

SUSTAINABILITY REPORTING IN THE PUBLIC SECTOR: ANCHOR FRAMEWORKS, ADOPTION AND IMPLEMENTATION

Insights from a global ACCA 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.

Following on from the initial roundtable, focused on the **purpose, scope and fundamentals** of sustainability reporting in the public sector, ACCA convened its second global roundtable of experts in April 2023. This session explored potential anchor frameworks for sustainability reporting, as well as considerations around adoption and implementation. The session was chaired by Alex Metcalfe, ACCA's Head of Public Sector, and involved twenty participants from 12 jurisdictions. A list of participants is available at the end of the policy brief.

Existing frameworks

There was consensus among participants that the **IPSASB should not start from a 'blank page' when considering sustainability reporting approaches** for the public sector. Although existing sustainability reporting frameworks are used predominantly by the private sector, some public sector bodies are already adopting these frameworks for their sustainability reporting. Participants were confident that it would be possible to adapt many of the existing frameworks for use in the public sector.

The **International Sustainability Standards Board's (ISSB) approach was highlighted as a strong potential basis for IPSASB's work**. The ISSB builds on, and largely incorporates, the work of other reporting initiatives, including the Climate Disclosure Standards Board (CDSB) and the Task Force on Climate-Related Financial Disclosures (TCFD).

The relevance of the TCFD approach to the public sector was highlighted by several participants. Its four pillars of governance, strategy, risk management, and metrics and targets were identified as being equally applicable in the public sector. Some municipal governments in Canada and the central government in the UK are already developing sustainability reporting disclosures based on the TCFD.

The public sector approach to materiality, as highlighted in the previous roundtable, differs significantly from the private sector. By their nature, many public sector entities view the value they create through a multi-capital and stakeholder-focused lens. Consequently, participants highlighted **the focus on impact materiality in the Global Reporting Initiative (GRI) standards as more useful for the public sector**, than the emphasis on financial materiality and enterprise value in the ISSB's standards. As with TCFD, there are also numerous examples of public sector bodies which have adopted GRI.

In addition, work has been undertaken to map the UN Sustainable Development Goals (SDGs) to GRI standards. Although SDGs are time-limited, their areas of focus provide comprehensive coverage of sustainability issues and reporting on SDGs has already been implemented by many governments. Therefore, some **participants saw consideration of the SDGs as a helpful starting point for IPSASB as it develops its sustainability work programme**. However, there was recognition that reporting on SDGs may be more straightforward at a central government level than at the individual entity level.

Participants agreed that **it is important for IPSASB to identify the overall purpose and reporting objectives for public sector bodies, as it considers the extent to which it aligns its work programme with existing standards**. While the ISSB approach has advantages, if IPSASB stakeholders prioritise double materiality, it should pursue closer alignment to the GRI. Whichever approach is adopted, IPSASB can nevertheless draw on the specifics of other frameworks where relevant.

By aligning public sector standards closely to existing frameworks, it may be easier to secure buy-in from public sector organisations and national standard setters. Similarly, a minimum 'global baseline' of standards could be

complemented by the development of additional reporting requirements by individual governments, to take account of the relevant institutional and policy context.

Finally, participants agreed that **building on the experience of public sector bodies already implementing sustainability reporting would be crucially important for IPSASB**. Identifying the benefits and shortcomings of approaches already being adopted in the public sector will help contribute towards developing an effective and comprehensive approach for the public sector globally.

Voluntary or mandatory approaches to sustainability reporting?

Currently, IPSASB publishes International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines (RPGs). IPSASs are authoritative and impose requirements on entities which choose to adopt them. In contrast, RPGs provide guidance on good practice and therefore do not establish requirements. RPGs are not mandatory for bodies adopting IPSASs and do not include guidance on the level of assurance to which information should be subjected.

Participants shared the view that **sustainability reporting requirements produced by IPSASB should be more akin to the current IPSASs, rather than RPGs**. Experience suggests that IPSASs are more likely to be adopted, albeit sometimes with adaptations, than RPGs. A mandatory approach would also reflect the urgency of implementing sustainability reporting, particularly for climate-related disclosures, as highlighted in the first global roundtable.

In the private sector there has been a transition from voluntary guidance to mandatory standards, as the sustainability reporting landscape has evolved. The development of the ISSB reflected a need to address the fragmentation that was caused by numerous voluntary frameworks. Standards can help promote consistency and comparability across organisations and jurisdictions. However, **differential reporting requirements should be considered, based on the types and sizes of public sector organisation**; similarly, requirements will also need to consider relevant materiality thresholds.



If an approach that mandates standards is pursued, **it will be important for IPSASB to make clear that compliance with sustainability reporting standards is separate from adherence to IPSASs for financial reporting.** Public sector organisations operating on cash-based systems of accounts, which have not implemented IPSASB's financial reporting standards, should still be encouraged to implement public sector sustainability reporting.

