

Sustainability Governance and Contemporary Accounting Issues: Institutionalizing Corporate Sustainability Reporting in the Era of International Standards Convergence

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Abstract

This article examines the intersection between sustainability governance and contemporary accounting issues by synthesizing recent regulatory developments. Drawing upon recent survey evidence covering a sample of companies worldwide, the study documents sustainability reporting adoption statistics and identifies unresolved issues related to measurement and assurance, including double materiality, Scope 3 greenhouse gas (GHG) emissions accounting, connectivity with financial statements, and greenwashing risks. Furthermore, it presents an illustrative case study of industrial companies operating within the evolving regulatory landscape.

The article concludes that the accounting profession is currently confronted with a dual challenge: implementing sustainability measurement with the same degree of rigor applied to financial reporting while preserving the decision-usefulness of sustainability information.

Keywords: Sustainability Governance; Environmental; Social and Governance (ESG) Reporting; Corporate Governance; International Sustainability Standards Board (ISSB).

1. Introduction

1.1 Background of the Study

Over the past century, the boundaries of corporate accountability were narrowly defined around shareholders and creditors, while accounting theory developed measurement conventions such as historical cost, the verification principle, and prudence (conservatism) (Watts & Zimmerman, 1986, p. 134).

During the last three decades, however, these boundaries have gradually expanded. What began as voluntary environmental disclosures in the early 1990s has evolved into an extensive framework of increasingly mandatory, standardized, and externally assured sustainability reporting (Adams & Abhayawansa, 2022, p. 11)

The period between 2023 and 2026 represents the most significant transformation in corporate reporting since the international harmonization of financial accounting standards at the beginning

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of the twenty-first century. Sustainability disclosure has shifted from a voluntary, marketing-oriented practice to a regulated, assured, and board-governed component of corporate reporting.

In this context, evidence indicates that only 12% of companies worldwide published sustainability reports in 1993, whereas today 90% of the world's largest companies and 98% of the Global 250 companies issue such reports (Business, 2025). In other words, sustainability reporting has become an almost universal practice among large corporations.

Consequently, the principal question facing regulators, standard setters, and the accounting profession is no longer whether companies will prepare sustainability reports, but rather what information they should disclose, how rigorously it should be disclosed, and under whose governance such reporting should be conducted.

Three major developments have analytically accelerated the institutionalization of sustainability practices:

1.1.1 Establishment of a Global Baseline

The issuance of IFRS S1 and IFRS S2 by the International Sustainability Standards Board (ISSB) in June 2023 has led to their adoption or application across a broad range of jurisdictions. For the first time, these standards provide a credible global baseline for investor-oriented sustainability disclosures (IFRS Foundation, 2025).

1.1.2 Regulatory Recalibration

After introducing the world's most ambitious sustainability reporting framework through the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS), the European Union implemented substantial simplifications through the Omnibus Package, finalized in February 2026, which significantly reduced the scope of mandatory reporting (Crowell & Moring LLP, 2026).

1.1.3 Professionalization of Sustainability Assurance

The issuance of International Standard on Sustainability Assurance (ISSA) 5000 by the International Auditing and Assurance Standards Board (IAASB), effective for reporting periods beginning on or after 15 December 2026, establishes the first comprehensive global standard dedicated exclusively to sustainability assurance engagements (IAASB, 2024).

1.2 Statement of the Research Problem

Despite the widespread adoption of sustainability reporting, a substantial information gap persists. Contemporary accounting continues to face significant challenges, including the absence of standardized methods for measuring social capital and the growing risk of greenwashing, whereby companies employ governance narratives to conceal weak environmental performance.

Moreover, the technical difficulties associated with translating qualitative sustainability objectives into quantitative accounting measurements constitute a structural challenge for auditors and financial controllers.

Accordingly, this study seeks to answer the following research questions:

- How has sustainability governance become institutionalized within corporate reporting systems, and what theoretical perspectives explain this evolution?
- What contemporary accounting issues arise from the emerging sustainability reporting architecture?

- How do corporate reporting preparers address overlapping and continually evolving reporting requirements in practice?

2. Theoretical Foundations of Sustainability Governance

2.1 Definition of Sustainability Governance

Sustainability governance refers to the structures, processes, and accountability mechanisms through which organizations direct and oversee their sustainability-related strategy, risks, and performance. It encompasses board oversight, executive management, incentive design, internal controls over sustainability information, as well as external disclosure and assurance (Aguilera, Aragón-Correa, Marano, & Tashman, 2021, p. 1468).

Sustainability governance lies at the intersection of corporate governance—including boards of directors and shareholders—and sustainability management, which encompasses environmental and social performance (Task Force on Climate-related Financial Disclosures, 2017).

It is noteworthy that China's new climate disclosure standard follows the same governance architecture. On 25 December 2025, the Chinese Ministry of Finance issued a climate disclosure standard based on IFRS S2, structured around the four core pillars of **governance, strategy, risk management, and metrics and targets** (S&P Global Sustainable1, 2026).

2.2 Governance Theories

Four major theoretical perspectives shape sustainability governance practices.

2.2.1 Agency Theory

Agency theory conceptualizes sustainability disclosure as a mechanism for reducing information asymmetry between managers and shareholders. Under this perspective, the ISSB's approach based on single (financial) materiality and investor primacy represents a natural extension of the decision-usefulness objective underlying financial reporting (Jensen & Meckling, 1976, p. 3).

2.2.2 Stakeholder Theory

A theory of business ethics and organizational management, stakeholder theory (ST) holds that organizations should produce multiple benefits for various stakeholders (i.e., groups and individuals who can affect or be affected by the organization—e.g., civil societies, communities, customers, employees, governments, shareholders, suppliers) (Mahajan, Lim, Sareen, Kumar, & Panwar, 2023, p. 1).

