

# Evolving Climate Accountability:

## A Global Review of Public Sector Environmental Reporting

July 2021

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# Foreword

The effects of human activity on our climate are becoming increasingly visible. As the climate crisis has worsened, the topic has also emerged as a leading priority for most governments, organisations and individuals. The private sector serves as a clear example of this trend – we have seen more and more companies incorporating non-financial information in their performance reports, which includes their impact on the environment. It is an extremely positive development. The only problem is that this practice of sustainability reporting has not, at least yet, materialised in the same way across the public sector.

*Evolving Climate Accountability: A Global Review of Public Sector Environmental Reporting* is part of CIPFA's commitment to further developing the public financial management profession in the ever-changing, modern context. CIPFA recognises that the public sector represents the largest economic sector of most nations, and that the planet does not discriminate when it comes to who is responsible for emitting carbon and other greenhouse gases. Sustainability reporting in the public sector is in its infancy, and there is an evolutionary journey to be embarked upon – sooner rather than later.

This report provides insights into sustainability reporting practices in the public sector across the globe.

It is important to note that CIPFA did not attempt to assess the various sustainability frameworks, approaches or standards that currently exist, nor does this report assess the quality of sustainability reports prepared by public sector entities. Rather we sought to identify what, if anything, different public sector organisations around the world are doing to assess and report their impact on the climate. Although knowledge gaps surely exist, this research is intended to provide a baseline from which the evolution of public sector sustainability reporting can be measured.

The findings of this report should not therefore be understated. Only by understanding where we are can we plan the route to our destination. The way we account for the climate is changing, and clarity and consistency in approach are our allies. This is just the tip of the iceberg.



**Rob Whiteman CBE**  
CEO



# Abbreviations

<b>CDP</b>	Carbon Disclosure Project	<b>IIRC</b>	International Integrated Reporting Council
<b>CDSB</b>	Climate Disclosure Standards Board	<b>INTOSAI</b>	International Organisation of Supreme Audit Institutions
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy	<b>IPSASB</b>	International Public Sector Accounting Standards Board
<b>CRD</b>	Corporate Reporting Dialogue	<b>NAO</b>	National Audit Office
<b>EFRAG</b>	European Financial Reporting Advisory Group	<b>NSW</b>	New South Wales
<b>ESG</b>	Environmental, social and governance	<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>EU</b>	European Union	<b>RPG</b>	Recommended practice guide
<b>GGC</b>	Greening Government Commitments	<b>SAI</b>	Supreme audit institution
<b>GRESB</b>	Global ESG Benchmark for Real Assets	<b>SASB</b>	Sustainability Accounting Standards Board
<b>GRI</b>	Global Reporting Initiative	<b>SDGs</b>	Sustainable Development Goals
<b>IASB</b>	International Accounting Standards Board	<b>SDS</b>	Sustainable development strategy
<b>IFAC</b>	International Federation of Accountants	<b>SOE</b>	State-owned enterprise
<b>IFI</b>	Independent fiscal institution	<b>TCFD</b>	Task Force on Climate-related Financial Disclosures
<b>IFRS</b>	International Financial Reporting Standards		



# Introduction

Sustainability reporting is becoming increasingly important in today's society. There is a significant amount of activity occurring in relation to sustainability reporting, most of which is targeted at the corporate sector. To date, there has been limited focus on sustainability reporting in public sector entities.

This research explores the current state of sustainability reporting in the public sector, the challenges and opportunities for this type of reporting and any impediments to public sector organisations reporting sustainability information.

The challenge for sustainability reporting is multi-faceted – it has many definitions that can influence the scope and focus of a sustainability report, as well as a multitude of frameworks and approaches that can be used when sustainability reports are prepared.

Sustainability reporting can mean different things to different people and often encompasses a very broad range of topics. For this research, we have focused on climate-related and environmental sustainability reporting, given the importance of this in today's society.

This research does not assess the various frameworks or approaches to sustainability reporting and their suitability for the public sector but does identify whether any particular frameworks are more widespread in their adoption by public sector entities.

## Approach to research

This research was undertaken during the period February–May 2021. Further detail of the research methodology can be found in [Appendix 1](#).

A four-pronged approach was taken with this research:



### Desk-based research/ literature review

Used to inform the report context and outline potential benefits and challenges with sustainability reporting in both the private and public sectors.



