



Office of the Provincial Controller Division
Office of Comptroller General
Controllership Policy and Accounting Consultation Branch

Province of Ontario's response to IPSASB's Consultation Paper "Advancing Public Sector Sustainability Reporting"

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Following is the Province of Ontario's response to IPSASB's Consultation Paper on Advancing Public Sector Sustainability Reporting:

The Province of Ontario follows the standards in the CPA Canada Public Sector Accounting (PSA) Handbook in the preparation of its public accounts. However, considering the Public Sector Accounting Board (PSAB) in Canada has adopted an international strategy of "adapt IPSAS" when developing new standards and has changed its GAAP hierarchy, where the PSA Handbook is silent, to require IPSAS to be the prime secondary source of GAAP, Ontario considers it important to communicate our views on certain IPSASB issued documents for comment. As the PSA Handbook has no guidance on sustainability reporting and considering there is limited preparer representation on IPSASB, following is Ontario's position on the content of the Consultation Paper and the direction and approach being proposed. We have chosen to provide overall comments rather than to respond directly to the specific questions included in the Consultation Paper.

1. Senior governments versus other public sector entities

Understandably the ISSB Exposure Drafts on Sustainability Reporting and Climate Change focus on the strategy, risks and metrics used by the reporting entity. Private sector entities extent of control over sustainability reporting and climate change is largely limited to the entity. The role and extent of influence of governments are much broader than private sector entities and even other public sector entities. Senior governments are able to regulate and

mandate actions being taken by entities in their jurisdiction. Given this, it is important to consider and clearly identify the scope of sustainability reporting for governments. Consideration should be given to whether the public wants to know what a government is doing directly through its own behaviours and activities (including issuance of regulations, and the provision of subsidies and incentives) or the collective consequences of the government's actions taken by entities in its jurisdiction.

Private sector reporting also has different reporting objectives – profitability and liquidity – and different users – creditors and shareholders - than in the public sector, where accountability and the ability to provide future goods and services are the primary objectives and the public and its elected representatives are the primary financial statement users.

Ontario would recommend IPSASB consider the objective of sustainability reporting for senior governments and other public sector entities, reflecting on financial reporting objectives and users, before any attempt to develop guidance. We would question whether starting with guidance for the private sector is appropriate considering the fundamental difference in the role senior governments play relative to private sector entities for sustainability development and the difference in users and their needs. The different user needs, and the broader role of governments may additionally require a different prioritization of the development of guidance than in the private sector.

2. Nature of sustainability reporting

The IPSASB Handbook, like the CPA Canada Public Sector Accounting Handbook provides guidance regarding the preparation of General-Purpose Financial Statements (GPFS). Elements are defined, historical cost is the primary basis of measurement in the PSA Handbook (and one of the primary basis of measurement in the IPSASB Handbook), and financial statements reflect past events and transactions incurred by the reporting entity. In the public sector, GPFS help the entity to discharge its responsibility of accountability and address whether the public sector entity did what it said it would do.

Sustainability reporting can include past events or transactions that have taken place but it can also involve projections and planned actions. It can also involve measurements and analysis beyond the reporting entity as discussed prior.

Ontario would recommend, after IPSASB considers what the scope and objective of sustainability reporting for senior governments should be, giving consideration to whether reporting to accomplish this should be outside GPFS or General-Purpose Financial Reports (GPFR). Perhaps some historical, entity specific aspects can be reported within GPFS or GPFR while other broader or future oriented information would be more appropriately included in voluntary special purpose reporting. Consideration should also be given to allowing flexibility of where within the GPFS or GPFR the information is reported to not limit the government's ability to communicate information in an effective and coherent manner. Only information capable of being audited should be disclosed in GPFS and GPFR.

3. Multiple parties involved in sustainability reporting

From a Canadian preparer perspective, Ontario has concerns with the multiple accounting boards/entities that are being proposed to be involved in the preparation of sustainability standards for public sector entities in Canada.

It is being proposed in the Consultation Paper that IPSASB will use ISSB produced standards as the basis and to amend them based on differences between the public and private sectors. At the Canadian level, the Independent Review Committee on Standard Setting recently announced establishment of the Canadian Sustainability Standards Board (CSSB). It is currently unclear whether this board would be for both the public and private sector and how it would interact with Canada's Public Sector Accounting Board.

If there is a need to monitor developments and respond to all parties (ISSB, IPSASB, CSSB and Canada's PSAB) this is a significant resource commitment.

Since public sector entities are largely financed by the public, Ontario would encourage IPSASB, and all accounting boards, to reflect on how the work can be aligned and leveraged to reduce the burden and effectively utilize public funds.

4. Composition of IPSASB and the Reference Group

Ontario would strongly encourage greater preparer representation on both IPSASB and the Sustainability Reference Group. It is the preparer community that needs to implement any standards that are introduced. Approval by IPSASB or PSAB of a standard is not the final stage of standard development, it is the implementation of the standard by the financial statement preparers. It is important that during development, IPSASB consider the time and effort for adoption and the resulting cost versus benefit. We have found that some standards that have been introduced have required excessive time and effort to implement with little additional information being provided to the financial statement users. Developing standards that result in useful information while ensuring wise use of taxpayer's money without imposing undue burden on preparers is essential.

Because of the specialized nature of sustainability reporting and its impacts we encourage IPSASB to involve representation from the Indigenous community as well as experts from fields such as engineering.

5. Urgent need for these standards

Ontario questions the urgent need for sustainability reporting guidance if it is at the expense of appropriateness and correctness for the public sector. As mentioned previously we are unsure if the ISSB Exposure Drafts on Sustainability Reporting and Climate Change are fundamentally appropriate for the public sector and its users. Due process and the involvement of all parties in the public sector, for example First Nations in Canada, is paramount rather than developing a standard expediently that does not address user needs and only results in considerable time and effort to implement. We therefore encourage

IPSASB to carefully balance timely responsiveness with the rigour of a formal due process, where the needs of users are clearly understood before any guidance is developed.

6. Greater focus on education

Most accountants and public sector entities do not have expertise in sustainability reporting. Regardless of the direction IPSASB goes and the types of standards or guidance introduced, Ontario strongly encourages IPSASB and/or the Reference Group to spend considerable time on educating stakeholders on sustainability development generally and the proposed reporting guidance. Very few Canadian stakeholders have knowledge of the IPSASB Handbook nor respond to documents issued by IPSASB. Ontario would therefore recommend putting a focus on educating Canadian stakeholders regarding any international standard requirements that are developed.

7. Materiality

Consideration should be given to the description of materiality relative to sustainability reporting. The ISSB Exposure Draft on Sustainability Reporting provides a financial definition of materiality (i.e., financially material in influencing enterprise value). Given the broad accountability of senior governments, the risks and opportunities associated with sustainability may be material from both a financial and non-financial perspective. Additional consideration in the public sector may need to be placed on describing materiality from a non-financial perspective.

Ontario appreciates the opportunity to respond to IPSASB to assist in their deliberations on this matter. I would be pleased to elaborate on any of the above comments. Thank you for your consideration.