2.2.3 Legitimacy Theory

Legitimacy theory interprets sustainability reporting as a means of maintaining an organization's social licence to operate. It predicts that the credibility of sustainability disclosures is frequently questioned, giving rise to concerns regarding misleading reporting and greenwashing. Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (A & POPA, 2013, p. 1579).

2.2.4 Institutional Theory

Institutional theory explains the convergence of sustainability reporting practices through three forms of institutional isomorphism (J & Powell, 1983, p. 152):

- **Coercive isomorphism**, resulting from regulatory requirements;

- **Mimetic isomorphism**, arising from benchmarking against peer organizations; and
- **Normative isomorphism**, driven by the establishment of professional standards.

The period **2023–2026** provides a clear illustration of this process. The endorsement of the ISSB Standards by the **International Organization of Securities Commissions (IOSCO)** in 2023 constituted a powerful convergence signal. IOSCO recommended that its more than **130 member jurisdictions** consider adopting the ISSB Standards, representing perhaps the strongest convergence initiative in the history of sustainability reporting. At the same time, mandatory national adoption legislation provided the coercive mechanism that accelerated implementation (Stavros & Fregoni, 2025, p. 736).

2.3 Definition of Key Frameworks and Standards

Framework Standard /	Issuing Organization	Primary Focus	Role
IFRS S1 (General Requirements)	International Sustainability Standards Board (ISSB)	General sustainability-related financial disclosures	Establishes disclosure requirements enabling companies to communicate sustainability-related risks and opportunities affecting enterprise value over the short, medium, and long term.
IFRS S2 (Climate-related Disclosures)	ISSB	Climate-related risks and greenhouse gas metrics	Requires disclosure of specific climate-related information, including greenhouse gas emissions, physical and transition climate risks, and climate scenario analysis.
CSRD / ESRS	European Union	Mandatory audited sustainability reporting	The Corporate Sustainability Reporting Directive (CSRD), together with the European Sustainability Reporting Standards (ESRS), significantly expands sustainability reporting obligations and requires third-party assurance.
NFRD	European Union	Non-financial disclosure	Improved transparency by requiring companies to disclose policies, risks, and outcomes relating to environmental, social, and governance (ESG) matters.
SASB Standards	Now incorporated into ISSB	Industry-specific sustainability metrics	The SASB Standards have become an integral component of the ISSB framework for industry-based sustainability disclosures.

TCFD Recommendations	Financial Stability Board (FSB)	Climate governance, strategy, and risk management	The four core content areas of IFRS S1 and IFRS S2—Governance, Strategy, Risk Management, and Metrics & Targets—are fully aligned with and build upon the recommendations of the TCFD.
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3. Global Regulatory Architecture

3.1 International Sustainability Standards Board (ISSB)

The International Sustainability Standards Board (ISSB) issued its first two sustainability disclosure standards in **June 2023**, effective for annual reporting periods beginning on or after 1 January 2024 (S&P Global Sustainable1, 2025).

IFRS S1 requires entities to disclose sustainability-related risks and opportunities that could reasonably be expected to affect enterprise value. IFRS S2 complements this requirement by mandating disclosure of specific climate-related information, including greenhouse gas (GHG) emissions, physical climate risks, and transition risks.

Conceptually, these two standards establish a comprehensive global baseline for investor-focused sustainability reporting.

Table 1. Major Regulatory Milestones (2023–2027)

Date	Milestone
June 2023	ISSB issues IFRS S1 and IFRS S2.
July 2023	IOSCO formally endorses the ISSB Standards.
January 2024	First-wave CSRD reporting begins; IFRS S1 and IFRS S2 become effective.
September–November 2024	IAASB approves and publishes ISSA 5000.
February 2025	European Commission publishes the Omnibus proposals.
April 2025	The EU "Stop-the-Clock" Directive (EU) 2025/794 enters into force.
July 2025	EFRAG releases simplified exposure drafts of the ESRS.
December 2025	Preliminary European agreement on the Omnibus Package; ISSB issues targeted amendments to IFRS S2; China issues its climate disclosure standard.
February–March 2026	Directive (EU) 2026/470 is published (26 February) and enters into force (18 March).
Mid-2026	Expected adoption of the delegated act introducing simplified ESRS standards.
December 2026	ISSA 5000 becomes effective for reporting periods beginning on or after 15 December 2026.

January 2027	Revised CSRD scope becomes applicable; amendments to IFRS S2 take effect.
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Source: IFRS Foundation. (2025). IFRS Foundation publishes jurisdictional profiles providing transparency and evidencing progress towards adoption of ISSB Standards. London.

IFRS S1: The Global Baseline Standard

IFRS S1 adopts the principle of **financial materiality**, requiring entities to disclose sustainability-related risks and opportunities that could reasonably be expected to affect their future cash flows, access to finance, or cost of capital. This reflects the same concept of materiality traditionally applied by investors in financial reporting (ESGsource, 2026).

International adoption has been remarkably rapid. **Thirty-six jurisdictions** have either adopted, applied, or are completing the final stages of incorporating the ISSB Standards into their regulatory frameworks. Among these jurisdictions (IFRS Foundation, 2025):

- **Fourteen** aim for full adoption of the ISSB Standards.
- **Two** have adopted only the climate-related requirements.
- **One** intends partial incorporation.

By early 2026, momentum had accelerated further. As of 1 January 2026, twenty-one jurisdictions had adopted the standards on either a mandatory or voluntary basis, with mandatory implementation commencing in countries including Chile, Qatar, and Mexico (S&P Global Sustainable1, 2026).

