International Business & Economics Studies
ISSN 2640-9852 (Print) ISSN 2640-9860 (Online)
Vol. 8, No. 2, 2026
www.scholink.org/ojs/index.php/ibes

Original Paper

An Examination of the Inhibitory Effect of Internal Audit Quality on Corporate ESG Bleaching Green Behavior

Junyi Li[1]

[1] Guangzhou College of Commerce, Guangzhou, China

Received: April 26, 2026 Accepted: May 27, 2026 Online Published: July 31, 2026

doi:10.22158/ibes.v8n2p262 URL: http://dx.doi.org/10.22158/ibes.v8n2p262

Abstract

With the popularization of the ESG concept worldwide, corporate ESG disclosure has become an important basis for the capital market to evaluate the sustainable development ability of enterprises. However, in order to obtain market recognition and financing convenience, some enterprises disclose ESG information in a false, exaggerated or one-sided manner, i.e., ESG "greenwashing" behavior, which seriously damages the information efficiency and resource allocation function of the capital market. As an important part of the internal governance mechanism, the quality of internal audit directly affects the authenticity and reliability of corporate disclosure. Based on the connotation, manifestation and generation mechanism of ESG, this paper systematically analyzes the theoretical logic and mechanism of internal audit quality to inhibit ESG behavior from the three dimensions of supervisory function, evaluation function and consulting function, and puts forward the practical paths and policy suggestions to strengthen the construction of internal auditing and to prevent the risk of ESG behavior. The study concludes that high-quality internal auditing can effectively inhibit ESG greenwash by enhancing information verification, reducing agency costs, and promoting substantive ESG actions, and is an indispensable internal governance force for the construction of an ESG disclosure integrity system.

Keywords

Internal Audit, ESG Bleaching Green, Disclosure, Corporate Governance, Inhibitory Effect

1. Introduction

Driven by the wave of global sustainable development, the concept of environmental, social and governance (ESG) has risen from a peripheral issue to a core concern of corporate strategic decision-making. 2004, the United Nations Global Compact released the Who Cares Wins report, which firstly proposed the complete concept of ESG. 2023, the International Sustainability Standards

Board (ISSB) officially released the International Financial Reporting Sustainability Disclosure Standard 1 (IFRS S1) and the International Financial Reporting Sustainability Disclosure Standard 2 (IFRS S2), marking the global ESG disclosure of information, which is the first time for ESG disclosure to be made. In 2023, the International Sustainability Standards Board (ISSB) formally issued the International Financial Reporting Sustainability Disclosure Standard No. 1 (IFRS S1) and the International Financial Reporting Sustainability Disclosure Standard No. 2 (IFRS S2), marking a new stage of standardization and mandatory disclosure of global ESG information. Since then, the concept of ESG has been rapidly promoted globally, and ESG performance has not only become an important yardstick for measuring the sustainable development ability of enterprises, but also profoundly affected the logic of resource allocation in the capital market - enterprises with higher ESG ratings tend to be able to obtain more convenience and lower cost of capital in the financing process. In this context, more and more enterprises have started to disclose ESG reports on their own initiative, and the disclosure rate of ESG reports of state-owned enterprises in China has increased year by year.

However, along with the enthusiasm for ESG disclosure, there is a worrying phenomenon - ESG “greenwash”, which can significantly induce corporate “greenwash” behavior ((Li, Chen, Zhao et al., 2026) ESG “greenwashing” refers to the practice of strategically inaccurate, one-sided, or exaggerated disclosures of environmental, social, and governance (ESG) information to create a public image that is better than the true performance of a company in order to obtain green financing, increase market valuation, or avoid regulatory risks (YANG, LIU, & PAN, 2026). This type of behavior is essentially an opportunistic strategy of “talking too much and doing too little”, in which companies hide the truth or exaggerate their promises in order to create a good external image. This not only misleads the decision-making judgment of investors and stakeholders and distorts the pricing mechanism of the capital market, but also seriously undermines the social credibility of the ESG concept itself and hinders the realization of green and high-quality development.

