

**Comments and suggestions on the IPSASB Consultation Paper
*Advancing Public Sector Sustainability Reporting***

Task force IRSPM PSAAG, CIGAR Network, EGPA PSG XII

September 5, 2022

The IPSASB has requested comments and answers to specific questions regarding its Consultation Paper, *Advancing Public Sector Sustainability Reporting*. The following document comprises a general comment which accompanies our responses to the Preliminary View and the Specific Matters open for Comment (SMC). This document was prepared by the Task Force IRSPM PSAAG, CIGAR Network and EGPA PSG XII.

The IRSPM PSAAG, CIGAR Network and EGPA PSG XII are three research networks that focus on Public Sector Accounting. The Task Force is made up of 17 researchers from these networks. The views expressed in this document represent those of the members of the Task Force and not of the whole research community represented by the networks, and neither of the institutions/universities with which they are affiliated.

Core assumptions

We are of the opinion that Public Financial Management (PFM), in its broadest sense, is the system by which public financial resources are planned, managed and controlled. Furthermore, the PFM system is the foundation on which the accountability of public sector entities, both external and internal, is built upon, in order to enable and control the efficient and effective delivery of public service outcomes, and to discharge accountability towards citizens and their representatives. In our view, PFM is paramount for accountability, which should be prioritized over stewardship and decision-usefulness functions.

We recognise the **pivotal role of the IPSASB in developing high-quality international public sector accounting standards to support high quality financial reporting** and to enhance non-financial disclosure by public sector entities, to increase citizens' trust. In fact, we believe that governments need to take the initiative and lead the development of high quality, reliable and comparable information as key to being able to achieve Sustainable Development Goals (SDGs) as set by the United Nations (UN). Thus, we applaud the initiative to prepare specific guidance for global public sector sustainability reporting. **Public sector entities/governments play a pivotal role in the achievement of SDGs** and their involvement in sustainability practices challenge reporting duties, extending the perspective from financial/economic to social and environmental areas. There is a need for a common approach by public sector entities in preparing sustainability reporting, assessing their contribution to sustainable development. Sustainability reporting for the public sector is too crucial not to be devoted the necessary resources for informed guidance. Against this background, future IFRS- Sustainability Disclosure Standards (SDS) (to be developed by the ISSB) appear to fail as a suitable basis for sustainability accounting and reporting in the public sector, because there is no evidence that they are being developed with the SDGs in mind. The IFRS-SDS are referring to standards and recommendations from VRF (i.e. SASB & IIRC), CSRD, TCFD and the like. We are of the opinion, however, that the IPSASB should devote specific resources and efforts to sustain the leading role of public sector entities in promoting sustainability practices and related disclosures.

While we acknowledge the actions that the IPSASB is willing to undertake in developing sustainability guidance for the public sector, we would like to stress that the development of sustainability standards for the public sector should not necessarily follow the same path as that of the financial IPSAS. Sustainability reporting for the public sector should not be considered a byproduct of that for the private sector. A point relevant to this taps on the terminology used in the consultation paper. As already pointed out, public sector sustainability reporting tends to be organized around SDGs and the private sector sustainability reporting around ESG. The Consultation Paper, however, tries to map SDGs to ESG dimensions (even though the legend of Figure 1 reports the opposite) in order to move the discussion mainly along the ESG paradigm. While a common ground among the two typologies can be found, the use of ESG as a principal grouping may not only cause some discomfort, to public sector accounting scholars, but also might hinder the design of an SDG-focused sustainability report.

The IPSASB, in its capacity of international standard setter in the public sector domain, could provide specific guidance as a point of reference for public sector entities intended to discharge their accountability duties in sustainability matters.

We are of the opinion that, in general, public sector entities require public sector specific principles and standards that properly address and accommodate public sector specificities. As such, when public sector transactions and public sector user needs resemble those taking place in the private sector, principles and standards may be kept as aligned as possible. However, for public-sector-specific transactions and activities, we are in favour of principles and standards that are not adapted artificially from private sector accounting and reporting. We think there is a need to **seek options that best fit the public sector – especially in the field of sustainability reporting** where the differences between private and public sector are more obvious. This core thesis underpins our proposals and recommendations herein.

