



Joint Submission by the Association of Chartered Certified Accountants and Pan African Federation of Accountants

9 September 2022

To: Ian Carruthers
Chair, IPSAS Board
227 Wellington Street West
Toronto ON, Canada
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Submission via website

Dear Ian

This submission is made jointly by the Association of Chartered Certified Accountants (ACCA) and Pan African Federation of Accountants (PAFA). More information about ACCA and PAFA is contained in Appendix A.

ACCA and PAFA share a commitment to supporting good practices in public financial management across Africa and around the world. The adoption and implementation of international accounting standards is a cornerstone of transparency and accountability in the public sector, as well as providing decision-useful information to inform the policymaking process and support good value for money from public services.

With *Advancing Public Sector Sustainability Reporting*, the IPSAS Board is considering a new ambitious and essential work programme. ACCA and PAFA agree that the IPSAS Board is the right organisation for producing global public sector specific sustainability reporting guidance, and will look to play an active role in the development and implementation of the new guidance.

The expertise from our members, networks, and in-house technical experts allows ACCA and PAFA to provide informed opinion on a range of financial, regulatory, public sector and business areas. Further information about our comments on the matters discussed here can be requested from:

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Appendix A

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants. We're a thriving global community of 241,000 members and 542,000 future members based in 178 countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. In December 2020, we made commitments to the UN Sustainable Development Goals which we are measuring and will report on in our annual integrated report.

We believe that accountancy is a cornerstone profession of society and is vital in helping economies, organisations and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

About PAFA

The Pan African Federation of Accountants (PAFA) is the continental body representing Africa's Professional Accountants. Established in May 2011, PAFA is a non-profit organisation currently with 55 Professional Accountancy Organisations (PAOs) from 44 countries. Our mission is to accelerate and strengthen the voice and capacity of the Accountancy profession to work in the public interest, facilitate trade, and enhance benefits and quality services to Africa's citizens.

PAFA takes a multi-layered approach to engaging with stakeholders at continental, regional and national levels, and we aim to develop the profession and work collaboratively to drive Africa's agenda.

Our mandate is founded on the premise that national Professional Accounting Organisations (PAOs) have the capacity to drive good financial management practices, accountability, transparency and good governance across public and private entities. We therefore believe that our ability to develop institutional capability will enable the acceleration of economic growth and the reduction of poverty in Africa.

Our vision is to work in the public interest by leading and developing the accountancy profession in Africa, and delivering value to our members.

ACCA AND PAFA welcome the opportunity to comment on *Advancing Public Sector Sustainability Reporting*. The ACCA Public Sector Global Forum and PAFA's Public Value Management Technical Advisory Group have considered the matters raised and their views are represented in the following.

In addition to the consultation questions, ACCA and PAFA recommend that the IPSAS Board carefully consider and set out clear implementation timelines for public sector entities to adopt and implement the sustainability reporting guidance. The need for urgent, coherent public sector response to significant social and environment challenges, including and especially climate change, cannot be ignored. At the same time, we are conscious that many jurisdictions are still transitioning from cash to accrual accounting, with the majority directly adopting or referencing IPSAS in their reporting framework. Early publication of the draft guidance will help public sector entities to prepare as early as possible: provided that this is not at the expense of due process and thorough consultation with stakeholders (including stakeholders in developing economies).

While we agree that public sector sustainability guidance should be based on ISSB standards and other existing frameworks, these have largely been developed for application by large listed corporations. As such, they may be overly complex and burdensome for public sector entities, thus hampering the adoption at the pace required. We would therefore encourage the IPSAS Board to ensure that the guidance is as simple, proportionate, and concise as possible.

We believe that it is appropriate for the IPSAS Board to produce guidance in the first instance. However, the aim should be to ultimately translate this guidance into authoritative standards as implementation progresses globally. This incremental approach would allow reporting practice to mature while encouraging early adoption.

AREAS FOR SPECIFIC COMMENT & PRELIMINARY VIEWS

Preliminary View 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.

ACCA and PAFA strongly support IPSASB's view that there is a need for global public sector specific sustainability reporting guidance. We also strongly support the proposals for the creation of a global sustainability standards board for the private sector. We note that although paragraph 1.9 highlights that no international body has been tasked with considering global sustainability reporting '*standards*', the consultation paper refers to the development of '*guidance*'. It would be helpful for IPSASB to set out in its response to the consultation whether standards for the public sector are proposed in the medium or long-term or whether IPSASB's role will remain limited to guidance. ACCA and PAFA would recommend that it is appropriate for the IPSAS Board to

produce guidance in the first instance and that there should be the aim to ultimately translate this guidance into authoritative standards as implementation progresses globally.