The proliferation of ESG greenwashing behavior has brought about multiple negative consequences. For the enterprises themselves, once the greenwash behavior is exposed, it will trigger a serious reputation crisis and trust collapse, and even face regulatory penalties and litigation risks; for the capital market, the false ESG signals distort the direction of resource allocation, making it difficult for the enterprises that truly practice sustainable development to get the capital premium they deserve; for the society as a whole, greenwash behavior has weakened the environmental improvement and social governance effectiveness of ESG policies, and slowed down the process of achieving the dual-carbon goal. For the society as a whole, greenwashing behavior weakens the environmental improvement and social governance of ESG policies and slows down the process of realizing the dual-carbon goal. Therefore, how to effectively identify and inhibit corporate ESG greenwash behavior has become a focus of attention for academics, practitioners and regulators. Studies have shown that improving the quality of internal control can help improve corporate ESG performance (Chen & Liu, 2025), while auditing, as an important supervisory body of environmental governance, is believed to be effective in preventing and controlling greenwash in ESG reports through its preventive, supervisory, evaluative, and forensic functions. However, most of the current research focuses on the inhibitory effect of external audit or co-audit on greenwash (WANG & YANG, 2025), and pays insufficient attention to the role of internal audit as the "first line of defense" in ESG greenwash governance.

As one of the four cornerstones of corporate governance, the quality of internal audit directly affects the reliability of an organization's information systems and the effectiveness of its internal controls. It has been shown that good internal control quality can promote the ESG performance of enterprises (Chen & Li, 2025). Can and how can the quality of internal audit inhibit the ESG bleaching behavior of enterprises? This question has important theoretical value, which helps to expand the research boundary of the economic consequences of internal auditing from the traditional financial field to the governance field of non-financial disclosure; it also has distinctive practical significance, which provides reference for the regulators to improve the ESG disclosure system and for the enterprises to strengthen the internal audit construction to prevent the risk of greenwashing. On the basis of systematically combing the connotation, manifestation and generation mechanism of ESG, this paper analyzes the theoretical logic and mechanism of internal audit quality to inhibit ESG, and puts forward corresponding governance paths and policy recommendations.

2. Manifestations and Causes of ESG Greenwash

The term "Greenwashing" first appeared in the 1980s, initially pointing to the behavior of enterprises in the field of environmental protection to exaggerate their own environmental performance. With the rise of ESG concept, the connotation of greenwashing has expanded from the single environmental dimension to social and governance dimensions, forming a more comprehensive concept of "ESG greenwashing".

2.1 The Manifestations of ESG Greenwash

The manifestations of ESG greenwash are varied.The specific manifestations of ESG greenwash can be summarized into four categories. First, information distortion. Enterprises publish data or information in their ESG reports that is inconsistent with the facts, such as misrepresenting the effectiveness of carbon emission reduction and exaggerating the results of green technology innovation. This is the most direct and serious form of greenwashing, which directly violates the requirement of "truthful reflection" in information quality characteristics. Second, selective disclosure. Enterprises only disclose ESG information that is favorable to them, while deliberately concealing or downplaying unfavorable information. For example, they publicize the amount of environmental protection investment, but avoid the fact that the pollution emission exceeds the standard. This practice of "reporting the good news but not the bad news" violates the requirements of "relevance" and "completeness" of information quality characteristics. Third, empty promises. Enterprises make a lot of promises in ESG reports, but lack specific action plans, timetables and resources to ensure that the promises are reduced to empty checks. This practice makes the information "understandable" in form, but lacks "verifiability" in substance.

Fourth, symbolic actions. Companies carry out a small number of symbolic ESG activities to create a favorable image, but do not make substantial changes in the way they impact the environment and society in their core business operations. This practice has led to a significant decoupling between ESG disclosure and actual ESG performance.