### Roundtable discussions

A series of 'roundtable' discussions with various stakeholders focusing on frameworks, preparation and audit of sustainability reports, as well as engagement with citizens and the community.



### Survey

Data gathering from a range of stakeholders, including preparers, auditors, standard setters and users of sustainability reports from different levels of government.



### Expert interviews

Semi-structured interviews with experts to supplement outputs from the survey and roundtables.

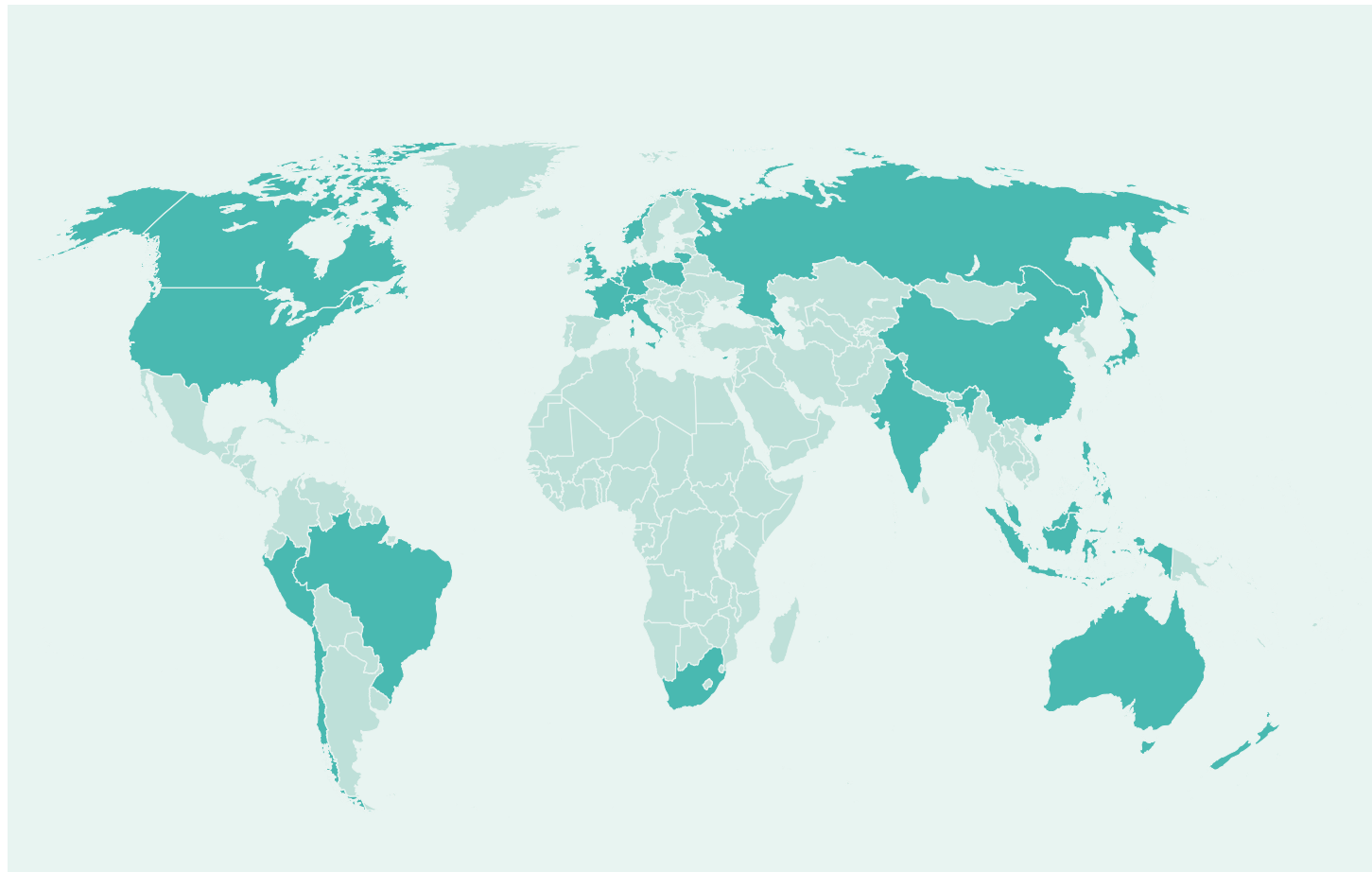


Figure 1: Geographic representation of research participants.