Comments on the sustainability consultation paper

The consultation paper (CP) addresses a fundamental and pressing issue that has been hitherto undeservedly overshadowed: To what extent can General Purpose Financial Statements (GPFS) alone be useful for decision-making and especially for the prevalent objective of (discharging) accountability? The answer can even be found in the IPSASB's conceptual framework and is indicated by the IPSASB's broader General Purpose Financial Reporting (GPFR) approach and work programme. GPFS need to be assessed in the light of (1) appropriate supplementing budget reports and (2) supplementary reporting (at the moment, Recommended Practice Guidelines (RPGs) suggest providing information on financial sustainability and service delivery programs). While the first is scoped out of the IPSASB's work and there is only one standard that very lightly encourages reporting against the budget, the latter is only recommended on a voluntary basis. Moreover, even in the broadest approach (here GPFR), the focus is still **'financial'** and perhaps on **'financial sustainability'**, which, while important, is only a **small part of sustainability as a whole**.

The CP under comment points out several hindrances for the IPSASB to undertake a work programme as a sustainability reporting standard setter; in particular, the lack of appropriate financial resources and board members as well as staff to devote specifically to the project. Nonetheless, as already stated, we are of the opinion that (SDG-consistent) sustainability reporting standards, specifically developed for public sector entities, are needed.

Furthermore, we note that the CP is similar to the IFRS Foundation's CP on the same issue.

However, the sustainability standard-setting landscape in the public sector is not comparable to that in the private sector, because public sector organizations have a direct responsibility in ensuring the well-being and public good of communities. Consequently, they should lead partnerships with NGO and enterprises towards the achievement of SDGs. For this reason, we are of the opinion that, rather than making the IFRS-SDS verbally modified into public sector sustainability reporting standards, **it would be advisable to set a pathway toward the creation of a specific set of standards dealing with sustainability issues, specifically designed for public sector entities and consistent with SDGs, that can be a point of reference also for private-sector entities.**

Last but not least, we suggest that the IPSASB should make it clear from the outset that its sustainability reporting is **not aimed at another voluntary RPG and/or for IPSAS adopters only**, but at a **mandatory and indispensable pillar in a public sector or government reporting concept**. Consistently, it would be advisable to propose a timeline for the progressive adoption of sustainability reporting, possibly towards an integrated reporting approach. A first step may be the adoption of a RPG, strongly recommended by national and international institutions. In the meantime, a set of specific standards for sustainability reporting in public sector entities may be created and progressively adopted.

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.

Comment:

***Agree.** We strongly believe that governments and public sector entities require public sector specific principles and standards that properly address and accommodate public sector specificities.*

In the development of standards on specific issues, we believe that a pivotal point to be considered is the trade-off between the benefits in terms of transparency, accountability and decision-making for public sector entities/governments interested in preparing a Sustainability Report, and the burden of applying specific guidance.

We recognise that in the absence of internationally recognised guidance, some jurisdictions and a few national standard setters have developed their own requirements, creating a landscape in which comparing or assessing the aggregated result (output and outcome) are difficult. Furthermore, we believe that the call made by the United Nations for governments and public administrations to support SDGs, should go hand in hand with a broader effort from these organisations in preparing sustainability reporting, which should cover all sustainability dimensions (i.e. social, governance and environmental issues), also addressing climate change. Any development of sustainability guidance and standards can only be the successive step after a specific analysis of public sector specificities and a thorough status quo analysis of existing sustainability reporting. Thus, we share the view that there is a need for global public sector specific sustainability reporting standards. It should also be emphasised that there is no global de facto standard setter in the public sector, as the GRI is designed mainly for the private sector (but can also be adopted by public sector entities). This is important because sustainability has a completely different status and a different catalogue of tasks for governments and other public sector entities and therefore requires a different set of tools, mechanisms and measures than in the private sector. This becomes particularly clear at the latest when looking at the SDGs.

