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Sharia Accounting and ESG: Building a Reporting System That Is Oriented Towards Sustainability and Islamic Values

Maora Syifa Belicia[1], Mukhtaruddin[2], Rina Tjandrakirana dp[3], Umi Kalsum[4]

[1,2,3,4] Department of Accounting, Sriwijaya University, Indonesia

*Corresponding author: maorasyifa212@gmail.com

Abstract

The transformation towards a sustainable economy has encouraged companies to no longer only be oriented towards achieving profits, but also pay attention to environmental, social, and governance quality impacts through an Environmental, Social, and Governance (ESG) approach. In the context of Islamic economics, sustainability orientation has a strong relationship with the principles of sharia accounting which emphasizes trust, fairness, transparency, benefit, and accountability. This research aims to analyze the relationship between sharia accounting and ESG and formulate a reporting system framework that is able to integrate financial information, sustainability, and compliance with Islamic values. The research uses a qualitative approach with an integrative literature study method on scientific articles, accounting and sustainability standards, and regulations related to sustainable finance. The results of the study show that ESG and sharia accounting have a strong common ground in the aspects of environmental protection, social justice, ethical governance, transparency, and long-term value creation. However, ESG does not fully represent the characteristics of sharia because it does not specifically measure compliance with the prohibition of riba, gharar, maysir, zakat distribution, non-halal income, and the achievement of maqāṣid al-sharī'ah. This study proposes an integrated reporting system consisting of four layers, namely financial performance, ESG performance, sharia compliance and maqāṣid al-sharī'ah, as well as governance and assurance. The framework is expected to strengthen accountability, reduce the risk of greenwashing and symbolic sharia compliance, and improve the quality of information for investors and stakeholders.

Keywords: Sharia Accounting, ESG, Sustainability, Maqāṣid al-Sharī'ah, Sustainability Reporting.

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INTRODUCTION

Changes in the global business environment have driven a paradigm shift in corporate reporting. The success of a company is no longer only determined by the achievement of profits, asset growth, and the rate of return to shareholders. Companies are also required to show how their operational activities affect the environment, society, workers, consumers, and various other stakeholder groups. This condition encourages the development of the concept of Environmental, Social, and Governance (ESG) as one of the important approaches in assessing the sustainability of an entity.

ESG consists of three main dimensions. The environmental dimension is related to the impact of company activities on the environment, including greenhouse gas emissions, energy consumption, resource use, waste management, and response to climate change. The social dimension includes labor protection, human rights, safety, diversity, inclusion, community relations, and consumer protection. The governance dimension is related to governance structures, transparency, control systems, ethics, risk management, anti-corruption, and management accountability.

ESG developments then gained support from the establishment of the International Sustainability Standards Board (ISSB). The IFRS Foundation published IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures in 2023. IFRS S1 requires entities to disclose sustainability risks and opportunities that could reasonably affect the company's prospects, with an information structure that includes governance, strategy, risk management, and metrics and targets.

These developments have also been responded to in Indonesia. The Sustainability Standards Board of the Indonesian Institute of Accountants has ratified PSPK 1 on General Requirements for Disclosure of Financial Information related to Sustainability and PSPK 2 on Climate-related disclosures. Both standards refer to IFRS S1 and IFRS S2 and are effective from January 1, 2027. On the other hand, the Financial Services Authority is also continuing to develop the Taxonomy for Indonesia's Sustainable Finance (TKBI). TKBI Version 3 is published in 2026 and completes the classification of sustainable economic activities for sectors related to Nationally Determined Contribution (NDC).

The development of ESG becomes even more interesting when it is associated with sharia accounting. Philosophically, sharia accounting is not only oriented towards presenting economic information for investors, but also contains a broader dimension of accountability. Economic activities are seen as a mandate so that wealth should not be obtained or used in a way that is contrary to the provisions of sharia. The principles of justice ('adl), trust, transparency, prohibition of riba, gharar and maysir, concern for the community and benefits are inherent parts of the Islamic economic system.

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The relationship between ESG and sharia principles is increasingly discussed in the literature. Agustin et al. (2023) found that there is a similarity in orientation between ESG principles and maqāṣid al-sharī'ah, especially related to social development and benefit creation. Similarly, Adirestuty et al. (2025) show that the sustainability reporting practices of Islamic banks have covered the environmental, social, governance and sharia compliance dimensions, although the level of disclosure of each dimension is still different.

