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# Remodelling the Integration Principles of International Financial Reporting Standards (IFRSS) Reporting Requirements with Environmental, Social Governance (ESG) Sustainability Reporting

**Zivanai Mazhambe**

**Post Doctoral Sustainability Research Bright Africa Consultancy Training**

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## ABSTRACT

The International Financial Reporting Standards (IFRS) Foundation has traditionally shaped financial reporting through its frameworks and accounting standards, mainly focussed on the investors and capital providers. with an overall goal to maximize wealth and returns. The traditional accounting models have been marred by short termism returns at the detriment of financial sustainability and returns, that mitigate other key stakeholders, Other key capital formations including the planet (environmental capital), people (human capital) and profits (economic capital) which sustainability reporting considers in addition to the investors required rate of return. The IFRS foundation in mitigation of these growing sustainability upheavals, has formed International Sustainability Standard Board (ISSB) framework, which is dubbed as IFRS Sustainability, and to date has issued two (2) standards, namely the IFRS S1 (general related financial sustainability) and IFRS S2 (general related Climate sustainability) whose effected adoption was January 2024. Whilst these ISSB framework interventions are fast gathering momentum and adoption across numerous international jurisdictions, their key goals are more focussed on financial materiality at detriment of impact materiality, whose hallmark is the Environmental, Social and Governance (ESG) Reporting. This study seeks to remodel traditional financial reporting principles to embed sustainability reporting and impacts. An empirical study was adopted focussed on Pan African Federation Accountants (PAFA) across all the African jurisdictions. The findings revealed that IFRS is rooted in decision useful information relevant to investors and capital providers, at the expense of other key stakeholders including, communities, employees, regulators and those across the supply chain. Furthermore, sustainability reporting conceptually does not apply the accrual concept, which makes integrated reporting technically challenging. The IFRS S2 is climate centric, through the environmental pillar, at the expense of the other environmental issues and the social pillar of the ESG Framework. The study recommends the further evaluation of the ISSB Framework consolidated reporting with traditional financial reporting.

**Keywords:** ESG, ESG Reporting, Sustainability, Sustainability Reporting, PAFA, IFRS S1 /IFRS S2, ISSB, Sustainability Strategy

## INTRODUCTION

The International Accounting Standards Board (IASB) financial reporting standards is the financial reporting pinnacle basis for numerous geographical dispersions, mainly through International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS). These standards have been widely accepted and evolved with the investor and capital providers as being the overriding primary users and beneficiary of their financial reports. This reporting objectivity underpinning has been largely promulgated through the IASB Conceptual Framework. The investor's profit and wealth maximisation objectives and the subsequent returns have compromised other forms of capital and mainly the environmental capital, which has culminated into negative effects and raw material availability. The Environmental, Social and Governance (ESG) international stewardship growing concerns and negative discontentment across the globe, are strongly exerting a heavy pressure on the accounting standard setters to consider ESG accounting and reporting principles, as integral non-financial reporting disclosures. These International growing ESG conscious investors considerations and requirements, are pushing for mandatory ESG and sustainability integration disclosures, therefore culminating into potential remodelling of IFRS Foundation's reporting requirements.

## LITERATURE REVIEW

### Global climate change, resource depletion and carbon transition challenges

Environmental, Social and Governance (ESG) is a set of criteria that impact a company's investment making process and operations in a manner that assesses the environmental impacts through climate change or sustainability; social considerations through community stakeholder investments and governance considerations through transparency, accountability and compliance in company operations (Basel, 2021). Notable human and natural ecosystems have been subjected to the negative effects of these climate change and human health risks across many geographical regions (Basel, 2021). Developing countries appear to be affected by climate change through their economic growth, with empirical evidence suggesting the increase of 117 basis points on the cost of debt, and an increase in socioeconomic challenges thereby further harnessing climate physical and transitional risks (Basel, 2021)

It is estimated that combined human activities have significantly contributed to global warming to about 1.0 degrees Celsius, with a further projection to reach 1.5 degrees Celsius of global warming above between 2030 to 2052 above the pre-industrial levels. (IPCC, 2025), The European Union (EU) envisages that the current unprecedented level of climate change, carbon transition and resource depletion has stampeded countries in all geographical jurisdictions to adopt the Paris Agreement (2015) and the UN 2030 Agenda. The EU in its commitment to sustainable financing through transitioning to greener lower carbon circular economy has committed at least more than 20% of its budget toward climate related considerations through sustainable investments and projects.

