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International Public Sector Accounting Standards Board
International Federation of Accountants
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CANADA

Submitted to: www.ifac.org

Consultation Paper on Advancing Public Sector Sustainability Reporting

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB's) *Consultation Paper on Advancing Public Sector Sustainability Reporting*.

The Auditor-General is responsible for auditing all of New Zealand's public entities. Public entities in New Zealand include public benefit entities and for-profit entities. We provide the New Zealand Parliament and the public with independent assurance that public entities are operating and accounting for their performance as intended.

Our responses to the Request for Comments are set out in the Appendix.

Our comment

We welcome the IPSASB's Consultation Paper and commend the IPSASB for addressing the need for public sector sustainability reporting. We are pleased that the IPSASB is willing, and stands ready, to start the process.

We strongly support the proposal for the IPSASB to develop global sustainability reporting guidance¹, including climate-related guidance, for the public sector.

Internationally recognised sustainability reporting guidance specific to the public sector will help ensure consistency in the reporting of sustainability information by governments and public sector entities. Reporting at both the whole-of-government level and the entity level is important as a basis for setting public policies, monitoring progress and performance, and for holding governments and public entities to account, both domestically and internationally.

Need for fit-for-purpose sustainability reporting guidance for the public sector

We support the IPSASB providing the leadership to develop global sustainability reporting guidance that is fit-for-purpose for application by the public sector. This is needed:

¹ We note the comment in paragraph 1.15 of the Consultation Paper that "*The exact nature of sustainability reporting guidance needed for the public sector is unclear at this time, whether it is a framework, standards, guidelines, or some mix of all, so that the remainder of the document uses the generic term "sustainability reporting guidance" to encompass all potential guidance forms.*" We include relevant climate-related reporting guidance under the broad heading of sustainability reporting guidance.

- to fill the current gap in globally accepted sustainability reporting guidance that is applicable to the public sector and, in particular, to countries at the whole-of-government level;
- to recognise the broader responsibilities of governments for a country's sustainability policies, in meeting international agreements and in maintaining the sustainability its resources; and
- to recognise the broader objectives, stakeholders and range of non-financial matters in the public sector.

The development of sustainability reporting guidance for the public sector may also require the IPSASB to further consider in future:

- whether the scope of a general purpose financial report (GPFR) needs to be expanded (for example, when considering where sustainability information should be disclosed); and
- whether any element in the conceptual framework for general purpose financial reporting by public sector entities needs to be clarified (for example, where sustainability/climate-related concepts intersect with accounting concepts).

Need for adequate resources and diverse skills

For the IPSASB to succeed in developing global sustainability reporting guidance for the public sector, it is critical that the IPSASB is adequately resourced.

We do not consider that it is feasible, in the longer-term, to expect the current IPSASB members, who are primarily financial reporting experts, to address complex sustainability and climate-related matters. While it is important to have an experienced and active sustainability reference group to advise the IPSASB, in the longer-term, the IPSASB will also need members (and staff) who have the necessary background and experience in non-financial, climate science and/or sustainability matters. The ability to source additional funding will depend on the IPSASB having a clear vision about its future structure and Board composition.

If you have any questions about our submission, please contact Lay Wee Ng, Technical Specialist, at laywee.ng@oag.parliament.nz or +64 21 222 9752.

Nāku noa, nā



Greg Schollum
Deputy Controller and Auditor-General

cc. External Reporting Board

Appendix: Request for Comments

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 IPSASB's Preliminary View?

If not, please provide your reasons.

We agree that there is a need for global sustainability reporting guidance² specific to the public sector because of the increased public interest in sustainable development and climate-related information. Currently, there is an absence of sustainability (and climate-related) information that meets the needs of public sector stakeholders.

Public sector sustainability reporting guidance needs to be applicable at both the whole-of-government level and at the entity level. Currently, there is a gap in international sustainability guidance – there is no globally accepted guidance that applies to the public sector or to countries at the whole-of-government level.

Leadership is needed at the international level to ensure that sustainability information from public entities and governments is understandable, consistent and aligns with a country's sustainability policies. It is also important for governments to report on progress in meeting their commitments in relation to international agreements.

International sustainability and climate frameworks, for example, the work of the Task Force on Climate-Related Financial Disclosures (TCFD), and the work of the International Sustainability Standards Board (ISSB) are focused mainly on climate-related matters, and for application by for-profit entities that operate in financial markets. The reporting is also focused mainly on the financial/cashflow impacts at the entity/group level, "enterprise value"³ and for a narrow group of for-profit primary users⁴.

While it is desirable to align sustainability and climate-related concepts and methodologies with the for-profit sector (where appropriate), it is important for the IPSASB to address differences in public sector focus and challenges in applying private sector guidance. Specific guidance is needed for the public sector because it has broader objectives and needs to disclose relevant sustainability information to a broader group of stakeholders.