The two bodies' initial views on each of the factors and drivers identified in the consultation are considered in the following paragraphs.

Global public interest

It is important that the public sector keeps pace with the sustainability reporting agenda that has emerged in recent years in the private sector sphere. These initiatives have been developed in response to the widespread recognition of the importance of sustainable development.

From the outset of IPSASB's work, the definition of 'sustainability' must be clear, drawing wherever possible on existing global standards and guidance. The guidance should also outline the key objectives for sustainability reporting in the public sector and, as this response sets out, recognise the stakeholders for public sector sustainability reporting will have differing needs from private sector sustainability reports. Further stakeholder outreach and consultation with public sector entities will be important for informing the objective of public sector sustainability reporting, and therefore the scope of the sustainability definition.

The UN's Sustainable Development Goals (SDGs) have an integral role in governments' efforts to achieve sustainability and should be taken into consideration in the development of reporting guidance for the public sector. We have previously outlined specific actions where our bodies can directly support the achievement of SDGs and have consistently advocated for the private and public sector to operationalise their commitments towards the goals. Indeed, the public sector arguably plays the most important role in ensuring the success of SDGs.

Major economic, environmental, social and governance impact

For public sector entities, managing and reporting on external impact is as important as managing and reporting the risks and opportunities facing the entity. In fact, the two perspectives (inside-out and outside-in) should go hand in hand. The public sector has a dual role in addressing sustainability: setting the agenda for wider society and working to ensure its own organisational practices are sustainable. Many public sector bodies have a specific role in determining policy and regulation, directly influencing social, economic and environmental outcomes. Indeed, the public sector is in the unique position of regulating itself in terms of adherence to national standards and legal requirements.

In addition, each public sector organisation has its own direct impact on society and the environment; depending on the entity's size, these impacts can vary hugely. These two aspects need to be taken into account as sustainability reporting guidance is developed,

recognising the considerable scope some public bodies have to set the agenda for sustainability.

Although some governments have declared climate and environmental emergencies, in general, the way in which the public sector operates has yet to respond to the challenge of climate change with the urgency required. Therefore, inaction by public sector entities will still have an impact. Developing public sector specific sustainability guidance will therefore play a vital role in helping the sector to navigate this agenda.

Stakeholder needs in the public sector

The consultation highlights the significance of capital markets and the World Bank's recent call for 'comprehensive, regular, standardized and eventually forward-looking disclosures'. Whilst these principles are a sensible aspiration, it is crucial that the design of the guidance is not seen as simply meeting the needs solely of providers of finance. The range of stakeholders for public sector sustainability information will be much wider than for the private sector.

We agree that investors are an important stakeholder group, given that sovereign bonds form a significant proportion of the international bond market. However, other stakeholder groups, including citizens and the constituents using public services, are just as important, if not more so, in the public sector context. In order to build support for improvements in sustainability reporting, it is vital that this guidance is not seen as top-down or based only on the needs of a specific group.

Consequently, at the outset of this project, the stakeholders for sustainability information from the public sector must be mapped and their likely needs identified. In developing guidance, it will be important to balance these different stakeholder needs, although, the information needs of differing stakeholders are likely to overlap to a large extent for public sector organisations.

We believe IFAC's Building Blocks approach – with Block 1 representing investor-focused information for sovereign bond investors and Block 2 representing reporting for other user groups – introduces an unnecessary level of complexity in the public sector context. As such, it would be preferable for IPSASB to develop a single set of guidance that addresses the common needs of a wider group of stakeholders, while still building on the existing ISSB proposals. A report based on this approach is likely to address an organisation's most significant impacts, as well as risks and opportunities relating to public sector service delivery and financial sustainability. Given most public sector organisations are dependent on public funding (and therefore do not have a range of investors in the same way as a private sector organisation), we do not believe there is a compelling case for a differentiated approach. Our response to Preliminary View 3 outlines our proposed approach in more detail.

