahmed Shawky Mohammed (contact details are at the end of this document) if you are unsure about it or would like further information.

The Study: Stakeholders demand for ESG reporting is on the rise. However, the governing bodies roles and responsibilities may not be apparent or well-governed in practice. This research explores the audit committee and internal audit's roles in the ESG reporting assurance to assist the board in fulfilling its oversight role. The main research question in this qualitative study is: "How is the governing body mitigating legitimacy threats by assuring ESG reporting?" Supported by a) How does the governing body make sense of the importance of ESG reporting assurance to mitigate legitimacy threats? b) What is the role of the audit committee and IA in ESG reporting assurance to assist the governing body?

This research aims to focus more on mitigating legitimacy threats such as greenwashing by exploring the assurance actors role and their legitimising impact of assurance in the ESG reporting.

Your involvement, should you agree to take part: As governing body members, ESG or audit professional, management member, you are invited to participate in the study so that your professional views can be obtained. You will be interviewed by Ahmed Shawky Mohammed; this should last between ***30 – 60 minutes***. You will also be asked if you agree to the interview being recorded on a voice recorder or a similar device. This is necessary to allow the researcher to transcribe the interview and analyse it at a later date. If you

agree to this, you may still ask for the recorder to be switched off at any time during the interview.

Confidentiality and Anonymity: At no point will your identity be revealed to anyone other than the academic team involved in this project. This team comprises Professor Tyrone Pitsis, Durham University Business School, Professor Géraldine HOTTEGINDRE, Emlyon Business School and Ahmed Shawky Mohammed. All notes and video or audio records will be kept in secure storage and used in accordance with the General Data Protection Regulation (GDPR). No identifying information will be supplied to a third party. The findings will be anonymised, and any identifying information stated during the interview will be changed to make it anonymous. Furthermore, in accordance with GDPR, this research is being carried out as a specific task in the public interest.

What will happen to the results of the research study?

The research will be written up with the intention of being published in academic peer-reviewed journals, but always on the basis of the provisos given.

For further details or questions, contact:

Researcher:

Ahmed Shawky Mohammed Durham University Business School

UK

Email: ahmed.s.mohammed@durham.ac.uk Mobile: +44 (0) 7862 322561

Supervisors:

Professor Tyrone Pitsis
Durham University Business School Tyrone.s.pitsis@durham.ac.uk

Professor Géraldine HOTTEGINDRE Emlyon Business School, France
hottegindre@em-lyon.com

Appendix 5: Example Email to Interviewees for Results De-Brief (Group)

Dear All,

Thank you very much for participating in my study, which is titled "Exploring the Audit Committee and Internal Audit's Role in ESG Reporting Assurance to Mitigate Greenwashing." Your previous participation has contributed to an in-depth understanding of the research and, as a result, of the subject. I am confident it would be very useful in practise and academic scholarship.

I'd be delighted to conduct a debriefing session for a small group of participants now that I've completed the detailed data analysis. The purpose of this one-hour session on 1 June 2022, GMT 7:00 pm, is to present the results of the data analysis and solicit any further comments or feedback. Additionally, you can request a summary of the overall findings, which will be made available upon completion of this research.

I look forward to seeing you once more.

Warm regards,
Ahmed Shawky Mohammed

Appendix 6: Ethical Assessment Form

Ethical Assessment Form Reference: DUBS-2021-11-27T19:27:06-qtdc87

Ethics Form

Ethical Assessment Form

The purpose of ethical review is to ensure that any ethical risks are managed appropriately, and to protect those involved. It is not intended to prevent work, but to ensure that risks have been suitably identified and addressed in the design of the project. This form is intended to assist review in line with the University's ethics policy, to identify possible risks and to gather further information where needed. The form will automatically direct you to the most appropriate review panel (if required).

In the first section you will provide the key project information, and you will then be asked to confirm whether your project involves any considerations which the University has identified as areas of potential ethical risk. If you select any of these areas you will be directed to some further screening questions to identify whether your project involves any significant risk areas. If your project does not involve any significant risk areas your project will not require any further review: you will be directed to the declaration and the process will be complete.

If your project does involve a significant risk area, you will be asked to complete some further questions relevant to the risks you have selected. Once you submit the form, it will be directed to the relevant review process. This process will vary according to the type of risk, and you can find further information at https://www.dur.ac.uk/research.innovation/governance/ethics/process/.

All fields are required, unless indicated as 'Optional'.

Further guidance

Further guidance on relevant issues is available in our Ethics Toolkit. Links to relevant guidance are indicated by this symbol: ⓘ. Your department may also provide discipline-specific guidance.

If you encounter any problems in completing the form, please refer to the user guides. For further support, contact research.policy@durham.ac.uk.

Appendix 7: An Example of Word Tree Analysis Using NVivo

greenwashing