Unlike the for-profit sector, public sector stakeholders are not limited to investors and creditors: they include, for example, tax and rate payers, resource providers and service recipients, whose information needs differ from the primary users of for-profit entities. The public sector also needs to address a wider range of non-financial matters. The information needs of public sector stakeholders include information about the public entity's service delivery, performance and outcomes, which may be non-financial in nature. Sustainability reporting guidance in the public sector needs to ensure a public sector entity discloses information and impacts about its broader performance and how well it is equipped to deal with the sustainability challenges ahead and to continue delivering services and supporting communities (the sustainability of its service

² We note the comment in paragraph 1.15 of the Consultation Paper that "*The exact nature of sustainability reporting guidance needed for the public sector is unclear at this time, whether it is a framework, standards, guidelines, or some mix of all, so that the remainder of the document uses the generic term "sustainability reporting guidance" to encompass all potential guidance forms.*" We include relevant climate-related reporting guidance under the broad heading of sustainability reporting guidance.

³ The ISSB's ED IFRS S2 *Climate-related Disclosures* defines "enterprise value" as "the total value of an entity, which is the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt". Enterprise value reflects expectations of the amount, timing and certainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital.

⁴ For example, the TCFD recommendations are developed to apply to financial-sector organizations, including banks, insurance companies, asset managers, and asset owners. The ISSB's proposals apply to "*primary users of general purpose financial reporting*", these being existing and potential investors, lenders and other creditors.

performance). Besides accounting for the effects of relevant events on the entity, any public sector-specific sustainability guidance should also require a public sector entity to account for its external impact on the wider environment (the principle of “double materiality”). It should not be focused only on “enterprise value”.

Governments have wider responsibilities for a country’s sustainability policies, in meeting commitments in relation to international agreements and in maintaining the sustainability of the natural resources of the country that are not recognised by entities for financial reporting purposes. Governments (and public entities) hold the collective responsibility and mandate for a country’s wellbeing, sustainability development and sustainability policies and actions. Any reporting therefore needs to be at a comprehensive national level (not just at the entity level) to reflect these responsibilities, as a basis for setting public policies, to monitor progress and performance, and to hold governments and public entities to account. Internationally recognised public sector sustainability reporting guidance will ensure consistency in the reporting of sustainability information by governments and public sector entities.

Governments need an over-arching view of all sustainability activities that its public sector entities undertake in order to set cohesive public policies. For countries that sign up to international agreements, their governments need to disclose how they manage the sustainability and climate risks and opportunities for the country as a whole and be accountable for any progress made/actions taken (or need to be taken) to meet international agreements and associated targets.

Preliminary View 2 – Chapter 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 IPSASB’s Preliminary View?

If not, please provide your reasons.

Subject to our comments on resourcing and IPSASB membership under Preliminary View 5 – Chapter 4, we agree that the IPSASB’s experience, processes and relationships would enable it to develop global public sector specific sustainability reporting guidance. The IPSASB’s stability and credibility as an international standard-setter that has successfully addressed public sector reporting issues also gives the IPSASB an added advantage. It is important for the IPSASB to:

- remain relevant in keeping up with developments and demands by public sector stakeholders for globally accepted sustainability reporting guidance that apply to the public sector; and
- show leadership and fill the gap by setting globally accepted sustainability reporting guidance that applies to the public sector and, in particular, to countries at the whole-of-government level.

We encourage the IPSASB to continue to engage and participate in the ISSB’s work and to monitor the work of other international sustainability organisations. It is important for sustainability concepts and methodologies in the public sector to align with international best practice, where appropriate, to ensure global consistency and credibility.

The development of sustainability reporting guidance for the public sector may also require the IPSASB to further consider in future:

- whether the scope of a general purpose financial report (GPFR) needs to be expanded (for example, when considering where sustainability information should be disclosed); and
- whether any element in the conceptual framework for general purpose financial reporting by public sector entities needs to be clarified (for example, where sustainability/climate-related concepts intersect with accounting concepts).

Where sustainability and climate-related matters intersect with accounting standards, the IPSASB has the advantage in ensuring that the sustainability reporting guidance is consistent with the accounting standards and concepts and/or to improve or clarify accounting standards as necessary.

An example where climate-related matters intersect with accounting standards is in the issue of how a government should account for the country's potential need to purchase international carbon offsets to meet their nationally determined commitments (NDCs) under the Paris Agreement. It is unclear whether (and, if so, how) current accounting standards (or the concepts in the conceptual framework) apply to such commitments that potentially represent a significant future expense for a country, but which may not fit comfortably with the concept of a liability as defined by accounting standards and/or the conceptual framework.

Specific Matter for Comment 1 – Chapter 3

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 prioritised by the IPSASB.

If the IPSASB were to develop global public sector specific sustainability reporting guidance, we support the IPSASB addressing general sustainability reporting information and climate-related disclosures specific to the public sector as its first topics.

