

Comments and suggestions on the IPSASB's ED 83
**Reporting Sustainability Program Information –
RPGs 1 and 3: Additional Non-Authoritative Guidance**

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Preliminary remarks

The IPSASB has requested comments and answers to specific questions regarding **ED 83, Reporting Sustainability Program Information—RPGs 1 and 3: Additional Non-Authoritative Guidance**, its Consultation Paper, which was released to provide additional guidance to facilitate the reporting of sustainability program information. We welcome the opportunity to comment on ED 83.

The following document comprises **core assumptions** and a **general comment** on IPSASB's sustainability consultations, which accompanies our responses to 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 16 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, especially related to sustainability programs and actions, to increase citizens' trust and assume accountability to multiple stakeholders. 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 actual sustainable development 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.

We acknowledge the actions that the IPSASB is willing to undertake in developing sustainability guidance for the public sector. The IPSASB, in its capacity as 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.

We trust that the proposed amendments to Recommended Practice Guidelines (RPGs) aim at answering an urgent stakeholder concern. However, **sustainability reporting is not an issue that calls for quick fixes**. It is the future of reporting and needs to be treated as such. These additions to RPG, as well as the creation of a specific RPG, could work as a preliminary solution to address financial sustainability issues until a holistic and thorough reporting framework regarding sustainability in the public sector is developed. This needs time, resources, stakeholders’ involvement, consultations and a clear conceptual framework explicitly addressing sustainability reporting in the public sector.

In our opinion, the proposed **RPG amendments do not follow a holistic approach**. This is evident by the reference that the proposed ED deals with “reporting sustainability program information” and the examples per se. The reporting examples refer to specific identifiable programs, while the public sector operations are all related to the sustainability quest.

Finally, the amendments to RPGs seem to ignore sustainability reporting practices and frameworks in the public sector, such as SDGs. We are of the opinion that the **IPSASB could propose** public sector entities to use, among others, **SDGs as performance indicators** when applicable.

General Comment on IPSASB’s sustainability consultations

ED 83 is the first document prepared by the IPSASB while engaging in sustainability issues. It aims at providing additional guidance to facilitate the reporting of sustainability program information. The IPSASB is of the opinion that its current set of pronouncements (especially the RPGs) allows for and supports the provision of useful sustainability information. In the aim of stimulating public sector entities in providing this information, the IPSASB does not amend any standard or RPG but adds illustrative or implementation examples to two existing RPGs.

Thus, the **implication** of the IPSASB’s reaction to the need of reporting on sustainability issues is as follows:

- As RPGs may be applied **voluntarily**, sustainability information in GPFR is not compulsory, but it is up to the preparers’ discretion. Beyond that, only non-authoritative guidance is added.
- Furthermore, the new illustrative or implementation examples to be included in both RPGs seem to lack a holistic view. We are afraid that, in the long run, such an approach may produce a **patchwork of suggestions** rather than a consistent and coherent idea of how to report sustainability information. Firstly, the suggested disclosures in RPG 1 and RPG 3 could be prepared by project/activity - and then consolidated in one report. In other words, for each project/activity, report on financial sustainability and service performance (as in ED 83). Secondly, the fact that such disclosures are part of the GPFRs - the desired effect/impact of such disclosures could be lost/diluted. Therefore, we suggest that the GPFRs should have a specific section in the notes that collates these disclosures. It could be a specific section that is suitably indexed in the contents of the GPFRs. In this way, the disclosures related to sustainability are not lost amongst all the other disclosures/notes that accompany the Financial Statements. If an integrated approach seems premature, the disclosures should be in a separate report that is distinct from the GPFRs.
- We believe that, as a first step, the IPSASB should provide an idea of its perspective of sustainability. Apparently, the IPSASB is of the opinion that it would be appropriate to report **only one facet** or perspective **instead of providing a whole picture**. Hence, in RPG 1, financial sustainability is seen as a single, standalone reporting issue – ignoring the environmental and social perspective, as well as other economic impacts or outcomes. Also, the notion of intra- and intergenerational (as well as intra- and interregional) sustainability (i.e., fairness, justice or equity) is not mentioned or illustrated. Since the IPSASB is a global standard setter, it would be advisable to take a clearer stance towards the need of preparing a separate sustainability report. This approach would be more coherent, also with other documents prepared by the IPSASB on climate change (see **Climate Change: Relevant IPSASB Guidance – June 2020**).
- Last, but not least, the proposals of the IPSASB in ED 83 do not seem to aim for a “true view” on

sustainability from a public sector entity's or government's perspective because the **SDGs are not mentioned**.

Summarizing, we are of the opinion that a stronger effort should be undertaken in order to provide coherent **guidance on the interaction of** sustainability information reported according to **RPG 1 and RPG 3**. The IPSASB should consider going beyond simple traditional means to report on the management of new and complex challenges. Further guidance (also in form of a new RPG) is deemed necessary to address broad environmental sustainability reporting.

Specific Matter for Comment 1

Do you agree with the proposed additional implementation guidance for RPG 1? If not, what changes would you make?

