IFRS S1 and S2: A Global and Indian Perspective with Implications for Auditors

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ABSTRACT

This article outlines the framework and purpose of IFRS S1/S2, contrasts them with India's BRSR framework, and examines how their implementation will impact auditors and financial reporting in Indian accounting (Ind AS). We determine that the ISSB standards establish a demanding benchmark for sustainability reporting, requiring auditing professionals to acquire new skills (such as carbon accounting and climate risk modeling) to verify this information.

Keywords: IFRS S1, IFRS S2, global, Indian perspective, auditors.

INTRODUCTION

Sustainability reporting has traditionally depended on voluntary frameworks like the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD). These frameworks, varying in focus and target audiences, resulted in inconsistent ESG disclosures, complicating comparisons for investors.

In reaction to these issues, prominent standard-setters and regulators – such as the G20, Financial Stability Board (FSB), and IOSCO – advocated for a unified, worldwide standard for sustainability reporting. In 2021, the IFRS Foundation established the International Sustainability Standards Board (ISSB) to create these standards. In June 2023, the ISSB released its initial two standards, IFRS S1 and IFRS S2, aiming to "usher[ing] in a new era of global sustainability-related disclosures" by establishing a unified language for companies to report the financial impacts of climate and other sustainability risks.

The ISSB standards are intended to complement IFRS financial accounting regulations and are anticipated to serve as the foundation for future global sustainability reporting.

IFRS S1 AND IFRS S2: OVERVIEW

IFRS S1 ("General Requirements for Disclosure of Sustainability-Related Financial Information") establishes the comprehensive requirements for all sustainability issues (environmental, social, and governance) that impact a company's worth. Its aim is "to mandate an organization to reveal information regarding its sustainability-related risks and opportunities that benefits primary users of general purpose financial statements." In practice, IFRS S1 instructs companies to recognize their significant sustainability risks and opportunities (in addition to conventional financial factors) and report on how these may impact cash flows, capital access, or capital costs in the short, medium, and long terms. The standard requires extensive qualitative and quantitative disclosures (such as governance related to sustainability, strategic objectives, risk management processes, and essential metrics/targets) that are incorporated into the company's general-purpose financial report. In essence, IFRS S1 indicates a transition to comprehensive reporting – sustainability data is now incorporated into the annual report together with financial statements, instead of being a separate "CSR" report.

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IFRS S2 ("Climate-Related Disclosures") is a related standard focused on climate risk. It encompasses all of IFRS S1's overarching requirements (including materiality, ties to the financials, and necessitating disclosures in the financial report) while incorporating specific guidelines for climate-related data. The aim of IFRS S2 is "to mandate an entity to provide information regarding its climate-related risks and opportunities that is beneficial to users of general purpose financial reports." IFRS S2 mandates that companies outline: (1) the governance related to climate matters, (2) the strategies concerning climate and their performance across various future climate scenarios, (3) the methods employed to recognize and address climate risks (integrated within overall risk management), and (4) metrics and objectives for climate-related concerns. These four categories align perfectly with the TCFD's four pillars of climate reporting (Governance, Strategy, Risk Management, and Metrics/Targets). Figure 1 shows these fundamental components of climate-related reporting.

Intentionally, IFRS S2 completely integrates the TCFD framework (along with industry-specific metrics derived from the SASB Standards). Significantly, IFRS S2 requires quantitative emissions information: firms are obligated to disclose their Scope 1 (direct), Scope 2 (indirect energy), and, if significant, Scope 3 (value chain) greenhouse gas emissions. It also necessitates the revelation of climate-related financial objectives, along with an assessment of the robustness of the company's strategy in light of one or more climate change scenarios. IFRS S2 seeks to address the high investor demand for comparable, decision-useful climate information by standardizing these requirements worldwide.

Indian Context: Brsr Vs Issb Standards

In India, the Securities and Exchange Board of India (SEBI) has required the top 1,000 listed companies to adopt the Business Responsibility and Sustainability Report (BRSR) format starting from FY2022–23. BRSR is primarily focused on compliance: it consists of a questionnaire addressing nine ESG principles (including employee welfare, environmental governance, and social influence) featuring numerous mandated metrics and qualitative measures derived from GRI and local priorities. For instance, BRSR mandates that companies report their total energy use, water consumption, community expenditures, and governance approaches. In contrast, the ISSB's IFRS S1/S2 mandates that companies address financially significant sustainability risks and their effects on the business model, along with important quantitative indicators (particularly regarding climate) linked to enterprise value. A useful method to understand the distinction is: under BRSR, an Indian steel firm discloses its energy consumption and social initiatives; under IFRS S2, that firm is required to report how risks from the energy transition (such as increasing carbon expenses or competition from renewables) influence its cash flows, along with its GHG emission objectives. In summary, BRSR mainly focuses on stakeholders and compliance, while IFRS S1/S2 are distinctly aimed at investors and are connected to financial reporting.