Challenges in applying private sector guidance

Understandably, given their development for the private sector, many of the existing reporting frameworks, including the draft ISSB standards, focus on the information likely to be required by investors or capital markets. The difference between the public and private sectors summarised in the IPSASB Conceptual Framework highlight the important considerations if existing private sector standards are adapted into public sector frameworks. Moreover, governments' ability to incentivise and discourage behaviours, for example, through taxation and public procurement, is a clear distinction between the public and private sectors which needs to be addressed in the guidance; this is outlined further in the response to Specific Matter for Comment 1.

Summary

ACCA and PAFA agree with IPSASB's view that there is a need for global public sector specific sustainability reporting guidance. A consistent and global approach is required to enable public sector organisations and governments to address the scale of global challenges facing countries. A single set of standards or guidance, rather than a two-block approach, would be more appropriate for the public sector and provide a straightforward framework for all public bodies to adopt.

Preliminary View 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.

ACCA and PAFA agree with IPSASB's preliminary view. The IPSASB's existing processes and relationships are ideally aligned for developing global public sector sustainability reporting guidance. The Board's existing due process for adapting private sector financial reporting standards will prove critical for the swift development of a suite of public sector sustainability reporting guidance that only diverges where necessary.

An important part of this process will be to ensure that effective and coherent links are made between financial reporting and sustainability reporting. Both of these elements are central to providing a complete picture of an organisation's activities, its impact on stakeholders and its resilience for the future.

Specific Matter for Comment 1

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.

ACCA is a global accounting body, similarly PAFA draws its members from across the African continent; therefore the focus of this response is not on a single jurisdiction. As

outlined above, there will clearly be broader demands on sustainability reporting in the public sector. Nevertheless, in terms of prioritisation, **the development of guidance should focus initially on climate-related considerations**. This is explored further in response to Preliminary View 3. As part of this, governments should clearly set out their progress in meeting internationally-agreed climate change targets. Nevertheless, it is also important that work also proceeds rapidly on developing a general standard for reporting on other topics (the equivalent of IFRS S1 *General Disclosure Standards*). Some of the IPSASB's existing Recommended Practice Guides and Standards could be adapted to address climate transition, for example IPSAS 17 and IPSAS 21. The following paragraphs provide our views on the areas of potential prioritisation outlined in Chapter 3 of the consultation paper.

Sustainable Development Goals

As highlighted above, aligning guidance with the SDGs would be beneficial. It is important to note that the SDGs are intended to be time-limited, with a target date of 2030, and represent high-level outcomes. Consequently, it would not be appropriate to use them as the foundational framework for the sustainability reporting in the public sector; however, the guidance IPSASB produces should include mapping from sustainability reporting measures to the relevant SDGs. This is likely to be particularly relevant at a national level, given national governments' commitments to these targets. One approach could be to draw on existing private-sector initiatives in this area, such as the GRI's 'Integrating SDGs into sustainability reporting'¹, or the United Nations' Environment Programme Finance Initiative's 'Corporate Impact Analysis Tool'². It is evident that many of the individual SDGs map across to multiple sustainability reporting 'impact areas', making clear practical guidance in this area essential to effective integration.

Interface with Natural Resources project

ACCA and PAFA welcome the current consultation on IPSASB's Natural Resources' project. This work has been in development for some time and addresses the public sector's real need for guidance on natural resources. As the consultation paper indicates, the sustainability reporting guidance and the Natural Resources project have connected, but distinct aims. As such, there is an urgent need to ensure that the projects are aligned as far as possible, and this work should be pursued in tandem. We also recognise that there may be tension between the information disclosed through natural resources reporting and the sustainability objectives highlighted in sustainability reporting, such as overall targets to reduce greenhouse gas (GHG) emissions. The guidance should help bring transparency to an entity's impact on sustainability to enable stakeholders, which of course includes citizens, to take an informed view.

¹ See <https://www.globalreporting.org/public-policy-partnerships/sustainable-development/integrating-sdgs-into-sustainability-reporting/>

² See <https://www.unepfi.org/positive-impact/unep-fi-impact-analysis-tools/corporate-impact-tool/>

Complete sector versus entity

One of the most important differences between the public sector and the private sector is the public sector's ability through its policymaking, legislative powers and regulatory role to have a wider impact on sustainability. Reporting on this aspect is an important goal for the medium-term; however, initial priority should be given to developing reporting guidance for the activities of the entity itself. Clear guidance for this will enable entities to develop a strong understanding of their immediate impact, as well as facilitating the creation of a wider evidence base for national governments to shape their approach.

