

September 2022, *Jerusalem* 09

To:
International Public Sector Accounting Standards Board

Re: Comment to Consultation Paper - Advancing Public Sector Sustainability Reporting

The Israeli Ministry of Finance Accountant General Department, through its Accounting and Reporting Division, welcomes the opportunity to respond to the consultation paper aimed at advancing sustainability reporting in the public sector, published in May 2022.

In recent years, the Israeli government is in the final stage of completing a comprehensive government accounting reform, the main goal of which is the coordinated adoption of the International Public Sector Accounting Standards (IPSAS), under Government Resolution No. 2375, passed in 2004 at the initiative of the Accountant General Department.

We congratulate the IPSASB on the major steps it has taken to promote sustainability reporting in the public sector. The public sector reporting method highlights the importance of sustainability issues and the responsibility the public sector assumes over them, and serves as a measure for implementing the UN's sustainable development goals.

The State of Israel places the utmost importance on promoting the measures and resources invested in sustainability, the environment and climate, as part of the activities of the public sector. We believe that governments are the entities best equipped to handle sustainability and climate concerns. Governments are able to pass laws and regulations, and allocate adequate resources to address them.

Israeli governments past and present promoted climate issues by publishing strategic plans, setting goals, and promoting government resolutions and legislation. As early as 2009, Government Resolution No. 474 was passed - the first government resolution dealing with Israel's preparation and readiness for climate change and the need to reduce greenhouse gas emissions.¹ Subsequently - and according to the Paris Accord and the Glasgow Climate Change Conference and other relevant global developments - the Israeli government passed several resolutions to minimize carbon emissions by 2025 and 2030, as well as other goals aimed at boosting energy efficiency, using renewable energy sources, setting a budget for handling climate change, and more.

The Accounting and Reporting Division maintains that it is important to include and incorporate sustainability reporting in the public sector of states' consolidated

¹Israel's Adaptation to Climate Change - Adaptation and Readiness for Climate Change and Greenhouse Gas Emissions Reduction | Resolution No. 474 | Prime Minister's Office (www.gov.il)

financial statements. There are two reasons to link these to financial reporting: first, to encourage countries to publish their financial statements according to the different accounting standards each country has adopted, following from the sustainability standards in the accounting and financial reporting context. Second, to create a comparative basis between countries, based on data from financial statements. This will allow each country to examine its performance relative to reference countries. The Accounting and Reporting Division were able to add a note on sustainability and climate, in connection with the State of Israel's financial statements for 2021, as it understands how important the subject is, and with a view to the future.

We think a uniform methodological structure that can incorporate the current standard methodologies practiced in the private sector (such as the GRI, the TCFD, and SASB, and the standards currently being developed by the ISSB), needs to be established, while adapting it to the public sector's needs. In addition, we believe that in addition to the methodology, a methodical, standardized taxonomy of sustainability issues in the public sector should be developed as well. A standard language and a standard terminology will facilitate clear discourse and comparative measurement and assessment, as described at length below.

We support and encourage the IPSASB's work to promote standardization in the sustainability domain, in the context of accounting standards and financial statements.

Respectfully,

Mrs. Ruth Mark,
Senior Deputy to the
Accountant General

Preliminary View 1 – Chapter 1

The IPSASB's view is that there is a need for global public sector specific sustainability reporting guidance. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

Not only do we agree with the IPSASB that reporting standards on sustainability in the public sector are needed, we consider them a necessity.

States are the most influential players, both in terms of finances and because of their powers as legislators and regulators; in other words, developing a unique reporting methodology for the public sector will have an overreaching effect, and might even be essential to promoting sustainability issues globally.

Furthermore, creating a reporting methodology for sustainability issues in financial reporting will encourage states to issue financial statements, thus strengthening the IPSASB's position as an important, vital standardizing entity for the public sector. As described above, some countries make nonuniform sustainability disclosures, separately from the financial statements.

We reiterate our belief that the notes should be included in the states' consolidated financial statements.

States should be allowed to choose the policy they set and which issues to address. For each issue, a clear reporting methodology should be developed, to provide for a relevant basis for comparison.

On top of the multiple issues, one must keep in mind the variability between countries, and that each country is characterized by different risks; accordingly, the main issues each country is to choose should be congruent with the sustainable development goals all UN member states have committed to, in addition to the countries' declaration under the Paris Accord.

Preliminary View 2

The IPSASB's experience, processes and relationships would enable it to develop global public sector specific sustainability reporting guidance effectively. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

As a long-standing organization with vast experience in creating public sector-specific standards on an international level, we maintain and believe that you have and/or that you will act to acquire the tools, knowledge, and methodology needed to develop and adapt a public sector-specific standard. The vast network you have developed over the years, along with the support from international entities, lends further support to your suitability to develop another set of reporting standards for the public sector.