The research engaged people from 31 countries around the world in gathering their views on sustainability reporting. This included preparers, auditors, academics, researchers and standard setters, as well as people with a general interest in this type of reporting.

# Executive summary

Sustainability reporting in the public sector is in its infancy. While reporting is undertaken on a voluntary basis in some public sector organisations, the lack of a mandate for this type of reporting and the challenges identified in preparation, including availability and quality of data, are significant impediments to the widespread take-up of sustainability reporting. Very few jurisdictions have mandated it, although a number of them do have other types of reporting (such as environmental reports) that include some or similar sustainability reporting elements. Institutional commitment was seen as a necessary prerequisite for the broader take-up of this form of reporting.

There are a multitude of frameworks available for sustainability reporting, although none deal explicitly with the public sector. For those who prepare sustainability reports, there is little consistency in the choice of framework, although they often include similar content within their reports. There is a strong view that the alignment and harmonisation activities for the main existing frameworks should continue as a priority and that consideration of their applicability to the public sector be addressed.

The capacity and capability of staff were recognised as essential constituents in preparing sustainability reports. The broad skill set and specialised expertise required in the preparation and assurance of such reports was highlighted as a particular issue. There was also recognition that the finance profession can play a key role, particularly in the establishment of controls and systems for the collection and reporting of data to be included in sustainability reports.

The communication of public sector sustainability reports is also considered to be immature, with most reports only made available through one channel (typically a website). There were very few instances identified where sustainability reports were integrated with other internal or external reports.

Notwithstanding the availability of guidance on auditing environmental information, assurance of sustainability reports was less common. Where assurance was undertaken, it was typically done by an external third party rather than the supreme audit institution in a jurisdiction.



Despite the largely voluntary nature of reporting currently, assurance was seen as an essential element of any sustainability reporting framework to lend credibility to the report.

There was also a strong view that parliaments and governing bodies can play a role in being a catalyst for public sector entities to produce sustainability reports. In much the same way as investors require the corporate sector to provide sustainability information, parliaments and governing bodies can play a similar role in seeking information on the overall performance of public sector entities in addition to the usual economic or financial focus.

Overall, the public sector is lagging the corporate sector in relation to environmental sustainability reporting. However, there appears to be an appetite for this type of reporting for public sector entities. There was a view from those involved in this research that public sector entities should commence sustainability reporting sooner rather than later, as the reporting will need to evolve over time. They felt it better to start reporting and then adapt as time progresses. There was a strong view that the public sector is a significant contributor to climate and environmental issues and that sustainability reporting can contribute to measuring and addressing that impact.

This would better enable public sector entities to take action on these matters and, in doing so, contribute to global environmental and climate objectives.

The research identified seven key areas that require further consideration if sustainability reporting is to become a mainstream part of public sector external reporting. These include:

Clarity on the definition and scope of sustainability reports to ensure a common understanding and interpretation of what constitutes public sector sustainability reporting.

Accelerating the alignment and harmonisation of existing frameworks and standards with a view to adopting a framework that is appropriate for the public sector to underpin sustainability reporting.

Committing to public sector sustainability reporting at an institutional and organisational level to add impetus to the maturation and evolution of reporting.

Promoting and strengthening institutional arrangements for the oversight and scrutiny of sustainability reports.

Recognition of the key role of assurance in sustainability reporting and the consideration of 'phasing in' assurance arrangements, given the relatively immature nature of reporting in the public sector.

Integration with wider forms of reporting to avoid duplication, provide a holistic view of organisational performance and better inform decision making.

Prioritising the development of the broader skill set and expertise needed to support high-quality sustainability reporting and any related audit or assurance activities.

The finance profession has an important role to play in supporting these considerations, both in the public sector and as part of the wider activities being undertaken on sustainability reporting. The experience of the finance profession in dealing with new and emerging areas of focus can be used to support the development of robust systems and processes that enable relevant and reliable data to be included in sustainability reports.





# Sustainability reporting – the public sector context



Public sector organisations are some of the largest contributors to most nations' economies and, as such, can directly and indirectly affect those economies, the environment and society substantially.

Private sector organisations are increasingly expected to show that they recognise their impact on sustainability and to set out their strategies for dealing with this. The focus on sustainability reporting for private sector organisations is evidence of the shift from traditional accounting measures of performance to assessment against a broader range of non-financial measures.