The IPSASB is able to leverage off standards issued by the ISSB by modifying them to ensure that they are relevant for, and applicable by, public sector entities. The scope of any sustainability reporting guidance for the public sector needs to recognise the differences between the broader mandate and objectives of the public sector when compared to the for-profit sector. Public sector sustainability reporting guidance needs to:

- apply to all relevant public sector entities, not just those that raise capital in domestic and international markets;
- address impacts on an entity's broader service delivery/outcomes, not just on its finances, financial impacts and cashflows; and
- address an entity's external impact on the wider environment (the principle of double materiality concept), not just external impacts on the entity's enterprise value.

Preliminary View 3 – Chapter 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 IPSASB's Preliminary View?

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

We agree that, if the IPSASB were to develop global public sector specific sustainability reporting guidance, the framework in Figure 5 is an appropriate framework to follow.

We support having a sustainability reporting framework with overarching general sustainability disclosure guidance and specific topic guidance under it.

There is merit to specific topic guidance being issued as guidance rather than as mandatory standards. This allows individual jurisdictions to determine the most appropriate elements of sustainability reporting to report in their context and in consideration of the needs and interests of their stakeholders.

The general sustainability reporting guidance would form a good basis for the IPSASB to easily extend its work into other areas of sustainability in future without having to fundamentally revise its core concepts and general sustainability reporting guidance, for example, reporting on other Sustainable Development Goals (SDGs). The general sustainability reporting guidance would also allow a public sector entity to account for the effects of relevant events on the entity as well as its impact on the wider environment (the principle of “double materiality”)⁵.

We also agree that in developing such guidance, the IPSASB would work in collaboration with other international bodies, where appropriate, through the application of its current processes. In the area of climate-related reporting, we support, where appropriate, the alignment of concepts, methodologies and disclosures with those of the TCFD and the consideration of other relevant international frameworks and proposals (for example, the ISSB’s proposals), modified as necessary for the public sector.

Preliminary View 4 – Chapter 3

If the IPSASB were to develop global public sector specific sustainability reporting guidance, it would address general 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 IPSASB’s Preliminary View?

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

We agree that, if the IPSASB were to develop global public sector specific sustainability reporting guidance, it would address general sustainability reporting information and climate-related disclosures as its first topics.

In relation to climate-related reporting guidance, given the currency and importance of the topic, the IPSASB can leverage off the ISSB’s work, particularly at the entity level.

(Also see our comment under Specific Matter for Comment 1 – Chapter 3 and Preliminary View 3 – Chapter 3.)

Preliminary View 5 – Chapter 4

The key enablers identified in paragraph 4.2 are needed in order for the IPSASB to take forward the development of global public sector specific sustainability reporting guidance.

Do you agree with IPSASB’s Preliminary View?

If not, please provide your reasons, identifying which of the proposed key enablers you disagree with, and why.

Paragraph 4.2 of the Consultation Paper sets out the key enablers as:

- Appropriate resourcing;
- Experienced and active Sustainability Reference Group to advise the IPSASB;

⁵ Or, potentially consider “dynamic materiality” that allows for the identification of criteria that are likely to become material in the short to medium term even if they are not material in the current environment.

- Effective and efficient use of IPSASB Member time;
- Coordination with other international sustainability standard setters; and
- Dialogue with national standard setters.

For the IPSASB to succeed in developing global sustainability reporting guidance for the public sector, it is critical that IPSASB is adequately resourced.

We do not consider that it is feasible, in the longer-term, to expect the current IPSASB members, who are primarily financial reporting experts, to address complex sustainability and climate-related matters in addition to their current work on accounting standards.

While it is important to have an experienced and active sustainability reference group to advise the IPSASB, in the longer-term, the IPSASB will need members (and staff) who have the necessary background and experience in non-financial, climate science and/or sustainability matters. It is critical that IPSASB members who approve the sustainability reporting guidance for the public sector to also have the necessary subject matter knowledge.

Diversity in backgrounds and experience is important as sustainability and climate change issues are not always financial in nature. The IPSASB will require members (and staff) with backgrounds and experience in non-financial, climate science and/or sustainability matters. The inclusion of national standard setters in the development of the sustainability reporting guidance will broaden the thinking behind any guidance and ensure the adoption of the guidance in their respective jurisdictions.

Alternatively, the IPSASB may need to consider whether a separate Board (or sub-Board) whose members have the required subject matter knowledge should be set up to develop and issue the global sustainability reporting guidance for the public sector.

We consider that the ability of the IPSASB to source additional funding may depend on the IPSASB having a clear vision about its future structure and the composition of the IPSASB.

Specific Matter for Comment 2 – Chapter 4

To what extent would you be willing to contribute financial or other support to the IPSASB for the development of global public sector specific sustainability reporting guidance?
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We are unable, at this stage, to confirm any resource contribution to the IPSASB for the development of global public sector specific sustainability reporting guidance.

New Zealand, through the External Reporting Board, contributes funds to the IPSASB and Todd Beardsworth from our Office is a current Board member on the IPSASB.