At the same time, we believe that if the new standard is to address sustainability issues, relevant professionals in relevant areas should be added to the team and/or collaborations with relevant parties and organizations should be pursued; for example, see collaborations of the current reporting organizations.

Specific Matter for Comment 1

If the IPSASB were to develop global public sector specific sustainability reporting guidance, please tell us what topics you see as most pressing in your jurisdiction and why these should be prioritized by the IPSASB.

We believe that the optimal way for states to report on their progress and their work on sustainability issues is within its consolidated financial statements, in a separate report (disclosure or note) to anchor the independent auditor's liability to non-audited financial data.

Unlike in the private sector, where the reporting organizations determine materiality based on congruence with their core operations and diverse sectors (for example, see the SASB's reporting methodologies), we believe that in the private sector, materiality across the board is not necessarily the right tool for each country, as countries vary in terms of geography, politics, geopolitics, and in terms of their economic, environmental, and social situation. As a result, determining the material issues uniformly and across the board would be difficult, regardless of the fact that the situation may change occasionally, for example because of emerging risks or technological innovations that might have an impact and be given some significance in the report.

It is also important to note that the UN has determined the high-priority issues included among the 17 sustainable development goals; these issues provide a list of secondary objectives, and while taking these into account, the material issues can be rated for each country within the specific disclosure in the financial statements. Alongside the list of issues, two main components must be addressed in the context of materiality:

1. The materiality process – creating a guide to support the internal materiality process each country must carry out.

The materiality process refers to an orderly, methodical process, according to estimates and parameters that facilitate prioritizing all sustainability issues. Developing the guide and making it accessible to the countries adopting the accounting standard will make it possible for each country to develop a uniform, coherent process, relative to its starting point in terms of sustainability, according to that which it finds significant and important.

First and foremost, each country must consider its policymakers' decisions, emphasizing the issues outlined within these policies. The standard is not intended to impose any policy on countries, but rather to set a uniform standard for the reporting framework.

2. Standardization – developing a uniform, measurable, and comparable reporting standard, a predefined standardization must be established, to act as the reporting basis for each goal and each issue.

Assuming the standard would allow each country to set goals it wishes to address, and assuming a range of activities that can be performed and reported for each goal, we believe it is necessary to standardize the issues and measurements to be reported for each goal. This standardization will focus on objectives under each goal, and determine the metrics that best reflect the extent to which each goal was met. These metrics will be defined according to the minimum parameters that must be addressed in the report. Thus, we will have a standardized, comparable status report for the countries that report on the same objective, within the same goal.

The standardization can be achieved through the public sector taxonomy.

Preliminary View 3

If the IPSASB were to develop global public sector specific sustainability reporting guidance it proposes applying the framework in Figure 5.

In developing such guidance, the IPSASB would work in collaboration with other international bodies, where appropriate, through the application of its current processes.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, explaining what alternatives you would propose, and why.

We believe that the proposed reporting standards structure - as it appears in Figure 5 according to the TCFD reporting standards and as applied by the World Bank as well (see the disclosure framework document); this structure – which highlights risks beyond physical risks on top of an orderly disclosure of quantifiables and climate goals - can be adapted to climate reporting in the public sector. The reference to Block 2 is primarily relevant to the public sector (in Figure 5).

We maintain that it is worthwhile to look into creating an analogy or a connection to the proposed practice to implement sustainability and climate standards, based on RPG 3, that has set a methodology for measuring performance goals in the public sector, using the IPSAS terminology that defines the resources (inputs) and services (outputs) the state invests, and the correlation (efficiency) between them and the impact (outcomes) these resources have on society. The effectiveness will be examined according to the objectives the country has set. For example, in terms of carbon emissions, the State of Israel's effectiveness will be reviewed based on the most recent goals it has set (in July 2021, prior to Israel's participation in the Climate Change Conference in Glasgow, Scotland, the emission goals for 2030 and 2050 were revised under Government Resolution No. 171 - The Transition to a Low-Carbon Economy, to 27% and 73% (compared to 2015), respectively), the emission values reduction will be reviewed on a per capita basis (as is the common practice).



Preliminary View 4

If the IPSASB were to develop global public sector specific sustainability reporting guidance, it would address general requirements for sustainability-related information and climate-related disclosures as its first topics. Subsequent priority topics would be determined in the light of responses to this Consultation Paper as part of the development of its 2024-2028 Strategy.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, explaining which topics the IPSASB should prioritize instead, and why.

We agree that climate is one of the most crucial, essential issues, so making it the top priority and focus area is appropriate. At the same time, we believe there are other sustainability issues and environmental risks that countries should be given the opportunity to report and address, as early as in the first version of the standard to be published. To that end, a clear methodology for determining these other issues should be stated. We recommend the method in which the PGR 3 presents them, in the example cited above.

We advise the IPSASB to allow expedients for first-time adoption of the standard, if it is decided that the sustainability standard is a mandatory standard for financial reporting.