In Latin America, Brazil's Securities and Exchange Commission introduced phased requirements obliging listed companies to provide ISSB-aligned climate disclosures beginning with the 2026 fiscal year (Socius, 2026).

IFRS S2: Climate-related Disclosures

In December 2025, the ISSB issued targeted amendments to IFRS S2 in response to concerns regarding implementation costs. These amendments provide a number of reliefs and clarifications based on stakeholder feedback received during the consultation process. They become effective for annual reporting periods beginning on or after 1 January 2027, with early application permitted (IFRS Foundation, 2025).

Earlier proposals included granting financial institutions relief from certain measurement and disclosure requirements relating to derivatives, investment banking activities, and insurance underwriting.

Looking ahead, the ISSB is expanding its vision beyond climate-related reporting. The Board intends to build upon the work of the Taskforce on Nature-related Financial Disclosures (TNFD) in developing new standards addressing nature-related issues. More than 730 organizations have already adopted the TNFD recommendations, and the Taskforce is expected to complete its current technical work by the third quarter of 2026 (S&P Global Sustainable1, 2026).

3.2 The European Union

The European Union's sustainability reporting framework is distinguished by the principle of double materiality, which requires companies to report not only on how sustainability issues affect the organization, but also on how the organization's activities affect people and the environment, supported by quantitative information (EY, 2026).

The Corporate Sustainability Reporting Directive (CSRD) entered into force in January 2024 for large public-interest entities, with phased implementation extending to private companies and non-EU parent companies.

At its inception, the CSRD represented one of the world's most ambitious sustainability reporting initiatives. It was expected to require approximately 50,000 companies—including thousands headquartered outside the European Union, among them more than 3,000 U.S. (KPMG, 2024).

However, the political economy surrounding sustainability reporting shifted dramatically during 2025–2026 under the banner of competitiveness and regulatory burden reduction.

A. Directive (EU) 2025/794 ("Stop-the-Clock" Directive)

Directive (EU) 2025/794 postponed the application of entity-level reporting requirements by two years and delayed the first phase of compliance with the Corporate Sustainability Due Diligence Directive (CSDDD) by one year. The Directive entered into force on 17 April 2025 (Deloitte, 2026).

B. Omnibus I ("Content Directive")

On 26 February 2026, the European Union published Directive (EU) 2026/470 (Omnibus I) following a year of negotiations. The Directive introduced far-reaching amendments to both the CSRD and the CSDDD (Crowell & Moring LLP, 2026).

Under the revised framework, mandatory sustainability reporting applies only to EU companies that (Gibson Dunn, 2025):

- employ more than 1,000 employees, and
- generate annual net revenues exceeding €450 million.

This represents a substantial departure from the original legislative proposal.

C. Protection of Value Chain Entities

Companies within the value chain employing fewer than 1,000 employees are designated as protected entities and possess the legal right to refuse requests for sustainability information exceeding the voluntary reporting standard applicable to small and medium-sized enterprises (SMEs) (Gibson Dunn, 2025).

3.3 Other Jurisdictions

The U.S. Securities and Exchange Commission (SEC) finalized its climate disclosure rule in 2024. Although conceptually aligned with the ISSB framework, the SEC rule remains a distinct U.S. regulatory regime, as the United States has not formally adopted the ISSB Standards.

For example, California Senate Bills 253 and 261 reference the Greenhouse Gas Protocol (GHG Protocol) for emissions accounting, which constitutes the same methodological foundation underlying the climate metrics required under IFRS S2 (ESGsource, 2026).

In the United Kingdom, sustainability reporting standards known as the UK Sustainability Reporting Standards (UK SRS) are being developed based on the ISSB framework, while incorporating certain jurisdiction-specific modifications. Companies applying the UK standards will be granted a two-year transition period before reporting all climate-related risks and opportunities, compared with the one-year transition relief available under IFRS S2 (S&P Global Sustainable1, 2025).

Meanwhile, China is developing sustainability disclosure standards aligned with IFRS S1 and IFRS S2, while adapting them to domestic market conditions. China plans to establish a comprehensive national sustainability reporting framework by 2030, including nationally developed methodologies for measuring carbon emissions (S&P Global Sustainable1, 2026).

Table 2. Comparative Overview of Major Sustainability Disclosure Frameworks (Mid-2026)

Dimension	ISSB (IFRS S1/S2)	European Union	United States	China (Ministry of Finance Standard)
Materiality Concept	Financial Materiality (Single)	Double Materiality (Financial + Impact)	Financial Materiality	Four-pillar framework based on IFRS S2
Primary Audience	Investors and capital markets	Multiple stakeholders	Investors	Government and capital markets
Legal Status	Adopted, applied, or under implementation in more than 36 jurisdictions; mandatory in 21 jurisdictions as of January 2026	Directive (EU) 2026/470; effective since 18 March 2026	SEC Rule under legal challenge; state legislation (particularly California) progressing independently	Voluntary pending determination of reporting scope
Scope Threshold	Determined by each jurisdiction	More than 1,000 employees and annual revenue exceeding €450 million	SEC-registered issuers; large entities operating in California	Initially voluntary
Assurance Requirements	Determined by each jurisdiction	Limited assurance (transition to reasonable assurance has been removed)	Phased implementation	Not yet determined
Initial Application	Reporting periods beginning on or after 1 January 2024	Fiscal year 2027 under the revised scope	Subject to litigation and phased implementation	Voluntary from 2026; comprehensive framework expected by 2030

Source: Compiled from publications issued by the **IFRS Foundation**, **S&P Global**, **PwC**, **KPMG**, **Crowell & Moring**, and **ESGsource**, as cited in the reference list.