Notwithstanding the fact that there is no global standard setter for public sector sustainability reporting currently, globally there are successful examples of public entities publishing sustainability reports. All of this experience could be reflected in the final standards in order to provide specific examples as a point of reference.¹

¹ Considering the fact that governments are in charge as sustainability reporting regulators for public sector and private sector entities, may lead to following alternative conclusions with respect to the division and order of tasks in both sectors: (1) A public sector sustainability reporting first approach would be appropriate followed by regulations for private sector entities. (2) Due to the unequal distribution/investment of resources between the private and public sectors, private sector sustainability standardisation bodies (such as the ISSB) could be encouraged to co-think and propose normative specifications for the public sector as part of their standard-setting porosity. The assessment and (amended) endorsement of such proposals should be possible within a short time and with significantly reduced resources.

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 the IPSASB's Preliminary View?

If not, please provide your reasons.

Comments:

Agree. We share the view that the Conceptual Framework and the RPGs already issued by the IPSASB could be applied – with some indispensable adaptations and integrations – to sustainability reporting. However, specific standards should also be provided, even progressively (see page 3), following a clear timeline (e.g. starting with a RPG to be strongly promoted and in the meantime create a set of specific standards) to ensure the preparation of a sustainability report (or an integrated report). According to the answer provided by the IPSASB Staff Q&A to Q1, "Governments which have adopted the SDGs will need to define how these impact the service performance objectives of public sector entities, and develop reporting on the achievement of these using existing IPSASB guidance". In particular, disclosure should cover the following topics:

- A precise definition of the reporting entity and its responsibility regarding harming sustainability².
- The identification of users of sustainability reporting (as these may differ from those of GPFR);
- The identification of sustainable development risks and opportunities;
- The presentation of narratives or/and indicators for SDGs targets;
- Changes to what a public entity/government does and how it does it in order to achieve the SDGs, identifying the social and environmental impact of public service and goods delivery, through narratives and/or indicators;
- The communication of the implications for and the impact on achievement of the SDGs (inter alia by quantitative and qualitative indicators and their development).

As the IPSASB is already recognised as the standard setter that provides public sector entities/governments with standards to follow in the preparation of GPFR and GPFS, we believe it would be more convenient and effective to assign to the IPSASB the duty to prepare also global public sector specific sustainability reporting standards in order to ensure a timely response to the need of public sector entities/governments/public administrations to prepare comparable sustainability reports.

But we emphasise, that this means that the IPSASB will enter into a new field in which the main focus on '**financial**' (its core competence) can give way to a more integrated vision, combining **financial and non-financial issues (thus including environmental, social and governance focuses)**. In this realm, IPSASB should also consider public sector specific sustainability related tools and practices such as green budgeting and gender budgeting. Also, the fact that Block 2 refers to multi shareholder groups would make it necessary to suggest reporting means that meet the information needs of primary stakeholders such as citizens and the civil society and not secondary stakeholders as investors. Therefore, we do not agree that the breadth and specifics of sustainability reporting may lead to the need to establish a separate board for public sector reporting in addition to the

² In accounting, we start from the owner and its financial operations. For sustainability reporting, the owner can be somebody else like a central government: e.g. a local government is responsible for preventing sewer pollution, but is not allowed to enforce clean-up measures because central government refuses the necessary permission. Another example: a government plans to renew destroyed (due to fire) forests, but is hindered by central regulations. One could argue that the reporting entity is not accountable for these effects on sustainability.

IPSASB (see 2.15). Rather, the foundation of a specific board or committee within IPSASB, especially while starting the process seems inevitable in order to proceed with the necessary speed.

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 prioritized by the IPSASB.

Comments:

We agree from a public sector point of view, that the **building block 2 is of utmost relevance**, much more than the building block 1. Indeed, we note that building block 1 equals the ISSB's baseline approach and circulates around enterprise value and financial (outside-in) materiality. Right from the start, the IPSASB needs to take a broader perspective than the ISSB.

We believe that more attention should be paid in addressing how to **preserve natural resources**. In this perspective, the ongoing project on natural resources could provide the necessary support for public entities in budgeting and reporting on inflows and outflows related to protection, conservations, and enhancement of natural resources – for example, the best use of water so it can be spared.

Public entities should then consult with their stakeholders in order to **identify material issues to be disclosed** in their sustainability reports. For this reason, guidance on the preparation of a materiality matrix as well as the related risks and opportunities assessment, should be prioritised. In this respect, the IPSASB will have to clarify the underlying concept of materiality: the inside-out financial materiality (as SASB or ISSB); and/or the broader outside-in materiality (as GRI) or the double materiality (as EC CSRD)? Based on the fact, that the IPSASB emphasises the prevalent relevance of building block 2 for public sector sustainability reports, the **IPSASB should not follow the (insufficient) minimum baseline (outside-in) approach of the ISSB**.