2.2 The Mechanism of Generation of ESG Bleaching Green

The emergence of ESG greenwash is the result of a combination of factors. Next, we analyze it from the "cost-benefit" analysis framework and the fraud triangle theory respectively.

From the perspective of the "cost-benefit" analytical framework, its generation mechanism can be understood from the three levels of driving force, conditions and consequences. At the level of driving force, enterprises' engagement in ESG mainly stems from two needs. On the one hand, there is a natural structural conflict between the profit-seeking nature of capital and the social responsibility goal pursued by the ESG concept. The instinctive drive to maximize profits makes companies reluctant to invest substantially in ESG areas where it is difficult to see economic returns in the short term, so they choose to replace high-cost substantive actions with low-cost information manipulation. On the other hand, in response to increasingly stringent government regulations and rising social expectations, companies are facing legitimacy and reputational pressure, and greenwashing has become a low-cost risk coping strategy. At the conditional level, there is a serious information asymmetry in ESG disclosure - corporate management possesses private information about ESG practices, while external investors and stakeholders find it difficult to effectively verify the authenticity of such information. At the same time, ESG disclosure standards are not yet standardized and third-party verification mechanisms are not yet sound, providing opportunities for greenwashing. Some studies have pointed out that loopholes in the information disclosure mechanism, insufficient supervision and forensics, as well as weak legal and policy penalties are important external conditions for companies to generate incentives for greenwashing. At the consequence level, while enterprises obtain short-term market recognition and financing convenience through ESG greenwashing, it will also bring serious negative consequences. For the enterprises themselves, once the greenwashing behavior is exposed, they will face reputation collapse and trust crisis; for social governance, greenwashing behavior distorts resource allocation; for the capital market, greenwashing behavior reduces information efficiency.

If from the fraud triangle theory of pressure, opportunity, excuses to analyze, first of all, we found that enterprises in environmental protection to invest in environmental protection transformation, energy saving and emission reduction and other environmental protection equipment costs are generally high, and it is difficult to have a return in the short term, if the enterprise is completely in accordance with the environmental protection point of view to the implementation of the profits will be greatly compressed, resulting in a great deal of economic pressure. The green behavior only needs simple copy and advertising, not only the effect of outward obvious, but also can quickly realize the dividends. For example, consumers are willing to pay a premium for environmentally friendly products, and government subsidies favor environmentally friendly companies. Therefore, under the driving force of stabilizing corporate reputation and meeting shareholders' expectations, management is motivated to drift green. Secondly, information asymmetry, weak system and supervision provide opportunities for greenwashing. Enterprises have complete and true data on emissions, energy consumption, and pollution control, but consumers, retail investors, and the general public find it difficult to obtain true accounts, and the outside world cannot easily verify the truth of the publicity. In terms of institutional regulation, ESG disclosure is not mandatory, so companies can selectively disclose only the bright environmental data and hide the negative information, or use vague terms without quantitative indicators, which are difficult to falsify. Finally, although the management knows that greenwashing is deceptive, it still convinces itself to break the ethical bottom line through seemingly reasonable reasons. For example, greenwashing behavior is explained as the rationalization of the industry herd, that peers are all in the beautification of environmental protection propaganda, everyone is greenwashing, do not do it at a disadvantage, which is a normal business operation, is not considered to be fraud; Another example, with short-term greenwashing profits to feed the future of environmental protection inputs, the first to make a profit and then treat the pollution of excuses such as greenwashing behavior will be rationalized.

3. The Meaning and Governance Function of Internal Audit Quality

3.1 The Connotation of Internal Audit Quality

Internal audit quality is the "lifeline" of internal audit work. It refers to the extent to which the internal audit activity complies with the relevant standards and norms in all aspects of planning, implementation, reporting and follow-up, as well as the reliability of audit conclusions, the validity of audit recommendations and the extent to which the audit work contributes to the value added by the organization. High-quality internal auditing is usually characterized by the independence and authority of the internal audit department, the professional competence of the auditors, the standardization and rigor of the audit procedures, the accuracy and timeliness of the audit findings, the relevance and operability of the audit recommendations, and the effectiveness of the audit follow-up. With the expansion of the internal audit function from the traditional "supervision and evaluation" to "confirmation and consultation", the connotation of internal audit quality has also been extended from mere process compliance to the effectiveness of value creation.