4. Statistical Evidence on Sustainability Reporting Practices

The most comprehensive empirical evidence currently available originates from the **KPMG Survey of Sustainability Reporting 2024**.

KPMG is one of the world's largest professional services organizations, comprising independent member firms providing audit, tax, and advisory services across 138 countries and territories. The organization advises major institutions operating in sectors including the public sector, financial services, healthcare, climate policy, technology, and economic development.

The survey is based on research conducted by specialists from 58 KPMG member firms, each of which reviewed the sustainability reports of the 100 largest companies within its respective jurisdiction. Overall, the database covers approximately 5,800 companies, making it the most comprehensive survey in the series conducted since 1993 (KPMG International, 2024).

Table 3. Selected Sustainability Reporting Statistics (KPMG Survey of Sustainability Reporting 2024)

Indicator	Global 250 Companies	Top 100 Companies per Country
Publication of sustainability reports	98%	90%
Publication of carbon reduction targets	95% (an increase of 15 percentage points since 2022)	Approximately 80%
Inclusion of sustainability information in annual reports	82%	—
Adoption of GRI Standards	77%	71%
External third-party assurance	69%	54%
Application of double materiality assessments	Approximately 50%	—
Conducting some form of materiality assessment	Approximately 79%	Approximately 79%
Linking sustainability performance to executive compensation	40%	—
Appointment of a Chief Sustainability Officer or equivalent	56%	—

Sources: KPMG (2024); GRI (2024); Sustainability Magazine (2024).

The statistical evidence gives rise to several important observations.

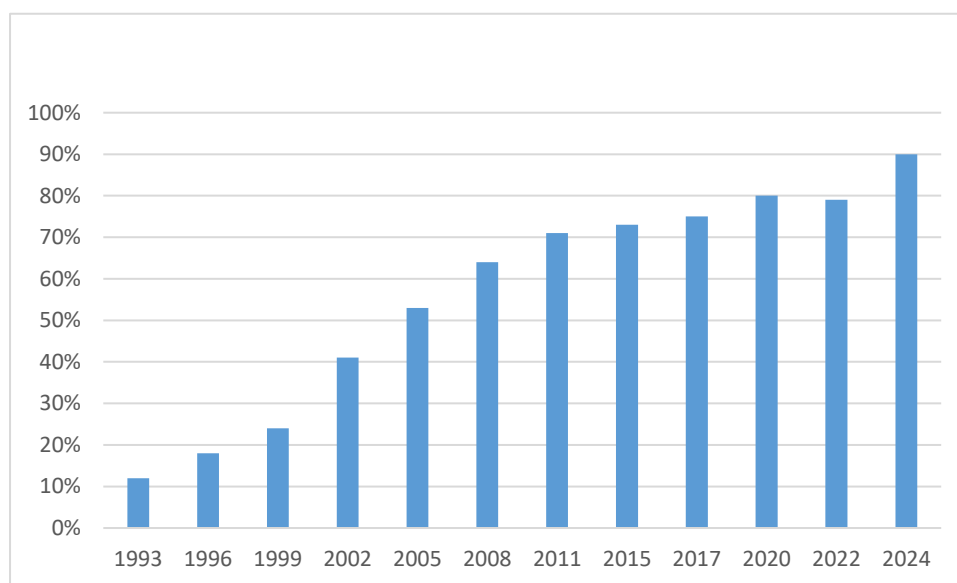
First, sustainability reporting has reached an exceptionally high level of adoption. Approximately 95% of the world's 250 largest companies publish environmental information, while 96% disclose sustainability-related information. Nevertheless, only 56% employ dedicated sustainability specialists, revealing a governance gap between disclosure practices and specialized leadership (Sustainability Magazine, 2024).

Second, 69% of the Global 250 companies and 54% of the largest 100 companies in each surveyed jurisdiction obtain independent third-party assurance for their sustainability reports (KPMG LLP (US), 2024).

Third, governance incentives remain relatively weak. Only 40% of the Global 250 companies explicitly link sustainability performance to executive remuneration (KPMG LLP (US), 2024).

Fourth, the concept of double materiality has expanded well beyond Europe. Approximately half of the Global 250 companies now perform double materiality assessments, indicating growing recognition of the importance of disclosing not only financially material sustainability risks, but also the environmental and social impacts generated by corporate activities (Global Reporting Initiative, 2024).

Figure 1. Growth of Sustainability Reporting Among the Top 100 Companies (1993-2024)



Source: KPMG (2024). <https://assets.kpmg.com/content/dam/kpmg/ro/pdf/2024/the-move-to-mandatory-reporting-report.pdf>.

5. Contemporary Accounting Issues in Sustainability Reporting

The transition from traditional financial reporting to sustainability reporting has generated a new generation of accounting challenges. Unlike financial accounting—which relies primarily on monetary measurement—sustainability reporting encompasses environmental, social, and governance (ESG) information that is frequently qualitative, forward-looking, and subject to considerable estimation uncertainty.

The most significant contemporary accounting issues include measurement uncertainty, valuation, materiality, assurance, greenwashing, and the integration of sustainability information with financial statements.

5.1 The Measurement Challenge: Quantitative versus Qualitative Information

One of the most significant challenges confronting sustainability accounting is measurement uncertainty.

Financial accounting relies on a common unit of measurement—the monetary unit—whereas sustainability reporting incorporates multiple indicators measured using different units. For example (Gray, Adams, & Owen, 2014):

- Carbon emissions are measured in tonnes of carbon dioxide equivalent (CO₂e).
- Water consumption is measured in cubic metres (m³).
- Workplace injuries are measured by incident frequency rates.
- Gender diversity is measured as percentage representation.
- Employee engagement is often assessed using survey-based indicators.