In parallel, the IPSASB should provide guidance on general principles how to prepare a sustainability report to communicate financial and non-financial information on plans and action towards the achievement of SDGs in an Integrated Reporting manner, also in the aim of involving citizens and other stakeholders (e.g. business entities and NGOs) in cooperating in social and climate change related issues. To this end, the IPSASB could prepare a roadmap attuned to encourage public sector entities in disclosing expenditure allocation choices to achieve SDGs recommending a clear disclosure around social, governance and environmental issues, with a specific emphasis on climate change. In this realm, guidance may also be provided to encourage governments and other public sector entities in preparing their budget around sustainability issues (e.g. adopting SDGs budget, green budgeting, gender budgeting etc.).

Furthermore, while we recognize that the single public sector entity view is important in preparing a sustainability report, we also consider pivotal the possibility to assess challenges and opportunities, plans and actions, achievements and failures with regards to environmental, social and governance issues, including SDGs from **a whole sector perspective** (at least at the national level, encompassing central, states and municipalities/counties). Thus, this issue should also be treated with priority. We recognize that the importance of the topics would differ by jurisdiction; however, the environment is a common factor. Guidance is required on reporting policy setting and execution (past and forward looking). Furthermore, we also believe that there is a need for different indications taking into account differences occurring between developing and developed economies (with the latter assisting the former).

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 the IPSASB's Preliminary View?

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

Comment:

Agree. Consistent with the above comments related to SMC 1, we believe that the IPSASB should prepare **new pronouncements**, specifically designed for the public sector, rather than relying on or adapting private sector standards. The lack of resources available to the IPSASB should not be the determining factor of the extent of reliance on the ISSB's work. A possible solution, as already suggested above, could consider starting with the development of a strongly supported RPG by the end of 2023; and the progressive development of a set of sustainability standards, following a realistic and appropriate work programme and creating a suitable governance structure coupled with the necessary budget.

In doing so, however, the IPSASB could draw on other sources (e.g. globally accepted GRI standards or regional European Corporate Sustainability Reporting Directive [EC CSRS]) to the extent these can provide a source of inspiration in the preparation of a new pronouncement. Dialogue with national standard setters is also very important.

In this perspective, **we agree in applying the framework proposed in Figure 5.**

However, we would recommend to keep a stronger coherence between the text in 3.8.a and Figure 5 (general sustainability disclosure requirements, instead of general sustainability disclosure guidance).

We welcome the coherence with the Task Force on Climate-related Financial Disclosure (TCFD) recommendations, which allow disclosing the governance, strategy and risk management arrangement adopted to plan, manage and control targets, outputs and outcomes defined to contribute to sustainable development. In doing so, the IPSASB should develop specific guidance for using/implementing function-specific measures attuned to assess and communicate related plans and actions initiated by governments and other public sector entities.

Nevertheless, it is important to mention, that following the TCFD's framework as disclosed in the consultation paper, should **not** mean **limiting the focus on the TCFD's outside-in perspective**. In the public sector context, (reactive) responses to sustainability challenges are less important than an integrated **proactive (inside-out) mindset** (integrated thinking and integrated decision-making), i.e. the impact of governments and other public sector entities on sustainability issues. The introduction of the materiality matrix may help in driving the reporting content towards the most relevant issues.

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 disclosure 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.

Comments:

***Partially agree.** We are of the opinion that sustainability-related information, and more specifically information on SDGs achievement already incorporates climate-related issues and that climate-related sustainability information should **not be limited to SDG 13** (Climate action), as it also touches upon social and governance issues. Furthermore, the institutional mission of governments and other public entities includes the responsibility to preserve, maintain, and enhance natural resources, thus actively operating in order to avoid (inside-out) and reduce (outside-in) negative environmental impact caused by their activities. The mission also includes supporting business entities and citizens in reducing their carbon footprint (e.g. activating incentives for the use of renewable energy sources, promoting recycling and reutilization overall) as one aspect in the quest for the preservation of the limits of our Earth's resilience (called "planetary boundaries" or "critical planetary boundaries").*

*While we recognize the need to provide distinct (SDG-consistent) **reporting on environmental, social and governance issue**, we believe that climate change issues belong to the broader area of environmental issues. We agree that the climate change issue is one of the most pressing challenges these days, but in order to be successful, it requires **considering the governance, social and further environmental facets of the climate change** and climate change adaptation **and the interlinkages to other SDGs**, to provide a holistic picture of the climate phenomenon (i.e. pollution, water and marine resources, biodiversity, resource use).*

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 the IPSASB's Preliminary View?