3.2 The Governance Function of Internal Audit

As an important part of corporate governance, internal audit participates in corporate governance through its monitoring, evaluation and consulting functions. Supervision is the most basic function of internal audit. Through the independent review of business activities, internal control and risk management process, internal audit finds and reveals the existing problems and risks, restrains the self-interested behavior of the management, and safeguards the safety and integrity of corporate assets. Evaluation function is the core function of internal audit. Through the systematic evaluation of the management activities and business processes of the enterprise, the internal audit judges its economy, efficiency and effectiveness, and provides the basis for the management to improve the management. Consulting function is the value-added function of internal audit. Internal audit uses its in-depth understanding of corporate operations and professional judgment to provide consulting suggestions for corporate strategic decision-making, risk management and process optimization, helping companies identify opportunities and avoid risks. It is worth noting that, compared with external audit, internal audit has the native advantage of "being close and seeing clearly". Internal audit is able to understand and evaluate the real operating conditions of enterprises in a more timely and in-depth manner, which gives it a unique value in the governance of non-financial information disclosure.

3.3 The Intrinsic Relevance of Internal Auditing to ESG Governance

There is a natural and intrinsic link between internal auditing and ESG governance. On the one hand, ESG governance involves the three dimensions of environment, society and governance, which are precisely covered by internal audit's monitoring, evaluation and consulting functions. Internal audit can fully participate in ESG governance through auditing environmental management system, evaluating the fulfillment of social responsibility and assessing the governance structure. On the other hand, the quality of ESG disclosure cannot be improved without an effective internal monitoring mechanism. As an independent supervisory force within the enterprise, internal audit can supervise and verify the whole process of ESG information collection, processing and disclosure. Some scholars have pointed out that internal audit should focus on improving the internal audit process and risk prevention and control to effectively deal with ESG greenwash risk.

4. Mechanisms of Internal Audit Quality that Inhibit ESG Greenwash

4.1 Strengthening Information Verification and Enhancing the Authenticity of ESG Information Disclosure

An important condition for ESG greenwash to occur is the information asymmetry between corporate management and external stakeholders. High-quality internal auditing can effectively break this information barrier by enhancing the independent verification of ESG information. First of all, internal audit can incorporate ESG information into the scope of regular audit and review the whole process of ESG-related data collection, processing and reporting. This whole-chain review can ensure the accuracy, completeness and reliability of the data. Secondly, internal audit can assess whether the disclosure of ESG information follows the relevant guidelines and standards, and identify material omissions, misleading statements or false information in the disclosure. Thirdly, internal audit can conduct follow-up audits on the implementation of corporate ESG commitments to verify the consistency between "words" and "deeds". Through the above information verification activities, high-quality internal auditing increases the likelihood of detecting ESG greenwash and raises the expected cost of greenwash. When companies realize that their greenwash is more likely to be detected and reported by internal audit, their incentives to engage in greenwash will be significantly reduced.

4.2 Reducing Agency Costs and Constraining Management's Incentives for Greenwashing

From the perspective of principal-agent theory, ESG greenwash is essentially an agency problem. Management chooses to replace substantive ESG inputs with information manipulation for the sake of short-term interests, which is contrary to the long-term interests of shareholders and stakeholders. High-quality internal auditing can reduce agency costs and constrain management's incentives for greenwashing through the following ways. First, the monitoring function of internal audit enhances the ability of the board of directors and the audit committee to monitor management's behavior and reduces the room for management's opportunism; second, the independent evaluation function of internal audit provides more objective performance information for the design of incentive contracts and reduces the over-reliance on superficial ESG indicators; third, the risk assessment function of internal audit helps to identify and reveal the potential risks in the field of ESG, which prompts the management to address the risks in the field of ESG, which is in the long-term interests of shareholders. Thirdly, the risk assessment function of internal audit helps to identify and reveal potential risks in ESG area, prompting management to face rather than cover up the problems. Environmental regulations not only inhibit greenwash directly, but also work indirectly by improving the quality of internal controls. This logic also applies to the governance of ESG greenwash - when management's opportunistic behavior is effectively constrained, its incentive to engage in greenwash is significantly reduced.