### Sustainable Corporate Value creation

Sustainable corporate value creation and maintenance is a by-product of cohesive ESG Reporting performance in integrated thinking, decision making and accompanying resolute actions over the short-, medium- and long-term company interventions that enhance stewardship and accountability through utility of broad base of capitals (financial, intellectual, manufactured, human, social and relationship and natural) interdependences (IIRC, 2013). The broad base of capital formations comprising of financial (debt, equity, derivatives), intellectual (knowledge systems, patents, trademarks, copyrights), manufactured (business assets produced or purchased for sale, production systems), human (talents, skills, experience), social and relationship (staff, management, community, business suppliers, customers, regulators) and natural (environmental capital, raw materials)

IFRSs are pivotal in checks and balances in financial information presented fairly, to aid capital funders and provider's objective decision making through general purpose financial statements, underpinned by the published standards Karpeo (2024). The IFRS Conceptual framework provide additional guidance and clarity on a variety of technical and non-technical guidance for the benefit of investors, creditors and lenders in providing information and decision useful information, which is required for comparability.

### Integrated Reporting

The core integrated reporting guiding principles include: future orientation and strategic focus (creation of value and capital base maintenance), materiality (significant principles that impacts strategy and value creation), stakeholder relationships (social stakeholder aspects), risks and opportunities (real and potential risks and opportunities impacting short, medium and long term) and data connectivity (value creation dependencies) which underpin the preparation of integrated reports

### International Financial Reporting Standards on Sustainability

The international Sustainability Standards Board (ISSB) was formed to promulgate a sustainability framework that advances the information needs of the investors in the capital markets, and to date has issued the sustainability standards namely, IFRS 1 (general financial related information) and IFRS S2 (climate related information) (IFRS, 2023)

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IFRS Foundation through the promulgation of IFRS S1 and IFRS S2, has envisaged disclosure of sustainability and climate related risks and opportunities (IFRS Sustainability, 2023). These standards are earmarked to be the global baseline for reporting of sustainability and climate disclosures, incorporating other sustainability frameworks like the Task Force on Climate related Financial Disclosures (TCFD), Climate Disclosure Standards Board (CDSB), and International Integrated Reporting Council (IIRC). The IFRS S1 and IFRS S2 reporting disclosures are effective January 2024, for investors decision usefulness in the provision of entity resources.

**Research Objective**

To remodel the integration principles of International Financial Reporting Standards (IFRSs) reporting requirements with Environmental, Social Governance (ESG) sustainability reporting.

**Research Question**

Evaluate the integration principles of International Financial Reporting Standards (IFRSs) reporting requirements with Environmental, Social Governance (ESG) sustainability reporting

## METHODOLOGY

The study methodology adopted is mixed research methodology (Mazhambe, 2014), through researcher administered questionnaires and interviews. The case study research design (Mazhambe, 2014) is premised on the enquiry approach so as to extract deeper meaning and presumably perceived variable correlations on the study phenomena. Descriptive and inferential statics have been adopted for data analysis, including qualitative explanatory notes have been employed to extract deeper meaning of the study phenomena (Mazhambe, 2020). The study population was IFAC Accountants in public sector based in Africa, with the sampling frame of Pan African Federation Accountants (PAFA) public sector accountants, being selected randomly (Mazhambe, 2020).. The accountants jurisdictions adopted in this study were southern Africa, East Africa, Central Africa, West Africa and North Africa (Mazhambe, 2020).

## DATA ANALYSIS, PRESENTATION AND DISCUSSION

| *Southern Africa* | | *East Africa* | | *Central Africa* | |
|---|---|---|---|---|---|
| Mean | 0.2 | Mean | 0.2 | Mean | 0.2 |
| Standard Error | 0.064265076 | Standard Error | 0.076419893 | Standard Error | 0.063087241 |
| Median | 0.2 | Median | 0.15 | Median | 0.21 |
| Mode | #N/A | Mode | #N/A | Mode | #N/A |
| Standard Deviation | 0.143701079 | Standard Deviation | 0.170880075 | Standard Deviation | 0.14106736 |
| Sample Variance | 0.02065 | Sample Variance | 0.0292 | Sample Variance | 0.0199 |
| Kurtosis | -0.889153363 | Kurtosis | 1.180486489 | Kurtosis | -0.086437211 |
| Skewness | 0.409445586 | Skewness | 1.149869147 | Skewness | 0.368689471 |
| Range | 0.36 | Range | 0.44 | Range | 0.37 |
| Minimum | 0.04 | Minimum | 0.03 | Minimum | 0.03 |
| Maximum | 0.4 | Maximum | 0.47 | Maximum | 0.4 |

| | | | | | |
|---|---|---|---|---|---|
| Sum | 1 | Sum | 1 | Sum | 1 |
| Count | 5 | Count | 5 | Count | 5 |