Unlike financial statements, which aggregate transactions into a single monetary measure, sustainability reports combine fundamentally different measurement systems.

This diversity creates substantial challenges regarding comparability, consistency, and aggregation.

5.2 Valuation Models

Another important accounting issue concerns the valuation of sustainability-related resources and impacts.

Traditional accounting standards recognize assets only when they are controlled by the reporting entity, future economic benefits are probable, and their cost or value can be measured reliably (Barth, 2022, p. 5).

However, sustainability reporting increasingly addresses matters such as:

- biodiversity,
- ecosystem services,
- social capital,
- employee well-being,
- community relationships, and
- human rights (Barker & Eccles, 2018, p. 626).

Many of these resources generate long-term economic value while failing to satisfy the recognition criteria established under existing financial reporting frameworks.

Consequently, researchers continue to debate fundamental questions, including:

- How should biodiversity be valued?
- Can social capital be measured objectively?
- Should natural capital be recognized as an accounting asset?
- Is carbon pricing an adequate proxy for environmental externalities?

These questions remain largely unresolved within contemporary accounting theory (Texas Society of CPAs, 2025).

5.3 Reliability and Assurance

Reliability has traditionally been regarded as one of the principal qualitative characteristics of accounting information.

However, sustainability information differs from financial information in several respects:

- it frequently contains forward-looking estimates;
- many disclosures rely upon scientific models rather than historical transactions;
- numerous sustainability indicators depend on management assumptions and judgments.

Consequently, external assurance has become increasingly important (Simnett, Vanstraelen, & Chua, 2009, p. 940).

The International Auditing and Assurance Standards Board (IAASB) issued the International Standard on Sustainability Assurance (ISSA) 5000. It was adopted in September 2024, with official publication in November 2024, following its approval by the Public Interest Oversight Board (PIOB); it is effective for sustainability assurance engagements for periods beginning on or after December 15, 2026, with early application permitted, making it the first comprehensive global assurance standard specifically designed for sustainability reporting.

Structurally, the ISAE 3410 standard will be withdrawn upon the issuance of ISSA 5000, and it has been designed as a standalone standard, so practitioners do not need to apply ISAE 3000 as well.

The standard establishes principles governing:

- engagement acceptance;
- risk assessment;
- evidence gathering;
- materiality judgments;
- reporting responsibilities; and
- quality management.

Unlike previous guidance, ISSA 5000 is designed to apply irrespective of the reporting framework adopted by the reporting entity.

5.4 Interconnection with Financial Statements

Among the crucial contemporary issues in the accounting domain is ensuring the consistency of the assumptions used in sustainability disclosures with those embedded in financial statement estimates (impairment, useful lives, provisions, and the recoverability of deferred tax assets). Sustainability reports are often presented separately from financial statements. This lack of integration makes it difficult for analysts to understand the direct relationship between the company's performance in the field of environmental, social, and corporate governance and its cash flows. Contemporary accounting seeks to solve this problem through "integrated reporting," except that the technical linking between the two different data sets still represents

major challenge. Many of them, such as ESMA and the FRC, have drawn attention to those inconsistencies, such as some companies having transition plans for sustainable development, while using impairment assumptions that presuppose the continuation of business-as-usual demand. For this reason (Barth, 2022, p. 9), the IASB calls for avoiding climate-related and other uncertainties in financial statements, alongside the necessity for companies to publish their financial statements and sustainability reports at the same time, in one internally coherent reporting package (S&P Global Sustainable1, 2025).

5.5 Greenwashing Risk

One of the most significant governance challenges is **greenwashing**.

Greenwashing occurs when organizations create the appearance of strong environmental performance while their actual environmental impacts remain weak.

Examples include:

- selective disclosure;
- emphasizing insignificant environmental initiatives while omitting major impacts;
- presenting ambitious long-term targets without credible implementation plans;
- using vague or misleading sustainability terminology.

As sustainability reporting becomes mandatory and subject to assurance, opportunities for greenwashing are expected to diminish; however, they will not disappear entirely.

Consequently, governance structures, internal controls, and independent assurance remain essential safeguards.

5.6 Connectivity between Sustainability Reporting and Financial Statements

Perhaps the most significant conceptual development in recent years is the increasing emphasis on **connectivity**.

Historically, financial reporting and sustainability reporting developed as largely independent systems.

The ISSB framework now requires organizations to explain the relationships between:

- sustainability-related risks,
- corporate strategy,
- financial performance,
- capital allocation,
- business models, and
- financial statements.

Accordingly, climate-related risks should no longer be discussed exclusively within sustainability reports; they should also be reflected—where appropriate—in accounting estimates, asset impairment assessments, expected credit losses, useful lives of assets, and contingent liabilities.

This integrated approach seeks to eliminate inconsistencies between sustainability disclosures and financial reporting (ISSB, 2024).

Table 4. Major Contemporary Accounting Issues

Issue	Accounting Challenge	Current Regulatory Response
Measurement	Multiple non-financial measurement units	IFRS S1/S2 disclosure requirements
Valuation	Measuring natural and social capital	Continued academic and professional research

Materiality	Financial versus double materiality	ISSB and European Union frameworks
Assurance	Reliability of sustainability information	ISSA 5000
Greenwashing	Misleading sustainability disclosures	External assurance and regulatory oversight
Connectivity	Integration of sustainability and financial reporting	ISSB integrated disclosure model

Resources: (Gray, Adams, & Owen, 2014); (IFRS Foundation, 2025).