4.3 Promoting Substantive ESG Actions to Close the "Speech-action Gap"

The governance of ESG greenwash requires not only "plugging" - to curb false disclosure, but also "dredging" - to guide companies to It is also necessary to guide companies to turn their ESG commitments into substantive actions. The core of effective governance of "greenwash" behavior lies in the establishment of a positive interaction mechanism between "words" and "actions". High-quality internal audit plays a unique role in this process. On the one hand, the evaluation function of internal audit can objectively assess the ESG management structure, capability and effectiveness of an enterprise, help the management of an enterprise to identify the weaknesses and room for improvement in ESG practice, and promote the ESG strategy from "paper" to "ground". On the other hand, internal audit is a consulting tool. On the other hand, the consulting function of internal audit can provide professional suggestions for ESG practices, such as optimizing ESG governance structure, improving ESG risk management process and establishing ESG performance evaluation system. In addition, internal audit can also promote the establishment of ESG internal control and internal reporting system, embedding ESG management into the daily operation process of the enterprise. When the substantive ESG actions of enterprises are improved, the gap between "words" and "deeds" will naturally be narrowed, and the space for greenwashing will also be narrowed.

4.4 Enhancing Internal and External Audit Synergies and Building Synergies Against Greenwashing

The role of internal audit in ESG governance can also be amplified through synergies with social audit (external audit). Internal audit can assist external audit in gaining a more comprehensive understanding of an organization's audit environment and ESG performance, and provide external audit with reliable internal evidence and risk assessment information. At the same time, internal audit and external audit can integrate their respective audit methodologies to jointly assess the quality of ESG disclosure. It has been pointed out that the single internal audit of an enterprise cannot fulfill the requirement of full coverage of audit, and the effect of greenwash governance is limited. Therefore, a tripartite synergistic mechanism should be constructed with state auditing as the leading role, social auditing as the important supplement and internal auditing as the auxiliary role. In this synergistic framework, high-quality internal audit is to ensure the effective operation of the synergistic basis - only internal audit provides true and reliable internal information, external audit and state audit can be based on this higher level of supervision and evaluation.

5. Paths and Suggestions for Improving Internal Audit Quality and Curbing ESG Greenwash

5.1 Integration of ESG Audits into the Regular Scope of Internal Auditing

Currently, the internal auditing work of most enterprises still focuses on financial auditing and compliance auditing, and pays insufficient attention to the ESG area. In order to effectively curb ESG drift, enterprises should incorporate ESG audit into the regular work of internal audit, and clarify the responsibilities and authority of internal audit in the supervision of ESG disclosure. Specifically, special ESG audit projects can be arranged in the annual audit plan to regularly review and evaluate the authenticity of ESG data, the completeness of ESG reports and the implementation of ESG commitments.

5.2 Enhancing the ESG Expertise of Internal Audit Departments

ESG auditing involves a number of specialized fields such as environmental science, sociology, public policy, etc., which puts forward higher requirements on the knowledge structure of auditors. Enterprises should strengthen the training of internal auditors in ESG-related knowledge, including ESG disclosure standards, industry-specific ESG issues, and ESG performance evaluation methods. At the same time, they can consider introducing or cultivating complex audit talents with ESG professional background, or hiring external experts to provide technical support when conducting ESG audits.