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

Comment:

*Agree. Once again, we underline the view that coordination and dialogue with other (national and international) standard setters is of outmost importance. Furthermore, as discussed in the comment to SMC 2, we believe that the IPSASB can count on the **vast support of the academic community**. Academics may be included as members of the Sustainability Reference Group, which could support the Board in the preparation of guidelines.*

Nevertheless, the establishment of a specific committee seems indispensable. Attracting some more staff members and implementing an additional consultation body is not enough to take informed decisions on sustainability standards – even if the IPSASB is heading for the utmost IFRS-SDS compliance/match possible – due to the different responsibility, capacity of public sector entities/governments in the quest for sustainability (unlike private sector entities).

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?

Comment:

*In our **capacity of academics**, we are available to cooperate with IPSASB in the development of global public sector specific sustainability reporting guidance.*

*In particular, we would suggest preparing guidance able to support public sector entities in preparing reports that are **understandable by citizens**. People without specific accounting knowledge should be able to read and assess the efforts made by governments and other public entities and overall in contributing to the achievement of SDGs, and to be encouraged in co-producing public services in a way that meet sustainability and climate-related needs. The IPSASB should consider the activities of academia in this area. The subjects discussed and the ensuing scientific research would be useful for the IPSASB's work on the development of global public sector specific sustainability reporting guidance.*

*Furthermore, academics have the **capacity to engage thousands of young people** (e.g. young researchers and students) in developing ideas and concepts of appropriate public sector sustainability reporting standards and in assessing proposals. As such, academics have the capacity and competences to support the IPSASB in a **global status quo analysis** (broader than the mentioned GRI, ISSB and EC) to identify successful examples of public entities/governments publishing sustainability reports. All of this experience and potential is not yet reflected in the CP.*

Date: September 5, 2022

Signed on behalf of the persons listed below:

Caroline	Aggestam Pontopiddan	Associate Professor of Accounting	Copenhagen Business School, Denmark
Eugenio	Anessi Pessina	Professor of Public Management	Università Cattolica del Sacro Cuore, Milan, Italy
Natalia	Aversano	Associate Professor of Accounting	University of Salerno, Italy
Yuri	Biondi	Senior Tenured Research Fellow of the CNRS	IRISSO, University Paris Dauphine PSL, France
Marco	Bisogno	Associate Professor of Accounting	University of Salerno, Italy
Isabel	Brusca	Professor of Accounting and Finance	University of Zaragoza, Spain
Eugenio	Caperchione	Professor of Public Management	University of Modena and Reggio Emilia, Italy
Josette	Caruana	Associate Professor, CPA	Department of Accountancy, University of Malta, Malta
Johan	Christiaens	Professor of Public Sector Accounting and Auditing, CPA	Ghent University, Belgium
Sandra	Cohen	Professor of Accounting	Athens University of Economics and Business, Greece
Giovanna	Dabbicco	Researcher, and Adjunct Assistant Professor	ISTAT - Italian National Institute of Statistics, Italy
Ellen	Haustein	Lecturer and Researcher of Accounting, Management Control and Auditing	University of Rostock, Germany
Susana	Jorge	Associate Professor of Accounting	University of Coimbra, Portugal
Peter Christoph	Lorson	Professor of Accounting, Management Control and Auditing	University of Rostock, Germany
Francesca	Manes Rossi	Associate Professor of Accounting, CPA	University of Naples Federico II, Italy
Mariafrancesca	Sicilia	Professor of Public Sector Management and Accounting	University of Bergamo, Italy
Ileana	Steccolini	Professor of Accounting and Finance	Essex University, U.K.