It will be important for IPSASB to consider how, in the medium-term, sustainability reporting by public sector entities can be consolidated to enable an accurate public sector-wide assessment of sustainability. Therefore, wherever possible, guidance that is applicable to all types of public sector organisations is preferable. Issues of capability and capacity are important factors in the public sector, just as in the private sector where SMEs may face difficulties in implementing current sustainability reporting approaches which have largely been designed for larger listed entities.

The guidance will also need to give specific consideration to issues such as public procurement, outsourcing of services and public-private partnerships. A level playing field is required to ensure sustainability reporting provides a comprehensive view of an entity's impact whichever delivery model is used. Depending on the extent to which organisations rely on these alternative models, simply reporting on the direct actions of a public sector organisation may not reveal their wider impact on substantiality. The GHG protocol 'scopes', used to categorise emission sources, provides a potential method for considering how impacts could be reported.

Materiality

Materiality is an entity-specific concept and the determination of what constitutes material information should be made by each reporting entity. For sustainability reporting by public sector entities, the general expectation should be a materiality determination consistent with the conceptual basis set out in paragraph 3.32 of IPSASB's Public Sector Conceptual Framework.³ However, it is important to note that the materiality assessment for sustainability reporting will require a much greater degree of judgement, so clear, practical guidance in relation to the steps that entities should take when making decisions on materiality will be of paramount importance.

Data for statistical reporting

³ 'Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period.'

The lack of data to inform sustainability reporting is seen as one of the most significant obstacles to its development for public sector organisations. For example, data on GHG emissions currently tend to be collated and estimated at a macro-level, for reasons of practicality and cost-effectiveness. This corresponds to the requirement for national governments to report GHG emissions information to the UN Framework Convention on Climate Change (UNFCCC). The result, however, is that data is often limited or non-existent for individual public sector entities.

Clear guidance on statistical data will provide an impetus for public sector organisations to identify existing sources of information and begin designing systems for data collection on a more extensive and coherent basis. In addition, it will facilitate comparability between organisations, as well as aggregation and consolidation of data. An important consideration will be specifying methodologies and standards, to enable an assurance framework to be developed. Wherever possible IPSASB should engage with audit and assurance standard-setters throughout the development process, to ensure the guidance produced is capable of being externally assured.

Finally, an area of guidance worth further attention is reporting on the tax and revenue-generating powers of public sector entities. Taxes and other charges can be a powerful tool in discouraging behaviours which have negative impacts on sustainability. Conversely, tax reliefs and credits can incentivise organisations and individuals to undertake activities which have positive implications for sustainability. Providing guidance to the public sector on how these can be reported on, would help to bring transparency benefits and indicate a broader sense of direction for relevant public sector entities.

Summary

ACCA and PAFA believe IPSASB should focus initially on the development of guidance for climate-related considerations. The response above highlights some of the key considerations for each of the areas for prioritisation outlined in the consultation paper. It would be helpful for IPSAB to clearly set out its proposed approach in each of these areas at an early stage, to act as principles as the guidance is developed.

Preliminary View 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.

ACCA and PAFA support the general approach for public sector specific reporting guidance identified in the consultation paper, but have concerns about adopting IFAC's two-block concept.

Financial Sustainability-related information

As outlined in response to Preliminary View 1, ACCA and PAFA do not support the two-block approach proposed. For the public sector, a division between financial-related and broader sustainability-related information risks adding unnecessary complexity. Given the wide range of stakeholders served by the public sector, we believe it would be better to establish a single overarching set of standards for sustainability reporting that addresses both financial sustainability-related information and broader information about external impacts. To be clear, investors are an important stakeholder for the public sector, and their needs should also be considered in the production of sustainability reports, but the diversity of stakeholders served by the sector could create many blocks and we would argue a single overarching set of standards would better achieve simplicity and comparability.

The ISSB standards currently being developed provide a good starting point, but do not cover all the relevant issues and should therefore be complemented by the GRI standards where appropriate. The four areas of disclosures proposed in the Exposure Draft (ED) IFRS S1 (i.e. governance, strategy, risk management, and metrics and targets) are all applicable to the public sector in a broad sense. The four areas also align with the thematic framework of the Task Force on Climate-related Financial Disclosures (TCFD), which some governments have already begun working towards implementing for public sector sustainability reporting.

