

Navigating Sustainability Reporting Standards: The ISSB's Impact in the Cambodian Accounting & Auditing Industry

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While sustainability reporting was once considered a voluntary practice, it has, in recent years, become more of a mandatory aspect of corporate transparency as the world becomes more aware of the company's role in society and the environment. (Boiral et al., 2020). For Cambodia, aligning with global standards is now essential to attract foreign direct investment and achieve sustainable growth. At the core of such transformation, accountants and auditors are experts who serve an important role in ensuring the integrity and reliability of the sustainability reports (Channuntapipat et al., 2019).

The call for such an urgent global transformation for a more transparent and comparable sustainability reporting has become clearer with the introduction of the International Sustainability Standards Board (ISSB) standards. The implementation of IFRS S1 and S2 for a country like Cambodia is not just an indication of a shift in regulatory attitude, but rather a strategic direction.

The introduction of IFRS S1 and IFRS S2 requires that all relevant investors and stakeholders receive information on sustainability-related risks and opportunities in a consistent, comparable, and reliable manner (IFRS Foundation, 2023). Now, businesses in Cambodia need to pay more attention to more disciplined disclosures to align with global practices. As the ISSB set a global effective date of January 1, 2024, Cambodia is implementing a localized, "phased adoption" approach according to the March 2026 Draft Roadmap. Under this framework, the Technical Committee for Sustainability Reporting (CSRC), which was established in May 2025, serves as the primary coordinator across 15 ministries to harmonize these efforts alongside ACAR and KICPAA. The disclosure journey begins with publicly listed equity issuers, also known as "Group 1", starting with:

- Phase 1: 2026 - the "Foundation Phase" based on the existing disclosure requirements issued by the Securities and Exchange Regulator of Cambodia (SERC)
- Phase 2: 2030 - a transition to IFRS S1 and IFRS S2 standards with transitional reliefs
- Phase 3: 2032 - the full application of the ISSB standards
- Phase 4: 2034 - the mandatory external assurance of the sustainability disclosure (Technical Committee for Sustainability Reporting, 2026)

The timeline provided by this roadmap also incorporates proportionality and transitional reliefs, such as "climate-first" reporting, to ensure companies can comply without "undue cost or effort."

A key characteristic of IFRS S1 is its strong emphasis on materiality. This emphasis requires accountants to conduct comprehensive materiality assessments to prioritize sustainability risks and opportunities likely to have a substantial impact on company performance. This is all about gathering a deep understanding of the business, its industry, and the broader economic and environmental context. Accordingly, accountants must be able to gather and analyze a large range of sustainability data to ensure that the company's disclosures are accurate, complete, and relevant to the reporting. By that, professional accountants must develop new skills and competencies to prepare for the challenges of integrating sustainability financial information into financial reporting (Ah-Shaer, 2020; Ramadhan et al., 2023).

Integrating Sustainability Goals with Core Business Strategies

When we talk about sustainable finance in Cambodia, we realize that Cambodian businesses need to put more effort into making sustainability part of their core business

plans than ever before. This integration goes beyond regulatory compliance. It is about embedding sustainable practices in the core structure of each respective organization. The ISSB's IFRS S1 and S2 explicitly require businesses to disclose material sustainability risks, climate-related reporting, and, especially, their approach to sustainability. Such a requirement requires relevant stakeholders, including finance, risk, and board members, to actually improve on the analysis of the climate scenario and their sustainability reporting. With priorities placed upon metrics that align with the financial performance, businesses may be able to gain tangible benefits from the adoption of the standards, as well as showing how they are beneficial financially.

A Brief History of Key Institutions and the ISSB's Role

The trend in sustainability reporting actually derived from increased attention from society and investors regarding the firm's social and environmental consequences. The important players shaping this space are the Global Reporting Initiative (GRI), the Task Force on Climate-related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the International Sustainability Standards Board (ISSB). The aim is to develop a unified global sustainability reporting system with a clear set of standards that do not overlap. Building upon this foundation, the ISSB has issued two sustainability reporting standards, with IFRS S2 as the main area for climate-related disclosures.

In developing global sustainability disclosure standards, the ISSB's work primarily centers on ESG issues that may affect enterprise value. It is part of the IFRS Foundation, which develops standards for global financial reporting to encourage clear and comparable financial statements (Petersen et al., 2022). The creation of the ISSB is a significant step toward bringing sustainability practices into mainstream financial reporting, thereby providing investors with comprehensive information on a company's performance.

The introduction of IFRS S2 brings about both challenges and opportunities for Cambodian businesses. Because of its emphasis on climate-related disclosures, businesses are required to provide detailed information on their climate-related risks, opportunities, and impacts. That

information includes specific data on greenhouse gas emissions, any established climate-related objectives of the company, and the company's transition plans. These standards are important for investors, particularly in a country like Cambodia, which is vulnerable to climate change. The incidence of natural disasters, such as flooding and drought, and their effects on farm productivity can be a major determinant of a business's performance.

