



# ESG Integrity

Safeguarding against the rise  
in ESG-related fraud

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# The rise in ESG-related fraud

Companies are keeping sustainability and environmental, social and governance (ESG) issues top of mind, as stakeholder expectations – from regulators and investors, to customers and employees – continue to mount.

The landscape around ESG-related disclosures and compliance is also evolving. Regulators are accelerating efforts over mandatory disclosure requirements and taking action against ESG-related misconduct, in a bid to boost the transparency and accountability of companies. For instance, the Singapore Exchange (SGX) has introduced mandatory climate reporting on a “comply or explain” basis commencing financial year 2023. It has also recommended 27 core ESG metrics to assist issuers in its sustainability reporting. While there has not been any enforcement action taken in Singapore, the SGX could soon take other countries' lead in doing so. The US Securities and Exchange Commission (SEC) in 2021 launched a Climate and ESG Task Force, which actively identifies and charges companies that are found to have misstated their ESG disclosures and practices and have already brought charges against a number of them.

Against this backdrop, it is no surprise that ESG-related fraud is

also on the rise. ESG-related fraud refers to misrepresentations of ESG practices or performance to improve ESG ratings, demonstrate compliance with ESG-related disclosures or to attract stakeholders (e.g., greenwashing). Demands faced by companies from internal and external stakeholders, along with complex and changing regulatory standards, can create an environment in which ESG-related fraud becomes more likely.

ESG-related fraud is not new, as it shares many characteristics with financial fraud and misstatement. What is less common with ESG-related fraud is the focus on non-financial reporting, where companies may misstate ESG-related targets and disclosures to deceive their stakeholders. This may include non-financial disclosures, such as total water consumption or greenhouse gas emissions.

Like other frauds, ESG-related fraud could lead to expensive and disruptive consequences, including fines and penalties, reputational damage and loss of investor confidence. ESG-related fraud has the potential for additional impact on the environment and on society, as it means that a company may ultimately have failed to operate sustainably, while balancing its obligations to stakeholders.



# Prevent, detect and respond to ESG-related fraud

To achieve ESG integrity, ESG-related fraud risks should be a core component of your company's risk management strategy, encompassing both proactive and reactive controls.

## Prevent

- ▶ **Tone at the top** – Do your Board and management "walk the talk" on the importance of ESG and the integrity of its reporting? How is this commitment and expectation communicated and reinforced to the rest of the company?
- ▶ **Oversight** – Is there appropriate oversight of ESG controls and segregation of duties to mitigate the risk of ESG misconduct and misstatement? Are there defined roles and responsibilities for your ESG compliance programmes and disclosures?
- ▶ **Communication and training** – Are ESG topics incorporated into your employee training? How is their awareness of ESG and ESG-related fraud measured?
- ▶ **Fraud risk assessments** – Have you refreshed your fraud risk assessment plans to include specific ESG-related risks (e.g. human rights breaches or environmental breaches)? Does your fraud risk assessment consider ESG misconduct (e.g. greenwashing) or mandatory reporting breaches?
- ▶ **Third party risk management** – Are ESG risk assessments applied throughout your supply chain? If vendors provide you with ESG data (e.g. greenhouse gas emissions), how do you gain comfort on the reliability of this data?
- ▶ **Policies and procedures** – Do your policies, procedures and internal controls cover ESG-focused risks (e.g. supply chain related bribery & corruption, verification of non-financial disclosures of ESG metrics, and human rights issues in human resource policies)?
- ▶ **Technology** – Do you leverage automated reporting to monitor the data used for your mandatory ESG disclosures? Are you using technology to proactively identify ESG-related fraud risks before they happen?





## Detect

- ▶ **Data analytics** – Are you using data analytics to detect unusual ESG metrics that may be too good to be true? How do you scrutinise ESG data provided by vendors to gain comfort on its reliability?
- ▶ **Independent reporting channels** – Are there independent channels of communications to facilitate the reporting of potential ESG-related fraud?

## Respond

- ▶ **Planning** – Do you have a formalised process to respond to allegations or suspicions of ESG-related fraud or misconduct? Does your investigation withstand scrutiny or is it at risk of being viewed as “whitewashing”?
- ▶ **Stakeholders** – Have you considered all relevant stakeholders, both internal and external (e.g. regulators, investors or non-financial interest stakeholders)?
- ▶ **The right team** – Is your investigation team both qualified and independent, with the appropriate subject matter expertise?