The contemporary accounting landscape demonstrates that sustainability reporting is no longer merely an extension of corporate social responsibility reporting. Instead, it represents the emergence of a new accounting paradigm in which financial and non-financial information are increasingly integrated within a unified corporate reporting framework.

6. Case Studies on Sustainability Governance and Contemporary Accounting Issues

Sustainability governance has evolved into the intersection of board oversight, enterprise risk management, sustainability strategy, financial reporting, professional assurance, and legal accountability. IFRS S1 requires entities to disclose governance, strategy, risk management, metrics, and targets relating to sustainability-related risks and opportunities. IFRS S2 applies the same governance architecture specifically to climate-related disclosures and is based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

6.1 Case Study 1: Microsoft – Artificial Intelligence Growth, Emissions Governance, and Sustainability Data Integrity

Microsoft has committed to becoming carbon negative, water positive, and zero waste by 2030, while contributing to the protection of ecosystems. In its 2026 Environmental Sustainability Report, covering fiscal year 2025, Microsoft reported that its total greenhouse gas emissions increased by 25% year-on-year, primarily due to the expansion of data center infrastructure and the company's decision to discontinue the use of non-additional and unbundled renewable energy certificates (RECs) (Microsoft, 2026b).

6.1.1 Governance Issue

The central governance challenge is that Microsoft's rapid expansion in artificial intelligence and cloud computing creates substantial demand for physical infrastructure—including electricity, water, land, servers, construction materials, and supply-chain inputs—while the company simultaneously remains publicly committed to ambitious sustainability targets for 2030.

Microsoft's recent reports characterize this challenge as a transition from ambition to implementation in an environment of rapid technological transformation (Microsoft, 2025).

6.1.2 The Accounting Issue

The company's climate transition action plan explains that the 2021 emissions baseline was restated after improving measurement using more complete data, and a new system for the large

Scope 3 categories. This illustrates a contemporary challenge in sustainability accounting, as better data may lead to improved reliability, but it may reduce comparability across periods unless the restatement and methodological changes are transparent (Microsoft, 2025).

Table 5. Microsoft: Sustainability Governance and Accounting Issues

Dimension	Evidence from the Case	Governance Impact	Accounting Impact
AI expansion and data centers	Microsoft announced an increase in total emissions of 25% year-over-year in the 2025 financial year.	The board and executive management must reconcile the AI growth strategy with climate commitments.	Emissions estimates must determine the impact of infrastructure growth, energy purchases, construction materials, and supplier activity.
Scope 2 accounting	Microsoft linked part of the emissions increase to the cessation of the use of non-additional and unbundled renewable energy certificates.	Procurement governance must distinguish between actual decarbonization and paper-based reductions.	The treatment of renewable energy certificates affects the emissions reported under the market-based approach for Scope 2.
Scope 3 supplier data	Microsoft requires suppliers to provide assurance letters or advisory letters regarding emissions data.	Supply chain governance becomes part of climate governance.	Supplier emissions require controls similar to financial reporting controls: completeness, accuracy, audit trail, and boundary consistency.
Carbon removal	Microsoft points to its investments in carbon removal markets and long-term purchase agreements for carbon removal.	Governance must not rely excessively on removal before achieving actual operational reductions.	A distinction must be made between carbon removal, gross emissions reduction, and the financial recognition of environmental credits.

Source: Microsoft. (2026b). Responsibly building the AI future. Microsoft On the Issues.

6.2 Case Study 2: Unilever – Value Chain Emissions, Double Materiality, and Assured Sustainability Reporting

Unilever's sustainability strategy identifies **four strategic priorities**:

- Climate;
- Nature;

- Plastics; and
- Livelihoods.

According to its 2025 Annual Report, sustainability supports business value through innovation, operational efficiency, and long-term resilience.

The company further reports that 99% of its greenhouse gas emissions originate outside its direct operations, making Scope 3 governance central to its climate strategy (Unilever, 2026a).

6.2.1 Governance Issue

Oversight of sustainability resides with Unilever's Corporate Responsibility Committee, which supervises the company's reputation as a responsible enterprise.

In addition, executive remuneration is linked to sustainability performance through a Sustainability Progress Index, incorporating indicators related to climate, nature, plastics, and livelihoods.

Performance against these indicators is externally assured, although it is not subject to a full financial audit (Unilever, 2026c).

6.2.2 Accounting Issues

The company's climate transition action plan explains that the 2021 emissions baseline was restated after improving measurement using more complete data, and a new system for the large Scope 3 categories. This illustrates a contemporary challenge in sustainability accounting, as better data may lead to improved reliability, but it may reduce comparability across periods unless the restatement and methodological changes are transparent.

Table 6. Unilever: Value Chain Accounting and Governance

Dimension	Evidence from the Case	Governance Implication	Accounting Implication
Scope 3 dominance	99% of emissions covered by the net-zero ambition arise outside direct operations.	Supplier engagement is not optional; it is a core element of climate governance.	Estimation methods, product carbon footprints, and emission factors become critical control mechanisms.
Climate targets	Unilever aims to reduce Scope 3 energy and industrial emissions by 42% , and Scope 3 forest, land, and agriculture emissions by 30.3% by 2030, using 2021 as the baseline year.	The Board must oversee different strategies for industrial and agricultural emissions.	Different Scope 3 categories require different data sources, assumptions, and assurance evidence.
Progress reporting	Unilever reports a 77% reduction in Scope 1 and Scope 2 emissions (relative to 2015), an 11% reduction in energy and industrial Scope 3 emissions, and a 17%	Governance must distinguish between operational control and influence	Progress indicators rely heavily on product carbon footprints, supplier information, and methodological revisions.

	reduction in forest, land, and agriculture Scope 3 emissions (relative to 2021).	throughout the value chain.	
Professional assurance	KPMG issued a limited assurance report on Unilever's 2025 consolidated sustainability statement.		