Table 1: Primary data: Southern Africa, East Africa, Central Africa

| *West Africa* | | *North Africa* | |
|---|---|---|---|
| Mean | 0.2 | Mean | 0.2 |
| Standard Error | 0.081055537 | Standard Error | 0.077910205 |
| Median | 0.14 | Median | 0.13 |
| Mode | #N/A | Mode | #N/A |
| Standard Deviation | 0.18124569 | Standard Deviation | 0.174212514 |
| Sample Variance | 0.03285 | Sample Variance | 0.03035 |
| Kurtosis | 0.54826491 | Kurtosis | 0.113605954 |
| Skewness | 1.043849944 | Skewness | 0.817517313 |
| Range | 0.46 | Range | 0.45 |
| Minimum | 0.02 | Minimum | 0.01 |
| Maximum | 0.48 | Maximum | 0.46 |
| Sum | 1 | Sum | 1 |
| Count | 5 | Count | 5 |

Table 2: Primary data West Africa, North Africa

| ANOVA | | | | |
|---|---|---|---|---|
| *Groups* | *Count* | *Sum* | *Average* | *Variance* |
| Southern Africa | 5 | 1 | 0.2 | 0.02065 |
| East Africa | 5 | 1 | 0.2 | 0.0292 |
| Central Africa | 5 | 1 | 0.2 | 0.0199 |
| West Africa | 5 | 1 | 0.2 | 0.03285 |
| North Africa | 5 | 1 | 0.2 | 0.03035 |
| **Table 3: ANOVA** | | | | |
| ANOVA | | | | |
| *Source of Variation* | *SS* | *df* | *MS* | *F* |

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| | | | | |
|---|---|---|---|---|
| Between Groups | -1.11022E-16 | 4 | -2.77556E-17 | -1.04384E-15 |
| Within Groups | 0.5318 | 20 | 0.02659 | |
| | | | | |
| Total | 0.5318 | 24 | | |

Table 4: ANOVA variance analysis

As evidenced form the above statistics whose data is statistically significant and in correlation, the mean, median values are relatively coherent, with acceptable insignificant standard errors, extracted from the primary data premised on the research question on respondents from different jurisdictions of Southern Africa, the data has internal and external validity, and free from bias. The ANOVA statistics is also in congruent with linearity, as evidenced from the critical values within and between the group sets above. The data range depicted is clearly and effectively spread and is representative of the sample population. There is therefore a notable significant correlation and consistency for statistical significance to derive inferential conclusions.

The findings from the respondents as depicted above were statistically significant and the qualitative content analysis also virtually concurred, that recognition and measurement of government assets and their accounting is technically challenging and difficult. The majority of respondents reiterated that the numerous measurement basis for financial statements were not prescriptive and hence relying on professional judgement of the preparer depending on the market conditions. There is no clearly defined correlation of specific assets and measurement basis, hence being subjective in nature. The subjectivity of asset measurement especially with regard to intangible assets is open to user manipulation.

As evidenced form the above statistics whose data is statistically significant, extracted from the primary data premised on the research question on respondents from different jurisdictions of Southern Africa, East Africa, Central Africa, West Africa and North Africa, the data has internal and external validity, and free from bias. The mean, median values are relatively coherent, with acceptable insignificant standard errors. The ANOVA statistics is also in congruent, as evidenced from the critical values above. The data range depicted is clearly spread and is representative of the sample population. There is therefore a notable significant correlation and consistency for statistical significance to derive inferential conclusions.

The findings from the respondents as depicted above were statistically significant and the qualitative content analysis also virtually concurred, that the assessment of the PAFA Professionals regarding the creation of a new sustainability reporting model. The majority of respondents concurred that traditional financial reporting using only the IFRS and IAS reporting standards is fast becoming technically obsolete and of limited decision usefulness to the investors

**Proposed Esg Integration Sustainable Business Model & Ecosystems**

The existing traditional business model and International financial Reporting Standards (IFRS) should be remodelled . The traditional business and financial model under the IFRS reporting framework is underpinned by the profit making overall, is proving to be technically obsolete and of limited decision usefulness to investors through the capital markets. The study is therefore recommending the adoption of a new ESG sustainability business model and ecosystem integration, based on the existing ESG and sustainability Frameworks and Standards. The proposed ESG and sustainability model is as depicted below:

