

SUSTAINABILITY REPORTING IN THE PUBLIC SECTOR: PURPOSE, SCOPE AND FUNDAMENTALS

Insights from an ACCA global roundtable discussion

Introduction

In December 2022, the International Public Sector Accounting Standards Board (IPSASB) [confirmed](#) plans to begin scoping three potential public sector specific sustainability reporting projects, following its [consultation](#) 'Advancing Public Sector Sustainability Reporting', earlier in 2022.

In February 2023, ACCA convened a global roundtable of experts, all with a strong interest in public sector sustainability reporting, to explore the key issues and provide feedback to the IPSASB as they research and scope their sustainability reporting activities. The session was chaired by Maggie McGhee, Executive Director at ACCA, and involved 21 participants located in 15 jurisdictions. This policy brief summarises the discussion and offers six principal recommendations for IPSASB.



'Public sector sustainability reporting is vital in supporting concerted action by governments to address the world's sustainability aspirations. We welcome IPSASB's announcement of its sustainability work programme; the Board has the appropriate international networks and due process to undertake this task. The recommendations from our roundtable set out six key principles IPSASB should consider, to help develop a robust framework that recognises the distinctive needs and differing contexts of public sector organisations globally.'

Maggie McGhee

1. The public sector requires its own framework for sustainability reporting

Attendees agreed that there were significant differences between the public and private sector, including the public sector's ability to act as a regulator and its role in allocating resources. Consequently, **sustainability reporting frameworks developed primarily for private sector entities cannot simply be applied to the public sector** without modification. Nevertheless, given the wealth of existing sustainability reporting standards and guidance, development of a public sector framework needs to consider these existing approaches.¹

Attendees also noted there is a huge variety of organisations within the public sector, with **differing responsibilities and ability to influence policy**. Therefore, sustainability reporting frameworks and requirements at a whole-of-government level will not necessarily be appropriate at an entity level.

Although any reporting framework should recognise the unique characteristics of the public sector, wherever possible there should be **alignment and convergence with existing definitions and standards to assist comparability**; for example, in climate change reporting, as explored further under Recommendations 4 and 5 below. Participants agreed that the public sector's leadership role in setting policy and providing regulation mean sustainability reporting guidance and standards should in no way be 'watered down' compared to requirements for the private sector.

2. Public sector sustainability information must reflect the needs of a broad range of users

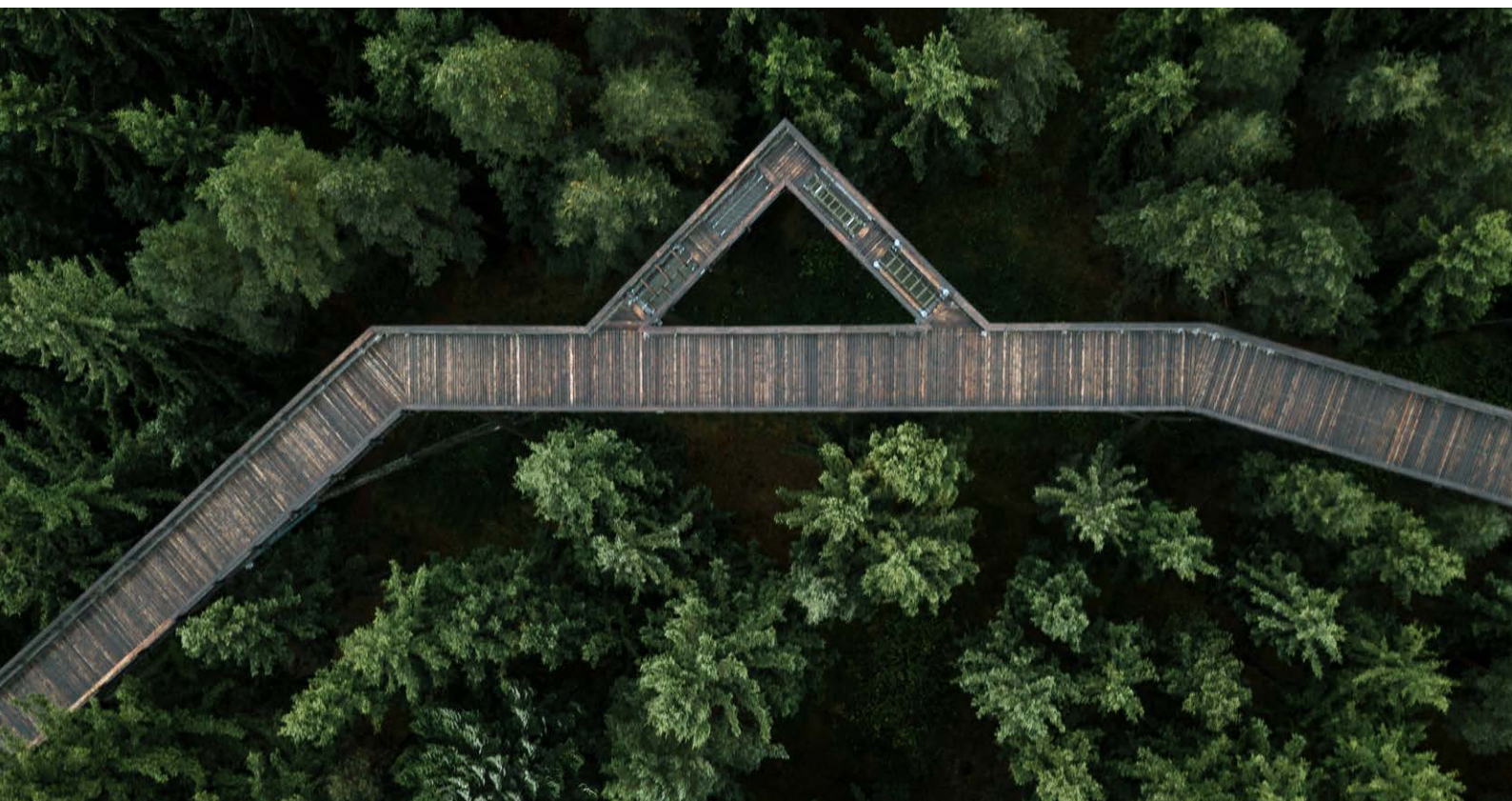
IPSASB's *Conceptual Framework* identifies the primary users of financial reports as 'service recipients' and 'resource providers'. Given their role in both providing resources to, and receiving services from, public sector bodies, IPSASB highlights citizens themselves as primary users of public