5.3 Strengthening the Independence and Authority of Internal Audit

The independence and authority of internal audit is a prerequisite for safeguarding the quality of audit, and is also the institutional basis for its effective function of greenwashing. Enterprises should ensure that the internal audit department reports directly to the audit committee or the board of directors, so as to avoid undue interference by management in the work of internal audit. At the same time, the internal audit department should be given full access to ESG-related information to ensure that it has access to all the information needed to conduct ESG audits.

5.4 Promoting the Digital Transformation of ESG Audits

Digital transformation provides a new technological path to improve the quality of internal audit and ESG information disclosure. With the help of big data, artificial intelligence and other technological means, enterprises can establish an automated collection, verification and analysis system for ESG data to improve the efficiency and accuracy of ESG information auditing. Digital auditing can not only identify abnormalities and contradictions in ESG data more effectively, but also realize dynamic tracking and real-time early warning of the implementation of ESG commitments.

5.5 Improving the Internal Review Mechanism for ESG Disclosure

Enterprises should establish an internal audit system for ESG information disclosure, and make it clear that ESG reports must be independently audited by the internal audit department before they are released to the public. The audit should include whether the source of ESG data is reliable, whether the calculation method is reasonable, whether the disclosure content is complete, and whether there are material omissions or misleading statements. By institutionalizing the internal audit process, the risk of ESG bleaching can be controlled before the information is exported.

6. Conclusion

ESG greenwash is a new form of opportunistic behavior in the field of corporate disclosure, the harm of which lies not only in misleading investors' decision-making and distorting market pricing, but also in eroding the social credibility of the ESG concept and hindering the real promotion of sustainable development. In order to manage ESG, both the rigidity of external regulation and the flexibility of internal corporate governance are needed. The analysis in this paper shows that the quality of internal audit is an important internal governance force to curb ESG greenwash. High-quality internal auditing reduces information asymmetry by strengthening information verification, restrains management opportunism by reducing agency costs, narrows the "speech-act gap" by promoting substantive ESG actions, and builds anti-greenwash synergy by enhancing internal and external auditing synergies, thus forming a multi-dimensional inhibitory effect. This suggests that in the process of promoting the construction of ESG disclosure system, we should not neglect the governance value of internal audit as the "first line of defense".

Of course, the inhibitory effect of internal audit on ESG greenwash is not unlimited. The function of internal audit is limited by its own independence, professional ability and resource allocation, as well as the overall corporate governance environment and institutional ecology. In the future, how to further optimize the system design of internal audit, enhance the professional ability of internal audit, and strengthen the synergistic effect of internal and external audit in the field of ESG auditing is still a subject to be studied in depth. With the improvement of China's ESG disclosure system and the continuous improvement of internal audit quality, internal audit will play a more important role in building an ESG disclosure system that is consistent with "words" and "deeds".

References

Chen, Q. X., & Li, X. R. (2025). Exploring whether internal control can promote corporate ESG performance - Based on empirical evidence of food manufacturing industry. *Journal of Shanxi Finance and Taxation College*, *27*(6), 32-36+50.

Chen, X. S., & Liu, H. D. (2025). Internal control quality and corporate ESG performance. *Statistics* *and Decision Making*, *41*(9), 169-173. https://doi.org/10.13546/j.cnki.tjyjc.2025.09.029

Li, N. N., Chen, J. N., Zhao, Y. W. et al. (2026). Inducing Mechanism and Governance Path of Corporate "Greenwashing" Behavior. *Statistics and Decision Making*, (14), 171-176. https://doi.org/10.13546/j.cnki.tjyjc.2026.14.029

WANG, S. M., & YANG, R. M. (2025). A study on ESG audit synergy anti-drift green in state-owned enterprises. *Business Accounting*, (7), 75-79.

YANG, G. C., LIU, S. Q., & PAN, Y. (2026). Research on corporate ESG "greenwashing" behavior: Manifestations, behavioral motives and governance mechanisms. *Foreign Economy and Management*, *48*(4), 3-22. https://doi.org/10.16538/j.cnki.fem.20260118.201