Indian regulatory and standards organizations (SEBI, Ministry of Corporate Affairs, ICAI) are monitoring global events. The worldwide support for the ISSB standards (including IOSCO's backing and implementation strategies in various regions) will push India towards convergence. It is likely that India will first adjust rather than just implement: akin to how IFRS accounting was customized into India's Ind AS, India might incorporate ISSB disclosure components into BRSR or mandate an "ISSB compliance statement" for major corporations. Meanwhile, numerous major Indian companies currently release sustainability reports that cite GRI, SASB, or TCFD metrics, and some multinationals are expected to begin aligning with IFRS S1/S2 voluntarily to gain the confidence of international investors. If and when India adopts IFRS S1/S2 (or a modified version for India), it would assist in bridging the gap with global best practices and indicate to international investors that Indian firms are reporting at the same level as global counterparts

Implications For Auditors

The implementation of IFRS S1/S2 will greatly broaden the range of audit and assurance activities. With the new system, sustainability disclosures are included in the audited yearly report. Auditors must verify that the qualitative and quantitative sustainability data aligns with and is connected to the financial statements. For instance, if a business claims under IFRS S2 that it expects significant climate transition risks (e.g., an upcoming carbon tax) influencing operations, the auditor must ensure that management has appropriately

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incorporated these risks into the financial statements – for example, via asset impairment assessments, depreciation, or provisions. Any inconsistency (a strong sustainability assertion without a matching effect on financial projections) would raise concerns. In summary, auditors need to connect sustainability reports with financial statements.

At present in India, BRSR disclosures generally do not face any mandatory audit (a few companies receive limited assurance from consultants). Should ISSB standards be implemented, external assurance (possibly from the statutory auditor) will likely be mandatory for sustainability information. This implies that the auditing field needs to get ready to offer assurance on non-financial information including emissions, social metrics, and climate projections. This trend is acknowledged by both IFRS and the international auditing standards. PwC highlights that the primary global accounting and auditing organizations (IASB, FASB, IAASB) have all released guidance on the consideration of climate-related issues in the preparation of financial statements and audits. Auditors will require additional knowledge in climate science, carbon accounting, environmental economics, and similar fields. They might create interdisciplinary teams or educate current employees to question management's beliefs regarding future climate-related expenses and advantages. For example, assessing the plausibility of a 1.5°C or 2°C temperature scenario and its effect on estimated cash flows will necessitate both financial expertise and understanding of climate forecasts. This move towards "integrated assurance" will be among the most significant transformations for audit practice.

Impact On Financial Reporting Under Ind As

Climate issues are becoming pertinent even in conventional financial accounting. India’s Ind AS standards (in line with IFRS) might need alteration when climate elements influence estimates and assets. For instance, Ind AS 36 (Impairment of Assets) forbids holding an asset at a value greater than its recoverable amount. Climate change can significantly impact recoverable quantities. If, for instance, new regulations will eliminate coal power sooner, a coal plant's future cash flows would diminish, leading to an impairment loss. Auditors need to verify that management has included these assumptions in impairment testing. In the same way, the useful lives of assets (according to Ind AS 16/38) may require reduction if climate policies render older assets outdated more quickly. A factory that was initially anticipated to operate for 30 years might only have 15 years of functional life if a more stringent carbon policy is on the horizon. According to the provisions of Ind AS 37, auditors need to assess if outstanding environmental liabilities or onerous contracts (such as expensive carbon credits) result in provisions or contingent liabilities.

CONCLUSION

The IFRS S1 and S2 standards from the ISSB signify a pivotal moment in corporate reporting. Through a robust, investor-centric disclosure system, they offer more comparable and useful data on how climate and other sustainability elements influence corporate value. The adoption of these standards is accelerating globally, and India will certainly encounter pressure to align its norms (BRSR) with this international baseline. For stakeholders, the transition signifies enhanced transparency and possibly improved reporting quality; for auditors, it involves broadening the assurance scope to include non-financial disclosures.

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