However, ESG and sharia principles cannot be seen as completely identical concepts. ESG generally focuses on sustainability risks and opportunities and their impact on companies and stakeholders, while sharia accounting has an additional layer of accountability related to halal and haram transactions and the achievement of sharia goals. A company can earn high ESG values but not necessarily all of its business activities meet sharia principles. On the other hand, formal compliance with sharia contracts does not necessarily indicate that the company has made an optimal contribution to environmental sustainability and social welfare.

These problems show the need for an approach that is able to integrate sharia accounting with ESG into the corporate reporting system. The system must be able to convey information about economic performance while showing environmental, social, governance, sharia compliance, and the achievement of maqāṣid al-sharī'ah.

Based on this background, this study aims to: (1) analyze the conceptual linkage between sharia accounting and ESG; (2) identify ESG reporting gaps when applied to sharia-based organizations; and (3) formulate an integrated reporting system framework that combines financial information, ESG, and Islamic values.

LITERATURE REVIEW

2.1 Sharia Accounting

Sharia accounting is a system of recording, measuring, acknowledging, presenting, and disclosing transactions that are carried out by paying attention to sharia principles. Accounting in an Islamic perspective is not only seen as a technical tool for producing financial statements, but also as a means of accountability.

The concept of accountability in sharia accounting has horizontal and vertical dimensions. Horizontal accountability is related to the company's responsibility to shareholders, employees, customers, the government, society, and the environment. Vertical accountability is related to the awareness that every economic activity must ultimately be accountable to Allah SWT.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has developed accounting, audit, ethics, and governance standards for the Islamic financial

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industry. The standard provides guidelines, among others, regarding the presentation of financial statements, Islamic financial transactions, auditing, sharia supervision, and governance of Islamic financial institutions.

The principles underlying sharia accounting include justice, trust, truth, transparency, prohibition of usury, prohibition of excessive gharar, prohibition of maysir, social concern, and a more equitable distribution of wealth. Therefore, the evaluation of Islamic companies should not only be based on profits and financial position but also needs to consider how the profits are obtained and how economic benefits are distributed.

2.2 Environmental, Social, and Governance (ESG)

ESG is a framework used to identify and evaluate non-financial aspects that can affect a company's sustainability and value. ESG encourages companies to increase transparency regarding environmental impacts, social relations, and governance.

The environmental dimension assesses the company's ability to control ecological impacts. The company is expected to be able to manage carbon emissions, energy use, water consumption, waste, natural resource use, and climate change risks.

The social dimension emphasizes the company's relationship with people. Its assessments can include occupational health and safety, labor rights, equality, diversity, customer protection, contribution to society and economic inclusion.

Meanwhile, the governance dimension emphasizes transparency and quality of corporate control, including board structure, risk supervision, audit system, remuneration, business ethics, anti-corruption and protection of shareholder rights.

IFRS S1 and IFRS S2 strengthen the relationship between sustainability information and financial statements. As such, sustainability is no longer seen simply as an additional social responsibility activity, but as a factor that can affect the company's cash flow, access to financing, cost of capital and prospects.

2.3 Maqāṣid al-Sharī'ah and Sustainability

Maqāṣid al-sharī'ah refers to the goals to be achieved through the application of sharia. In general, maqāṣid emphasizes the protection of religion, soul, intellect, descent, and property as well as the achievement of benefits and prevention of harm. In the modern context, maqāṣid provides a philosophical basis for responsible financial and business development. Business activities are not enough to meet the legal-formal aspects of transactions, but must also provide real benefits and prevent losses to society and the environment.

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Jannah et al. (2025) developed a green banking measurement for Islamic banks by combining maqāṣid al-sharī'ah and ESG. The findings show that the ESG framework can be enriched with the dimensions of sharia goals so that sustainability is not only understood economically, but also in terms of benefits.

2.4 The Relationship of Sharia Accounting with ESG

Basically, there are various meeting points between ESG and Islamic values.