Source: Unilever. (2026a). **Annual Report and Accounts 2025.**

<https://www.unilever.com/files/unilever-annual-report-and-accounts-2025.pdf>

6.3 Case Study 3: Shell – Transition Risk, Asset Impairment, and the Link Between Climate and Financial Statements

Shell's 2025 Annual Report presents the company's financial, operational, strategic, and sustainability performance for the year ended 31 December 2025. Shell's energy transition strategy includes targets to:

- reduce Scope 1 and Scope 2 operational emissions by 50% by 2030, relative to the 2016 baseline;
- reduce the net carbon intensity of the energy products it sells; and
- achieve a 15%–20% reduction in Scope 3 customer emissions arising from the use of its petroleum products by 2030, relative to the 2021 baseline (Shell, 2024/2026).

6.3.1 Governance Issue

Shell's principal governance challenge concerns the **credibility of its transition strategy** during the energy transition.

The company must continue managing a business that remains heavily dependent on oil and gas while simultaneously disclosing:

- transition plans;
- climate targets;
- lobbying activities;
- Scope 3 impacts; and
- assumptions underlying its financial statements (Shell, 2026a).

6.3.2 Accounting Issues

Shell's financial statements explicitly identify **climate change and the energy transition** as factors capable of affecting amounts recognized in the statement of financial position.

The notes to the **2025 financial statements** identify assumptions relating to:

- future oil and gas prices;
- refining margins;
- discount rates;
- asset retirement and decommissioning costs;

- carbon emission costs;
- recoverability of deferred tax assets; and
- impairment testing,

all of which are influenced by climate-related and transition assumptions.

Table 7. Shell: Accounting for Transition Risk

Accounting Area	Reason for Significance	Evidence from the Shell Case	Governance Question
Impairment testing	Fossil fuel assets may be sensitive to commodity prices, demand scenarios, carbon costs, and discount rates.	Shell states that impairment testing incorporates assumptions relating to climate change and the energy transition.	Are asset values consistent with the company's transition strategy and external policy scenarios?
Asset retirement obligations	The transition and evolving regulation may affect the timing and cost of asset retirement and decommissioning.	Shell identifies decommissioning and restoration costs as assumptions affected by transition planning.	Are provisions updated in response to regulatory developments, useful lives, and expected closure dates?
Carbon costs	Carbon pricing may influence future cash flows and asset economics.	Shell's operating plan incorporates expected costs arising from carbon-related regulatory developments.	Does management perform sensitivity analyses for carbon price assumptions?
CSRD / ESRS	Shell is subject to EU sustainability reporting requirements because of its listing on the Amsterdam Stock Exchange.	Shell indicates that it is voluntarily reporting 2025 sustainability information in preparation for the transposition of the CSRD into Dutch law.	How should voluntary sustainability disclosures be aligned with the financial statements and investor communications?

Source: Shell. (2026b). Consolidated financial statements: Annual Report and Accounts 2025.

6.4 Case Study 4: Delta Air Lines - Carbon Neutrality Claims, Carbon Offsets, and Greenwashing Litigation Risk

According to the Delta Difference Report 2025, Delta aligns its sustainability reporting with the SASB and TCFD frameworks. The report covers the period from 1 January to 31 December 2025 and explains that materiality in the sustainability report differs from materiality in SEC financial reporting.

Delta's 2025 Form 10-K also discusses CORSIA, the global market-based mechanism for offsetting international aviation emissions, and recognizes the significance of aviation emissions within the global environmental system (Delta Air Lines, 2026a).

6.4.1 Governance Issue

Delta's principal governance challenge concerns the credibility of climate reporting within a sector where decarbonization remains particularly difficult.

Airlines face increasing pressure to reduce emissions through:

- improved fleet efficiency;
- sustainable aviation fuel (SAF);
- operational improvements;
- carbon offsets; and
- regulatory compliance.

However, public claims such as "carbon neutrality" require particularly robust supporting evidence (Delta Air Lines, 2026a).

6.4.2 Accounting Issue

The primary accounting issue centers on accounting for environmental credits and carbon offsets, including whether offsets represent voluntary expenses, marketing costs, inventory-like assets, or liabilities. This issue has grown more critical under new US GAAP guidance, where the FASB issued ASU 2026-02 to provide recognition, measurement, presentation, and disclosure requirements for environmental credits and environmental obligations (FASB, 2026).

Table 8. Delta: Carbon Offsets, Sustainability Claims, and Accounting Controls

Issue	Evidence from the Case	Governance Implication	Accounting Implication
Materiality in sustainability reporting	Delta explains that materiality in sustainability reporting differs from financial materiality under SEC regulations.	Boards and legal teams should manage user expectations regarding the meaning of "materiality" across different reports.	ESG disclosure controls should distinguish voluntary sustainability materiality from securities-law materiality.
CORSIA	Delta's 2025 Form 10-K discusses CORSIA as a market-based aviation emissions offsetting mechanism.	Regulatory compliance should be monitored by risk management, legal, and finance functions.	Compliance offsets may give rise to carbon credit assets or related liabilities under applicable program rules.
Carbon neutrality claims	The Harvard Law School Forum reported that <i>Berrin v. Delta</i> alleged that Delta's carbon-neutrality claims were misleading because they relied heavily on carbon offsets.	Marketing, legal, sustainability, and finance teams should review sustainability claims before publication.	Offset purchases should be traceable to supporting records, issuance year, methodology, additionality, permanence, and retirement evidence.