Participants felt that it would be less difficult to audit information based on sustainability standards, compared to information produced under voluntary guidance, and that disclosures should be based on clear requirements that support assurance.¹ Effective audit also depends on auditors with sufficient capacity and capabilities. **It is crucial that IPSASB engages closely with supreme audit institutions (SAIs) and other audit bodies as it develops the public sector sustainability reporting agenda,** to enable auditors to address any capability gaps prior to the implementation of new sustainability reporting requirements. The ability of auditors to provide assurance will strengthen public trust in sustainability information.

Foundations for adopting and implementing sustainability reporting

Many countries are still at an early stage in developing a sustainability reporting 'infrastructure' across the private and public sectors.² However, it is clear that **where a robust system of financial reporting exists, organisations are better able to integrate and ensure consistency in reporting of sustainability information.** Consideration needs to be given to certification and training requirements for those responsible both for producing and reporting sustainability information, including continuing professional development.

In helping to develop an effective ecosystem for sustainability reporting, standard setters should make the benefits of sustainability reporting clear. **Public sector organisations are**

inherently used to considering and assessing their impact; in this context sustainability reporting can be seen as an additional element of an organisation's core responsibilities. Participants agreed that building awareness of this agenda in advance of implementation is essential.

Participants emphasised the importance of engagement and collaboration by IPSASB with the public sector entities, as requirements are developed, to help secure support for sustainability reporting. This includes **seeking and responding to feedback to take account of the diverse nature of the public sector globally.** Participants indicated that effective engagement at an early stage would ultimately lead to a smoother process of adoption. IPSASB should also consider how public sector bodies which are already following existing sustainability reporting standards can align to any new public sector specific standards.

Once sustainability reporting standards are finalised, it is important that public sector bodies have sufficient time to adopt and implement new requirements. In some instances a phased approach may be required, taking account of capacity and proportionality. Participants supported the concept of an initial period of 'shadow' sustainability reporting, as a transition stage. Similarly, resources to support implementation could help raise the profile of sustainability reporting with senior leaders, especially in organisations with limited capacity.

Participants agreed that **as IPSASB develops sustainability reporting standards, it should not differentiate between those public sector organisations which have adopted IPSAS and those which have not.** There was a consensus that readiness to adopt sustainability reporting was not intrinsically linked to IPSAS adoption for financial reporting, given there are many reasons why public sector bodies have not adopted IPSAS. An inclusive approach would be able to draw on the experience of a wider set of public sector organisations and not limit the applicability of any new standards.



1 The International Auditing and Assurance Standards Board (IAASB) is currently working on a project to develop an overarching standard for assurance on sustainability reporting: <<https://www.iaasb.org/consultations-projects/sustainability-assurance>>.

2 The UN Commission on Trade and Development (UNCTAD) has published a policy guide 'Tackling the Sustainability Reporting Challenge' to support countries in their efforts to strengthen their national sustainability reporting infrastructure: <<https://unctad.org/publication/tackling-sustainability-reporting-challenge-policy-guide>>.

Promoting the adoption and implementation of sustainability reporting

Participants outlined several different ways in which the adoption and implementation of sustainability standards could be encouraged, nationally and internationally.

Beginning at the organisational level, **it is important not to underestimate the level of human and financial resources required to implement new reporting requirements.**

Experience of governments transitioning from cash to accruals accounting demonstrates realistic timescales need to be set.

Transitioning to sustainability reporting will also involve experts from outside the finance function and **it is crucial that the case for sustainability reporting is made to the whole organisation.** This will involve ensuring all teams understand the importance of their role and how the information they provide is used in reporting disclosures. Participants highlighted the need to ensure systems and processes were designed effectively and staff were properly trained, to make adoption and implementation a success.

Although the range of stakeholders involved in public sector reporting in each country differs, participants emphasised the need to secure support from the different bodies which can have an influence. Beyond simply mandating sustainability reporting, **the body responsible for public sector reporting standards, often the ministry of finance or equivalent, should play an active role in promoting good practice.**

Similarly, parliamentarians and SAs can help to communicate the advantages of effective sustainability reporting. Professional accountancy organisations can amplify the case for sustainability reporting and provide information, training and resources to their members.

On an international scale, **bodies such as IFAC (the International Federation of Accountants) and UNCTAD (the United Nations Conference on Trade and Development) can communicate the benefits and raise awareness.**

The UN's ISAR (International Standards of Accounting and Reporting) Honours was cited as an initiative to highlight efforts by organisations around the world to promote and harmonise sustainability and SDG reporting. Similarly, regional groupings of countries could offer another avenue to promote activity and share best practice between countries.

Finally, participants also discussed how **capital markets could play an important role by demonstrating how sustainability reporting information is used in decision-making.** Increasingly, investors require more information on the social and environmental implications of investments. Under the right conditions, public sector organisations adopting sustainability standards might receive transitional or concessional interest rates for financing. This would require coordination within the public sector, particularly as many public sector organisations cannot borrow themselves, but instead rely on funding from other government bodies.





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