Dimensions	ESG Focus	Values in Islam	Form of Reporting
Environmental	Environment, emissions, energy and climate	Caliph, balance, prohibition of damage	Emissions, energy use, green financing, waste management
Social	Workers, communities and consumers	Justice, Ukhuwah, Welfare	Worker welfare, financial inclusion, zakat and social programs
Governance	Governance and transparency	Trust, honesty, accountability	Governance, audit, DPS, anti-corruption
Sharia Compliance	Not being an ESG-specific dimension	Halal, prohibition of usury, gharar and maysir	Contract compliance, non-halal income, income purification
Maqāṣid	Not explicitly measured	Benefit and justice	The impact of financing on community welfare

The table shows that ESG has a high level of compatibility with Islamic values. However, ESG does not yet cover all aspects needed in the accountability of Islamic organizations.

3. RESEARCH METHODS

This study uses a qualitative approach with an integrative literature study method. The method was chosen because the research focuses on the development of a conceptual framework regarding the relationship between sharia accounting and ESG and its application in sustainability reporting systems.

Research sources consist of scientific articles, international and national standards, standards drafting agency documents and sustainable finance regulations. Academic literature is prioritized on research on ESG, sharia accounting, Islamic banking, maqāṣid al-sharī'ah, sustainability reporting, Sharia governance and sustainable finance. In addition to

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academic literature, the study pays attention to IFRS Sustainability Disclosure Standards, AAOIFI standards, OJK regulations, and Sustainability Disclosure Standards developed by IAI.

The analysis was carried out through three stages. First, the main concepts of sharia accounting, ESG and maqāṣid al-sharī'ah were identified. Second, the similarities and differences between the three concepts were mapped. Third, the mapping results were used to develop a reporting system framework that integrates the dimensions of finance, ESG and Islamic values.

The thematic analysis yielded four main themes, namely: (1) the convergence of ESG and sharia values; (2) the limitations of ESG in describing sharia compliance; (3) the need for financial information integration and sustainability; and (4) strengthening governance and assurance in the reporting system.

4. RESULTS AND DISCUSSION

4.1 Convergence of ESG Values and Sharia Accounting

The results of the study show that there is a strong conceptual relationship between ESG and Islamic accounting. Both reject the view that company performance can only be assessed based on profit. In the environmental dimension, Islamic teachings place humans as resource managers who have the responsibility to avoid damage. This principle is in line with ESG which requires companies to manage environmental impacts and climate risks.

In the social dimension, the intersection between ESG and Islam is even more real. Islam encourages justice in economic transactions, protection of the weak and the distribution of wealth through instruments such as zakat, infaq, alms and waqf. Therefore, the social responsibility of sharia companies should not stop at CSR programs, but also pay attention to whether their business activities provide real social benefits.

The governance dimension is in line with the concepts of trust and accountability. Good governance requires transparency, supervisory mechanisms, corruption prevention, audit independence and risk management systems. In Islamic financial companies or institutions, the structure is expanded with the existence of a Sharia Supervisory Board.

Boudawara et al. (2023) show that there is a relationship between the quality of Sharia governance and the ESG performance of Islamic banks. Meanwhile, the research of Lestari et al. (2025) emphasizes the importance of sustainability-oriented Islamic governance to support the multidimensional performance of Islamic banks. Thus, ESG can be viewed not as a concept that contradicts Islamic finance, but as a modern instrument that can strengthen the realization of values that have long been part of Islamic business ethics.

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4.2 ESG Is Not the Same as Shariah Compliance

Despite the various similarities, ESG cannot replace the concept of Sharia compliance. This is one of the important findings of this study.

A company with excellent environmental management can obtain a high ESG rating even if its main activities do not meet sharia criteria. Similarly, a company can have transparent governance but earn income from activities that are not in accordance with Islamic principles. In contrast, sharia compliance which is only interpreted as the use of certain contracts does not guarantee the achievement of sustainability. Financial products can use contracts that are declared sharia-compliant but the social benefits and environmental impact remain low.

This condition shows that sharia organizations need two layers of evaluation. The first layer is the evaluation of compliance with sharia principles and provisions. The second layer is the evaluation of the impact of sustainability and the achievement of maqāṣid.

This also explains why the integration of ESG and maqāṣid is important. Research on ESG in Islamic banks shows that the Sharia compliance dimension can still have a different level of disclosure than other ESG aspects.

4.3 Building an Integrated Sharia–ESG Reporting System

Based on the results of the literature synthesis, this study proposes a sharia–ESG reporting system in four main layers.

Layer 1: Financial Performance

The first layer remains in the form of financial statements as a basis to describe the company's financial position, performance and cash flow.