Litigation exposure	The same report notes that Delta filed its response to the complaint on 27 January 2025 .	Greenwashing risk becomes both a legal and a reputational risk at the enterprise level.	Potential liabilities may require recognition or disclosure when litigation risk becomes probable and can be reasonably estimated.
Operational boundaries	Delta excludes Monroe Energy from its ESG reporting because it is managed separately, although Monroe reports greenhouse gas emissions to the U.S. Environmental Protection Agency (EPA).	Reporting-boundary decisions should be transparent.	Reporting boundaries affect total reported emissions, comparability, and the scope of assurance.

Source: Delta Air Lines. (2026b). Form 10-K for the fiscal year ended December 31, 2025. U.S. Securities and Exchange Commission.

6.5 Comparative Analysis of the Case Studies

Table 9. Comparison of the Four Case Studies

Company	Primary Sustainability Governance Issue	Primary Accounting Issue	Principal Risk	Best Practice Response
Microsoft	Governance of AI growth and data center expansion while pursuing 2030 sustainability commitments.	Scope 2 and Scope 3 measurement, supplier assurance, and carbon removal claims.	Rising emissions undermine the credibility of climate commitments.	Integrate sustainability into capital allocation, energy procurement, and supplier contracts.
Unilever	Governance of an extensive value chain under a double materiality framework.	Scope 3 boundaries, product carbon footprint recalculations, and limited assurance.	Uncertainty in Scope 3 data and reliance on suppliers.	Strengthen supplier climate programs, disclose methodological changes transparently, and establish assurance-ready data systems.
Shell	Governance of the energy transition while maintaining dependence on fossil fuels.	Asset impairment, carbon costs, useful lives, and climate assumptions.	Inconsistency between transition claims and financial statement outcomes.	Align climate strategy, operational planning, and IFRS accounting estimates.

Delta Air Lines	Governance of climate reporting in a hard-to-abate industry.	Accounting for carbon offsets and CORSIA obligations.	Greenwashing litigation and limited reliability of offset claims.	Conduct legal review of sustainability claims and clearly distinguish between emissions reductions and carbon offsets.
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6. Discussion and Implications

The experiences of these companies demonstrate that ambition must be accompanied by effective implementation. The targeted amendments introduced by the ISSB to IFRS S2 and the European Omnibus Package both represent attempts to calibrate sustainability governance standards. However, excessive simplification threatens comparability and market discipline, whereas excessive prescription risks producing standardized yet uninformative reporting.

For the accounting profession, sustainability information has become an essential component of corporate reporting rather than a supplementary disclosure. The convergence of ISSA 5000 with the ethical standards issued by the International Ethics Standards Board for Sustainability Assurance (IESSA) underscores the necessity of integrating sustainability reporting into the core financial reporting outputs of companies.

The survey evidence also reveals an implementation gap at the board level. In some cases, sustainability disclosure and transition claims are not fully aligned with the outcomes reflected in the financial statements, suggesting that formal governance structures continue to lag behind actual corporate reporting practices.

7. Conclusion

Contemporary accounting has evolved beyond the preparation of financial statements into a multidisciplinary domain where governance, ethics, and sustainability converge. The literature indicates that the fields of accounting, finance, and corporate governance are undergoing a fundamental transformation, moving beyond traditional measures of financial performance and regulatory compliance toward integrated approaches that incorporate environmental, social, and ethical dimensions. This transformation necessitates a critical examination of how financial systems, governance frameworks, and accounting practices can facilitate sustainable value creation, responsible investment, and transparent stakeholder engagement.

Within this context, accounting extends beyond its traditional role as a technical support mechanism for capital markets to become an instrument capable of influencing sustainability outcomes, climate action, and greenhouse gas emissions reduction. Although climate-related risks should not be regarded solely as matters for sustainability reporting, claims such as "carbon neutral," "net zero," "renewable," and "sustainable" must be supported by robust and verifiable evidence and should undergo legal review in accordance with the applicable regulatory requirements of each jurisdiction. Furthermore, sustainability reporting should be subject to the same level of discipline, rigor, and assurance applied to financial reporting.

Despite the significant progress achieved, substantial implementation gaps remain, particularly with respect to the harmonization of metrics for social and environmental indicators. These shortcomings contribute to inconsistencies in the interpretation and application of sustainability standards. Moreover, governance extends beyond formal rules and regulatory requirements to encompass organizational culture. Many organizations continue to regard sustainability reporting as a mere compliance exercise—a "box-ticking" activity—rather than as a strategic management tool.

This phenomenon, commonly referred to as symbolic compliance, occurs when accounting disclosures appear satisfactory on paper but fail to reflect genuine improvements in an organization's environmental or social performance.

In addition, the risk of greenwashing remains a persistent concern, as some organizations continue to disclose only favorable sustainability outcomes while omitting significant adverse impacts. This reinforces the urgent need for independent assurance and rigorous auditing standards. Overcoming these challenges will require coordinated efforts by regulators, standard setters, corporations, and accounting professionals to develop robust methodologies, harmonized metrics, and effective assurance mechanisms.

In conclusion, the concept of sustainability governance has a profound influence on the design, implementation, and assurance of corporate reporting standards by broadening disclosure requirements, strengthening regulatory oversight, and redefining the role of accounting within corporate governance. Although this transition presents considerable technical and resource-related challenges, it also offers unprecedented opportunities to enhance transparency, strengthen stakeholder engagement, and create sustainable long-term value. Ultimately, success in this field depends on the effective integration of technological innovation, professional competence, and regulatory compliance within a coherent governance framework that supports the global transition toward a more resilient, equitable, and sustainable economy.

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