sector financial reporting information. The same is true of sustainability information, encompassing a **broad range of users and stakeholders**. It is therefore important that sustainability information is accessible and understandable to a wide group of users.

Existing private sector sustainability approaches differ in their conception of users and specify reporting requirements accordingly. Attendees noted that for the public sector there is likely to be a **significant demand for non-financial and qualitative information**, which may differentiate reporting outputs from some private sector approaches. It was also noted that the public sector has an existing track record of reporting to a wide range of stakeholders and that it will be important to build on this experience in the development of sustainability reporting.

In some jurisdictions, the legislature is identified as the primary user of reporting information; consequently, its requirements drive the approach to sustainability reporting. Participants also noted that the public sector is interconnected and **users could include other public sector entities** in the same jurisdiction. Users are therefore not a homogenous group and whilst user groups' needs may overlap, there are likely to be some differences. As a starting point, for various categories of public sector organisations, the **likely users of sustainability information for each type of organisation could be identified**, to help inform the appropriate sustainability reporting information required.

Comparability of information wherever possible should be a priority, but this needs to be balanced with **sufficient flexibility** to allow for public sector entities to 'tell their stories' and respond to their users' needs. Participants also noted that alignment in reporting standards could support the coordination of sustainability activities and programmes amongst public sector entities and national governments.



¹ These include the Task Force on Climate-related Financial Disclosures, International Sustainability Standards Board and the Global Reporting Initiative.



3. Sustainability reporting in the public sector should include both 'outside in' and 'inside out' perspectives

The 'outside in' perspective (i.e. the risks and opportunities associated with the impact of sustainability issues on the entity) was developed to help investors assess whether a private sector entity was suitable for investment. Whilst this perspective may still be relevant for resource providers allocating funding to public sector bodies, **the wide user base for sustainability reporting in the public sector necessitates a broader perspective.**

Participants noted that the concept of materiality in private sector sustainability standards had widened over time, whereas the public sector approach would need to consider the entity's impact from the outset of implementation. It was also noted that the language of 'inside out' and 'outside in' can suggest a dichotomy which is not always helpful; **in many cases it is not possible to disassociate the two perspectives**, as they impact on each other.

Any future reporting framework should allow the entity to **employ the reporting requirements that best meet the information needs of the entity's users.** For example, a sustainability report for a specific biodiversity conservation programme would focus on the impact that programme has achieved against its sustainability objectives. Whereas, when reporting at a ministry level in central government, information on the impacts of climate change on the ministry's objectives and operations is likely to be of considerable interest to users.

4. Climate reporting requirements are the first priority

Given the urgency of action needed to address climate change, attendees agreed that the IPSASB should **prioritise the development of reporting requirements relevant to climate change.** Considerable progress on climate change standards has already been made under existing private sector sustainability reporting frameworks, particularly on greenhouse gas (GHG) emissions. Participants agreed that the public sector should swiftly adopt a common reporting approach to GHG emissions, categorised using the existing Scope 1, 2 and 3 methodology. This will enable some early adoption and implementation of public sector sustainability reporting, whilst progress is pursued on issues where there is less global consensus.