This information includes:

1. assets and liabilities;
2. income and expenses;
3. profit or surplus;
4. cash flow;
5. investment;
6. financing structure; and
7. financial risk.

Sustainability reporting is not intended to replace financial reporting. Instead, sustainability information should be linked to financial statements so that users are able to assess how social and environmental risks affect economic performance.

Layer 2: ESG Performance

The second layer presents sustainability indicators.

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Environmental can contain:

a. greenhouse gas emissions;
b. energy use;
c. the percentage of renewable energy;
d. water consumption;
e. waste management;
f. green financing;
g. climate change risks;
h. economic activities that meet the sustainability taxonomy.

Social should include:

a. health and safety of workers;
b. equal employment opportunities;
c. training and human resource development;
d. customer protection;
e. financial inclusion;
f. impact on society;
g. financing of MSMEs and vulnerable groups.

Governance should include:

a. the structure and independence of the board;
b. the competence of the supervisory body;
c. risk management;
d. internal and external audits;
e. anti-corruption policies;
f. business ethics;
g. whistleblower protection;
h. data security.

Layer 3: Sharia Compliance and Maqāṣid al-Sharī'ah

The third layer is the main differentiator of the reporting system proposed in this study. Information that may be disclosed includes:

a. the level of compliance with sharia principles;
b. contract structure;
c. the amount and percentage of non-halal revenue;
d. non-halal income purification mechanism;
e. calculation and distribution of zakat;
f. profit-sharing-based financing;
g. distribution of Qard Hasan;

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h. management of Islamic social funds;
i. the opinion of the Sharia Supervisory Board;
j. Findings and follow-up of sharia audits.

In addition to compliance, entities also need to measure the achievement of maqāṣid. For example, whether the financing channeled expands people's access to education, health, housing, productive activities and economic protection. With this approach, reporting not only answers the question "are transactions halal?", but also "does the activity provide benefits?"

4.4 Layer 4: Governance and Assurance

Sustainability information does not provide benefits if the data presented is not trustworthy. Therefore, reporting governance becomes the fourth layer. Companies need to determine who is responsible for the collection and validation of ESG data. Environmental data is not only the responsibility of the sustainability department, but it needs to be connected with accounting, risk management and internal control systems.

In a sharia company, the process also requires the integration of the functions of the Sharia Supervisory Board. The DPS can not only oversee the suitability of the contract, but can also provide perspective on whether the sustainability policy is consistent with the sharia goals.

Assurance is also important to reduce the likelihood of errors and manipulation of disclosures. In the long run, the integration of financial statement audits, sustainability information assurance, and sharia audits can improve the reliability of information.

4.5 Sharia–ESG Reporting Model

Conceptually, the proposed reporting system can be described as follows:

Financial Performance
↓
Environmental – Social – Governance
↓
Sharia Compliance
↓
Maqāṣid al-Sharī'ah
↓
Governance, Audit, and Assurance
↓
Accountability and Sustainable Value Creation

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This model shows that sustainability and sharia are not placed as supplementary reports separate from the accounting system. All of these aspects are integrated to provide a more comprehensive picture of a company's value and impact.

4.6 Proposed Reporting Indicators

Dimensions	Key Indicators
Finance	Revenue, profit, assets, cash flow, financing structure
Environment	Emissions, energy, waste, water, green financing, climate risk
Social	Employees, health and safety, society, inclusion, consumer protection
Governance	Board, audit, anti-corruption, internal control, risk management
Sharia Compliance	Contract compliance, non-halal income, purification, sharia audit
Maqāṣid	Zakat, qard hasan, productive financing, social impact and benefits
Insurance	External audit, ESG assurance, DPS opinion and follow-up findings

The framework allows Islamic organizations to provide more complete information to investors and other stakeholder groups.

4.7 Implementation Context in Indonesia

Indonesia has great opportunities in the development of an sharia-ESG reporting system because its regulatory infrastructure and standards continue to develop. POJK Number 51/POJK.03/2017 is one of the foundations for the implementation of sustainable finance by financial service institutions, issuers and public companies. OJK has also provided technical guidance for its implementation for finance companies and Islamic finance companies.