General comment to SMC 1:

We support the IPSASB's decision "to address an urgent stakeholder concern" and to "[respond] to the need to provide public sector entities with guidance emphasizing the applicability of the Recommended Practice Guidelines (RPGs) to reporting sustainability program information in general purpose financial reports." (RPG 1 BC 37). Furthermore, we welcome the IPSASB's decision to "communicate ... [that] RPG 1 applies to reporting sustainability program information" (RPG 1 BC 39(a)). The hint that "RPG 1 does not address broad environmental sustainability reporting" (RPG 1 BC 41) is consistent with IPSASB's procedure, but raises concerns because the perspectives of sustainability are interconnected, that is:

- the economic, environmental and social perspectives; or
- in terms of the UN SDGs (which is more appropriate to GPF of public sector entities or governments): **People, Prosperity, Planet, Peace and Partnership.**

As clarified in the general comments provided above, we believe there is a **need for a more holistic approach to sustainability**, not confined to the subjects related to in RPG1 and RPG3.

Specific comment to SMC 1:

The IPSASB 'squeezes' sustainability into the corset of **RPG 1** and its specific "three inter-related dimensions of long-term fiscal sustainability: Service; Revenue; and Debt" (ED 83 RPG 1 IG 2). It recommends long-term cashflow projections accompanied by sensitivity analyses "to help users understand the impacts of significant changes in assumptions on the projections" (ED 83 RPG 1 IG 3).

We **agree** that the suggested amendments are appropriate to communicate that RPG 1 could be used to report on (a specific issue of) sustainability – focusing on long-term **financial** sustainability. But as such, IG 1 to 3 raise our **concern** of overemphasising the financial cashflow related perspective. As connectivity between the sustainability dimensions exists, the other impacts or outcomes should be presented at the same time, at least focusing on the same time frame, that is, providing a long-term perspective.

We suggest adding such disclosure suggestions in the extended Implementation guidance and **enriching the guidance** by touching on application examples provided in ED RPG 3. Furthermore, we strongly recommend **making references to SDGs**.

Specific Matter for Comment 2

Do you agree with the proposed additional implementation guidance and illustrative examples for RPG 3? If not, what changes would you make?

General comment to SMC 2

Additional guidance to RPG 3 is deemed to respond to urgent stakeholder needs and to communicate its applicability to sustainability program information. This is done through corresponding implementation guidance and four illustrative examples, which are not meant to illustrate different concepts (ED 83 RPG 3 BC 44-49).

*Basically, we **agree** to the implementation guidance and the illustrative examples. However, we have some **concerns** on the fact that sustainability areas are not explicitly mentioned (neither People, Profit, Planet - the **3 P's**, nor **SDGs** (5 P's, see above) nor Environmental, Social and Governance (**ESG**)).*

*As clarified in our general comments above, we believe there is a **need for a more holistic approach to sustainability**, not confined to the subjects related to RPG1 and RPG3.*

Specific comment to SMC 2

Re: Implementation guidance

*The implementation guidance is consistent with the content of the additional guidance proposed (BC44-49), although our **general concerns remain**:*

- *The IPSASB crams **sustainability into the corset of RPG 1***
- *It is missing:*
 - *A definition of sustainability;*
 - *A comprehensive and consistent idea of sustainability reporting; and*
 - *Links to existing frameworks (e.g., SDGs) or guidelines.*

Re: Implementation illustrative examples

The illustrative examples build on the methodology of RPG 3 and require disclosure of:

- *Inputs;*
- *Outputs;*
- *Outcome;*
- *Efficiency; and*
- *Effectiveness.*

The illustrative examples can be read as a kind of a simplified project management report, where project progress and the corresponding costs are analysed.

At the first glance, the description seems to be precise and appropriate. However, digging more in depth, the lack of appropriate links to the current and comprehensive sustainability reporting methodology and terms emerges.

Consistently, we would recommend including at least:

- *Inside-out / **impact perspective***
- *Outside-in / **financial perspective***
- *A better **definition of outcome**. As it stands, outcome seems to be rather an output (project result). A real outcome emphasises the effects of, e.g., CO₂ absorption from a social (e.g. long-term health) and environmental perspective, which is much broader than a climate view.*
- ***Overall sustainability strategy** (e.g., CO₂ absorption program to support zero emission strategies of private or public entities), governance and the corresponding risk management system (including*

compliance and internal controls).

- **Role of the public entity** in supporting and incentivising local economy, citizens, etc., to sustainable actions and behaviour.
- Hints or better explanations and illustrations how to develop a **sustainability strategy** and to identify **crucial fields of action** by performing a **materiality analysis** as the heart and pivot of a sustainability strategy.

The aforementioned list is only to be understood as exemplary and by no means exhaustive or ranked. As explained in the Basis for Conclusions 4, illustrative examples are provided for:

- “(a) A program financed by a green bond;
- (b) A program financed by a carbon tax;
- (c) An investment in infrastructure to mitigate the impacts of climate change; and
- (d) A tax expenditure for sustainability investments” (ED 83 RPG 3 BC 47)”

The examples are not intended to illustrate different concepts (ED 83 RPG 3 BC49). Instead, various types of sustainability programs are covered, attempting to provide examples on what could be reported.

We appreciate that the ED 83 touches upon sustainability reporting at the lowest (micro) level, where concrete sustainability projects are performed. It **sheds spot lights on** selected and **isolated pieces** of sustainability activities. Reporting the whole picture and the strategic background is neither mentioned nor intended. We strongly suggest including those aspects and perspectives in the revision of RPG 3 and/or create an ad hoc RPG specifically devoted to sustainability reporting.

Signed on behalf of the persons listed below:

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