Climate change issues also link to wider questions of environmental sustainability, such as water resources and biodiversity. The participants advised that the **IPSASB should publish a forward plan setting out what sustainability topics would be prioritised by the Board.** This forward guidance would help public sector entities prepare and develop capacity. The sequencing of sustainability reporting should be set out at an early stage to help build momentum.

While participants recognise the importance of social issues in the public sector context, there was **less consensus on how the focus on sustainability reporting could be widened from environmental issues to social issues.** For example, there were diverging perspectives amongst attendees on whether IPSASB should include requirements for reporting on the UN's Sustainable Development Goals (SDGs), especially given their time-limited nature. Information on the public sector's progress on these issues is important to many users in developing and emerging economies, whereas, in other countries, both the salience and awareness of SDGs is limited. Some participants expressed the view that it would be more appropriate for the public sector to report on SDGs on a whole-of-government basis, rather than at the individual entity level.

5. Sustainability reporting requirements will need to balance relevance and comparability

Attendees agreed that **sustainability reporting was likely to be an evolutionary process**, but it was crucial to get started on the journey. For sustainability reporting to drive meaningful change, **it must be focused primarily on issues which entities have the scope to influence**. Reporting on the most material aspects of sustainability should be the first priority for public sector entities. IPSASB should focus initially on a **principles-based approach setting out guidance that could apply to all public sector bodies**. Organisations could use these principles to develop reporting methods most appropriate to the needs of their users, to avoid a 'boilerplate' style.

An international sustainability reporting framework should enable public sector bodies to select the most appropriate approach for their context, whilst emphasising comparability wherever possible. Common reporting methodologies, particularly for quantitative information, will enable public sector entities and users to compare and benchmark their approaches. As highlighted above, this is particularly important for areas where there are international agreements in place, such as the GHG emissions covered by the UN Framework Convention on Climate Change.

6. The public sector must be ambitious in its approach to sustainability reporting

The concept of a **'social contract' between citizens and governments should underpin the rationale for sustainability reporting**. An ambitious approach to sustainability reporting will ultimately help to embed sustainable practices in the public sector, as reporting is not an end in itself. Instead, reporting should enhance the accountability of governments to their citizens and drive improvements in sustainability practices.

There also need to be effective governance arrangements in place; it is important that sustainability reporting information identifies where accountabilities rest. Like financial reporting, the organisation's **senior leadership must take ultimate responsibility for the sustainability reporting information produced**. Visibility of sustainability reporting at this level will also help to drive progress.

Alongside reporting, public sector bodies need to **embed sustainability considerations in their approach to budgeting**. Alignment between budgeting and reporting practices enhances transparency and accountability. It also ensures climate change and broader sustainability issues are considered proactively when budgeting decisions are made, not simply retrospectively by preparers of public sector sustainability reports. To support these efforts, ACCA recently published a [green budgeting toolkit](#) for public sector finance professionals.

Until now, the private sector has led the way in developing the sustainability reporting agenda. By developing a clear framework, which provides the public sector with flexibility but encourages comparability wherever possible, **IPSASB can articulate high expectations for a global baseline in sustainability reporting**. Attendees agreed, given the policy-setting and regulation role of governments, the public sector has the potential to set the example and deliver change in support of society's sustainability objectives.



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- **Antonella Risi**, Associate Director, Public Sector Accounting Board, Canada
- **Bernhard Schatz**, Public Sector Accounting Advisory Services Leader, Pricewaterhouse Coopers Austria
- **Caroline Aggestam Pontoppidan**, Associate Professor, Copenhagen Business School, Denmark
- **Cliff Nyandoro**, Manager – Standards and Technical Services, Institute of Certified Public Accountants of Kenya
- **Durlandy Cubillos**, Research Associate, Institute of Public Management ZHAW School of Management and Law
- **Esteban Walteros**, Research Associate, Institute of Public Management ZHAW School of Management and Law
- **Ian Waugh**, ACCA Public Sector Global Forum member
- **Isabel Garza Rodriguez**, Economic Affairs Officer, United Nations
- **Jean Goguen**, Principal, Public Sector Accounting Board, Canada
- **Jens Heiling**, Senior Manager, EY Germany
- **Laura Leka**, Principal, International Federation of Accountants
- **Lebogang Senne**, Technical Director, Pan African Federation of Accountants
- **Lisa French**, Vice President – Sustainability Standards, Financial Reporting and Assurance Standards Canada
- **Max Greenwood**, Senior Finance Advisor, HM Treasury, UK
- **Paul Gisby**, Director, Accountancy Europe
- **Shona Metcalfe**, Director of Finance, NHS Kent and Medway
- **Sung-Jin Park**, Executive Director of Government Accounting and Finance Statistics Center, Korea Institute of Public Finance, South Korea
- **Svetlana Klimenko**, Advisor, World Bank