However, the emphasis on the investor's perspective in the ISSB standards will clearly need to be widened to encompass a much larger group of stakeholders, as outlined above, as well as a focus on service provision. For example, ED IFRS S1 could be adapted by amending the principle of 'enterprise value' to a broader concept of economic, environmental and social value. In the same way, references to 'risks and opportunities' throughout the ISSB standards could be revised for the public sector by widening considerations to include 'risks, opportunities and impacts'. Guidance for the public sector setting out disclosure requirements in relation to 'impacts' could be based on the GRI Standards.

Broader sustainability-related information

Building on a 'single-block' approach proposed above, we support the proposals set out in paragraph 3.6(a) to use the GRI as a basis for reporting. We welcome the collaboration between the GRI and the ISSB, and believe that the ISSB standards, supplemented by the GRI Standards, provide the best basis for public sector sustainability reporting guidance.

Adopting the 'mission perspective', outlined in the GRI's 'Guide for Policymakers', as an approach to sustainability reporting could provide a foundation for the broader range of

information public sector bodies report on. The question at the centre of this approach asks ‘how have the sustainable development objectives assigned to the entity been fulfilled?’; this could be adapted to consider how each of the organisation’s key objectives impact on sustainable development.

The Corporate Sustainability Reporting Directive (CSRD) referenced in paragraph 3.6(b) draws on the European Sustainability Reporting Standards (ESRS). We are concerned about the volume of disclosure requirements that the ESRS is putting forward, which in some cases are not clear and not aligned with the ISSB standards. Consequently, we would support an approach based on the GRI standards outlined in paragraph 3.6(b), rather than the CSRD or ESRS.

The guidance could further incorporate multi-capital frameworks, such as the International Integrated Reporting Framework (<IR> Framework), as highlighted in ACCA’s report, *Sustainable Public Finances through COVID-19*.⁴ The <IR> Framework is now owned and maintained by the IFRS Foundation. As the multi-capitals concept embedded in the <IR> Framework starts to inform the ISSB’s standard-setting work, IPSASB should consider incorporating the same underlying concepts and principles in public sector reporting.

Summary

ACCA and PAFA support the IPSASB’s proposal to work in collaboration with other international bodies, where appropriate, to develop reporting guidance. However, in order to secure widespread support and take-up the guidance must be sufficiently ‘public sector specific’; thus, the Block 1 and Block 2 approach proposed, should be modified to a single block approach. The guidance should build on the GRI Standards.

Preliminary View 4

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

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

⁴ See p.37 of report, available at https://www.accaglobal.com/uk/en/professional-insights/global-profession/Sustainable_public_finances_Covid-19.html

We support IPSASB’s prioritisation of general requirements for sustainability-related information and climate-related disclosures. These issues fulfil the criteria set out as high-priority issues, in terms of prevalence, consequences and urgency. Guidance should prioritise the establishment of a clear, consistent framework for public sector organisations to report on climate-related strategy and risks. This should include approaches to formulating climate change-related metrics and targets.

The proposed adoption of the ISSB’s two draft standards would enable the public sector to move more rapidly towards sustainability standards; however, there are issues of applicability that need to be addressed, as highlighted above. ACCA has responded in detail to the ISSB’s consultation on the ED IFRS S1 and IFRS S2.⁵ We would welcome engagement with IPSASB at an early stage, as the ISSB standards are being finalised and before their implementation.

Summary

ACCA and PAFA support the IPSASB’s approach to adapting the ISSB’s two proposed initial standards, as progress on the ISDS is well advanced. We would welcome close engagement with the Board as it considers how these standards can be applied to the public sector.

Preliminary View 5

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, identifying which of the proposed key enablers you disagree with, and why.

The key enablers are appropriate, but not sufficient. In our view, the IPSAS Board will also require the commitment of the global profession to create and then champion the implementation of the sustainability reporting guidance in the public sector. ACCA and PAFA are committed to directing their voice and influence towards championing the creation and implementation of the new proposed sustainability reporting guidance.

Specific Matter for Comment 2

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?

⁵ ACCA’s responses are available at <https://www.accaglobal.com/us/en/technical-activities/technical-resources-search/2022/July/ACCA-responses-ISSB-EDs.html>

Given the critical importance of this new guidance to the global public interest, ACCA plans to make both a financial contribution to this work programme as well as directing staff time, where appropriate, to supporting the IPSAS Board in the development of global public sector sustainability reporting guidance.