Challenges in Implementing ISSB Standards in Cambodia

While the adoption of ISSB standards brings about benefits, there are still implementation challenges for Cambodian companies. Firstly, limitations in resources and expertise, especially for SMEs, could impede the effective implementation of the standard. Such resource limitations can directly affect companies' ability to carry out materiality assessments at the level of comprehensiveness required by IFRS S1. However, the ISSB standards are designed with proportionality reliefs to address these hurdles, specifically for entities such as SMEs (PwC, 2025). For instance, when conducting materiality assessments as per IFRS S1 requirements, entities are only required to provide 'reasonable and supportable information that is available at the reporting date without undue cost or effort' (PwC, 2025). This provision ensures that firms struggling with data availability or the capacity to measure greenhouse gas emissions are not unfairly burdened. At the same time, the draft roadmap by CSRC also incorporates transitional reliefs, such as "climate-first" reporting and Scope 3 extensions, to help domestic preparers manage the transition while they develop the necessary internal capabilities (Technical Committee for Sustainability Reporting, 2026).

Next, weak regulatory enforcement and limited data availability can also pose challenges in meeting the reporting requirements of IFRS S2 (Flores, 2023). Many companies don't have the capacity or expertise to accurately measure their greenhouse gas emissions, or to assess the climate-related risks and opportunities in their supply chains.

At the same time, there is a need for accountants to have the knowledge and competency to gather, analyze, and provide disclosure for those information, and do so

in compliance with the guidelines provided by the Task Force on Climate-related Financial Disclosures (TCFD), which have been integrated into IFRS S2. The demands for capacity-building and training programs for accountants and auditors, who will be required to have a good understanding of the ISSB standards, have increased (de Villiers et al., 2024). Training in data analytics, climate science, and industry-specific metrics is necessary for the fulfillment of the requirements of S1 and S2.

Opportunities and the Role of External Reviews, SPOs, and Sustainability-Linked Instruments

The implementation of ISSB standards, however, brings both significant opportunities and potential benefits for Cambodia. The adoption of sustainability standards may allow Cambodia to improve its attractiveness to foreign investors who have placed emphasis on ESG factors in their investment decisions (Velte, 2022). It may also help to improve corporate governance practices and foster a culture of transparency and accountability, for which Cambodian culture has revolved around a trust-based society for a long time. Provided with credible sustainability disclosures, firms may enhance stakeholders' confidence and contribute to sustainable economic growth.

As part of the implementation, auditors review sustainability reports for compliance with the ISSB standards, which provide independent assurance that increases stakeholders' confidence in the accuracy of the reports (La Torre et al., 2018). But auditors also need to test the effectiveness of internal controls to ensure the underlying sustainability data are accurate and reliable, not just review the results. This is necessary to fight "greenwashing" and to assure that corporate environmental claims are based on evidence and not misleading (Buallay & Al-Ajmi, 2020). For instance, IFRS S2 mandates that auditors have the technical capabilities to evaluate climate-related risks and report greenhouse gas metrics accurately, which necessitates detailed knowledge of the scope 1, 2, and 3 emission methodologies.

External reviews, such as Second Party Opinions (SPO) and assurance audits, may add credibility to reports and increase transparency for Cambodian firms (Aliyu, 2024). These reviews could be a way to align financial incentives

with sustainable objectives, and hence, may create value as the assessment of the sustainability credentials of financial instruments becomes more important (Gadinis & Miazad, 2024). Accountants play an important role in verifying the accuracy of environmental and social impact information and in connecting traditional financial reporting with modern sustainability disclosures (Del Guidice & Rigamonti, 2020; Garcia-Torea et al., 2022).

Future Opportunities and Conclusion

The implementation of these standards, while challenging, is both feasible and beneficial. Firstly, professional accountants and auditors in Cambodia need to acquire the capacity to discharge the requirements of the ISSB standards through the design and implementation of learning programs. In the short term, they will need training via workshop(s), seminars, etc., to acquire the appropriate knowledge and skills required to apply IFRS S1 and S2. Next, Cambodia may also need to place more emphasis on regulatory enforcement and call for businesses, regulators, and relevant professional bodies to work together. Long term, as Cambodia's capacity improves, it will be able to cultivate a culture of accountability and transparency in reporting on its sustainability at the highest quality, and to attract foreign direct investment for stable, sustainable economic growth.

Given the importance of this implementation, Cambodia can ensure that growth is inclusive and environmentally sound. But to help this transition, all players need to work together. The benefits to Cambodia's economy and environment, however, are significant.