In addition, TKBI Version 3 issued in 2026 serves as a guide for the classification of sustainable economic activities and supports the allocation of financing towards activities that are in accordance with sustainable development goals. In the reporting area, the ratification of PSPK 1 and PSPK 2 provides a foundation for increasing connectivity between sustainability information and financial statements starting in 2027. Even in August 2026, the IAI DSK has developed draft amendments and industry-based guidelines as part of the preparation for the implementation of the standard.

These conditions provide an opportunity for the development of additional standards or guidelines that specifically consider the needs of Islamic entities. Harmonization between sustainability standards, Sharia SAK, sharia governance and sustainable financial regulation can be the foundation for the formation of a more comprehensive sharia reporting ecosystem.

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4.8 Challenges of Sharia and ESG Accounting Integration

While they offer great benefits, they face some challenges.

1. First, there is no uniformity between ESG and maqāṣid indicators. Many organizations have different methods of measuring sustainability so that the comparison between entities is limited.
2. Second, there is the issue of data availability and quality. Some information such as emissions, social impacts, or financing contributions to community welfare requires a special measurement system.
3. The third is the limitation of human resource competence. Future accountants will need to understand not only financial accounting and sharia accounting, but also emissions measurement, sustainability risk, information technology and ESG assurance.
4. Fourth is the potential for greenwashing, which is the submission of sustainability claims that are better than actual practices. In the context of sharia, similar risks can arise in the form of symbolic Sharia compliance, which is when the sharia label is more prominent than the substance of achieving justice and benefits.
5. Fifth, there is the need to develop an assurance system that is able to ensure that ESG and sharia compliance information is supported by adequate and verifiable evidence.

RESEARCH IMPLICATIONS

Theoretically, this research reinforces the view that sharia accounting can expand the ESG paradigm through the dimensions of ethical and spiritual accountability. ESG provides a relatively systematic measurement instrument for identifying sustainability risks and opportunities, while maqāṣid al-sharī'ah provides a normative basis regarding the ultimate goal of economic activities.

For companies, the sharia–ESG framework can be used as the basis for the development of sustainability information systems. Companies not only collect data to meet regulatory demands, but can link ESG indicators to strategy, budget, risk management and decision-making.

For Islamic financial institutions, the framework can strengthen differentiation from conventional institutions. These differences are not only shown through contracts, but also through transparency regarding social impacts, the environment and the achievements of maqāṣid.

For regulators and standard-setters, the findings of the study show the need for harmonization between sharia accounting standards, sustainability disclosure, sharia governance and sustainable finance policies.

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For universities, these changes also have implications for accounting education. Sharia accounting education needs to start incorporating ESG competencies, sustainability reporting, sustainability audits and non-financial data management.

CONCLUSION

Sharia accounting and ESG have different foundations, but they both show a strong level of compatibility in building more responsible business practices. ESG emphasizes the management of environmental, social and governance aspects, while sharia accounting adds the dimensions of trust, justice, halal-haram transactions, wealth distribution and the achievement of maqāṣid al-sharī'ah.

The results of the study show that ESG cannot replace the sharia reporting system. Instead, ESG needs to be integrated with sharia compliance indicators and goals. Therefore, this study proposes a reporting system consisting of four main layers, namely financial performance, ESG performance, sharia compliance and maqāṣid al-sharī'ah, as well as governance and assurance.

The integration can provide a more comprehensive picture of a company's performance because the report not only explains how much profit is earned, but also how the profit is generated, whether the process is in accordance with sharia principles, how it impacts people and the environment, and the extent to which the company's activities generate benefits.

In the Indonesian context, the development of TKBI, POJK Sustainable Finance and PSPK 1 and PSPK 2 creates an important momentum for the development of a sharia sustainability reporting system. In the future, harmonization between sustainability disclosure standards and sharia standards and governance is needed so that Indonesia can build a reporting model that not only follows global standards, but also has an identity and added value based on Islamic economic principles.

ADVICE

Regulators and standard-setters need to develop guidelines that integrate sustainability indicators with the characteristics of sharia transactions and maqāṣid al-sharī'ah. Sharia entities also need to improve ESG data collection systems and establish internal controls over sustainability information.

Further research is recommended to test the proposed framework empirically on Islamic commercial banks, companies listed in Islamic stock indices, Islamic insurance companies and other Islamic financial institutions. Quantitative research can be carried out

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by developing a Sharia–ESG Disclosure Index to measure the quality of disclosure and test its relationship with company value, profitability, risk, reputation and investor confidence.

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