**Environmental, Governance and Social (ESG) Material Risks**

Environmental risks mainly manifest in the form of water management, energy management, natural resources management, ecology & diversity management. Social risks presumptively manifests in human capital management, human rights, labour issues, community engagement and development. The Governance risks interplays in the forms of transparency and disclosure of shareholder rights, executive & management

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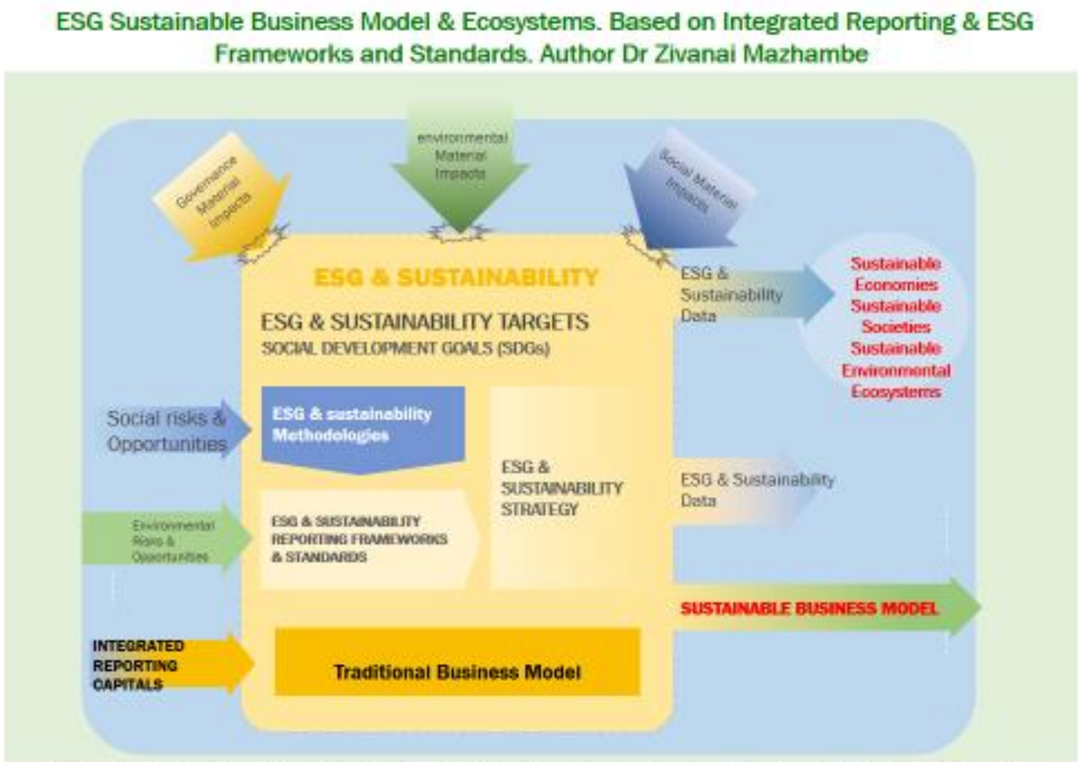
compensation, board independence and duties. The evaluation of materiality is hinged on the impact and severity of ESG risks

**ESG Opportunities**

The ESG opportunities arise from the transition risks as innovation begins to manifest in business operations. As operations migrate to a lower carbon effect through innovation, a wide range of opportunities will be unfolding



ESG Sustainable Business Model & Ecosystems.. Based on Integrated Reporting & ESG framework & Standards. Author Dr Zivanai Mazhambe

## CONCLUSIONS

The IFRS Foundation through the ISSB Framework and standards, though earmarked to be a global baseline standard, is limited is scope through its financial materiality overriding objective. The IFRS S1 and IFRS S2 are investor centric, and meeting the information needs of capital providers, who are characterised by short term returns, are not necessarily in sync with ESG and Sustainability principles, which places emphasis on long term value creation. Furthermore, the ISSB framework does not fully subscribe to all the ESG pillars, especially the social pillar encompassing human capital and the society, who appear not to be its primary stakeholder focus. The IFRS conceptual framework is underpinned by the International Accounting Standards Board (IASB), whose primary focus are the capital providers is primarily based on the accrual concept, as opposed to the concept of sustainability which requires forward looking information. The ISSB standards should therefore be remodelled and rebased on the ESG Framework, with sustainability embedded in the environmental pillar. There are disparities in the standardisation of the data management which then culminates in technical challenges in standardisation and comparisons.

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