- ▶ **Investigation methodology** – Does your investigation encompass both quantitative (e.g. total workforce composition) and qualitative data (e.g. witness evidence on working conditions)? Are you utilising technology to retain and analyse complex and disparate data in a forensically sound manner that can withstand scrutiny?
- ▶ **Communication** – Are the results of your investigation tailored to and shared with the appropriate parties? Do you have a communications plan to address any public fallout from investigations?

## Remediate

- ▶ Once the dust settles and the root cause of the ESG-related fraud is identified, do you have a plan to apply the knowledge gained to mitigate ESG misconduct risks in the future (e.g. internal control remediation, business process improvement, technology implementation or external assurance and review)?



# How KPMG can help with ESG integrity services

We can work with you to design, implement, and assess your ESG integrity compliance programmes, based on KPMG proprietary methodologies, regulatory guidance and globally recognised leading practices. We have extensive experience in assisting clients in responding to ESG integrity concerns, whistleblower allegations and litigation.

## Identify and mitigate ESG misconduct risks

- ▶ ESG integrity risk management – We perform comprehensive risk assessments covering fraud, anti-bribery & corruption and risks associated with negative political, economic, social and environmental impacts. Our methodology includes proactive data analysis, ethics training and risk mitigation of ESG misconduct or breaches of regulatory or voluntary ESG commitments.
- ▶ Integrity due diligence – We assist with corporate intelligence research into individuals and organisations with a focus on ESG issues (e.g. human trafficking, modern slavery, human rights or sanctions).
- ▶ KPMG EthicsLine – KPMG’s next-generation whistleblowing platform creates a streamlined and auditable reporting channel to detect, monitor and manage misconduct and fraudulent activities, leveraging advanced technologies to enable a sustainable and ethical workplace.

## Respond to and remediate ESG misconduct

- ▶ Investigations – We conduct independent investigations into ESG-related allegations, including greenwashing and other “washing” schemes. We also look into manipulation of ESG reporting and regulatory breaches, such as bribery & corruption, money laundering, anti-competition and misuse in government grant funding.
- ▶ Litigation support – We assist with financial analysis and damage quantification in ESG-related litigation, such as ESG-related securities and class actions, investor and consumer protection claims, property remediation and environmental impact, and insurance matters triggered by ESG-related claims.
- ▶ Remediation – We advise clients by performing root cause analyses and post-event remediation, including designing frameworks to mitigate the risk of recurrence.



# Our relevant experience

## **Ethics and compliance programme review**

We performed an analysis of the control framework, policies and procedures that support ethical decision-making and compliance across an organisation with global operations. We identified gaps in the design of the organisation's ethics and compliance programme to provide recommendations, including manual and automated controls to optimise the resources dedicated to the programme.

## **Anti-bribery & corruption program assessment for an acquisition target**

We performed bribery & corruption due diligence procedures in the context of a potential acquisition. The target companies under review included numerous mining, alternative energy, and infrastructure companies with global operations. These reviews involved risk assessment, evaluation of existing compliance programmes, checks for "red flags" in accounting records, and interviews at various levels of the organisation. Our team identified several risk areas and provided recommendations to improve compliance monitoring.

## **Integrity due diligence**

We assisted a variety of clients in performing integrity due diligence research with a focus on ESG issues. The aim was to aid in screening senior management and prospective board members, assessing suitability of third parties (including suppliers, agents, investors and other business partners), and in the context of mergers and acquisitions.

## **Ethics training in various industries**

We delivered professional ethics training across a variety of industries, covering topics such as ethics, fraud, anti-bribery & corruption, whistleblower hotlines, insider trading, and corporate social responsibility.

## **Government grants review**

Our team supported a government agency in reviewing the appropriate withdrawal and use of grants. We analysed claims made by grant recipients and the supporting documentation to identify potential abuse and fraudulent grant applications.

## **Fair working conditions review**

We investigated allegations of unfair working conditions at a consumer goods supplier, including falsification of employee timesheets to misrepresent its social-related metrics and meet customers' prevention of modern slavery standards.

## **Forensic investigation**

We conducted investigation and corporate intelligence work involving a group of Singapore-registered companies in the marine livestock industry to independently identify and determine potential instances of misconduct relating to certain transactions with customers and suppliers. Our work included data analysis of operational and financial data, forensic imaging and review of employees' devices to identify any potential collusion. Our investigations highlighted internal control improvement opportunities to prevent future instances of asset misappropriation.



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