The objectives of public sector organisations are intrinsically linked to public interest and benefit, so it might be argued that these organisations have strong incentives to report and account for their impact on the environment, social wellbeing and prosperity. Taxpayers and citizens increasingly want to know how public sector organisations are addressing sustainability challenges. Reporting on these issues provides public sector bodies with the opportunity to demonstrate how they are addressing the social, economic and environmental challenges ahead and enables them to be held accountable for their performance.

No organisation exists in isolation and performance cannot be measured only by traditional accounting measures. Therefore, the public sector needs to have a comprehensive and integrated view of its performance and impact on the environment and climate, as well as economic and social issues on which it can publicly report.

Governments globally are taking a more active role in defining sustainability reporting requirements for the corporate sector, particularly in relation to climate and environmental reporting.<sup>1</sup> Much of the debate among organisations involved in sustainability is focused on the reporting requirements of the corporate sector, with limited attention being given to reporting by public sector entities.

## Sustainability reporting frameworks and standards

There are a multitude of frameworks related to sustainability reporting, each with their own approach to developing and issuing standards or guidance. As part of our research, we identified 12 frameworks that could be used in sustainability reporting [for the public sector], although none of these deal explicitly with the public sector. They include:

- AccountAbility AA1000 series of standards
- Carbon Disclosure Project (CDP)
- Dow Jones Sustainability Indices (DJSI)
- Global ESG Benchmark for Real Assets (GRESB)
- Global Reporting Initiative (GRI)
- International Integrated Reporting Council (IIRC)

- ISO 26000 – Guidance on social responsibility
- Sustainability Accounting Standards Board (SASB)
- Sustainable Development Goals (SDGs)<sup>2</sup>
- Task Force on Climate-related Financial Disclosures (TCFD)
- UN Global Compact (UNGC)
- Climate Disclosure Standards Board (CDSB).

In addition, a report may be prepared using an entity's own 'framework'.

While each of these frameworks has its own approach to developing and issuing standards and guidance, there is a high degree of alignment between frameworks. The Corporate Reporting Dialogue (CRD) published a report entitled *Driving Alignment in Climate-related Reporting*,<sup>3</sup> which includes a mapping of the degree of alignment of five major frameworks (CDP, CDSB, GRI, IIRC and SASB) against the TCFD requirements. The report concluded that the mapping showed strong alignment between the requirements of each of those frameworks and the TCFD and also between each other. It is worth noting that the primary focus of these frameworks is from an 'investor' or 'capital markets' perspective, although the GRI standards refer to 'stakeholders', which is a wider concept than 'investors' used in the other frameworks.

<sup>1</sup> [Carrots & Sticks sustainability reporting policy: global trends in disclosure as the ESG agenda goes mainstream](#) (University of Stellenbosch Business School and GRI, 2020).

<sup>2</sup> While the SDGs are not a reporting framework, the [Sustainable Development Goals Disclosure Recommendations](#) provide a framework for reporting on the SDGs aligned with the GRI standards, TCFD recommendations and the <IR> framework.

<sup>3</sup> [Driving Alignments in Climate-related Reporting](#) (Corporate Reporting Dialogue, 2019).

The International Financial Reporting Standards (IFRS) Foundation has recently consulted on whether it should take on a standard-setting role for sustainability reporting. They have issued an exposure draft on amendments to their constitution that would allow them to accommodate an international sustainability standards board.<sup>4</sup> The exposure draft acknowledges that, if accepted, the focus of any sustainability standards would be for “investors and other participants in the world’s capital markets”, consistent with their financial reporting standards. Individual public sector entities do not usually participate in capital markets, nor do they have significant private sector investors. As such, the focus of reporting for public sector sustainability standards will need to be considered.

The European Financial Reporting Advisory Group (EFRAG) issued a report in February 2021 on a pathway to sustainability standard setting in Europe.<sup>5</sup> The EFRAG proposal focuses on three layers – sector-agnostic requirements, sector-specific requirements and entity-specific requirements. The report also notes that building on other international initiatives and participating in other international convergence activities (particularly fostering coherence and integrated reporting as a whole) will be important elements of any EU-specific standard-setting arrangement.

According to the IFAC/CIPFA *International Public Sector Financial Accountability Index (2020)* analysis,<sup>6</sup> only three countries use IFRS as the base for their public sector financial reporting (those being the UK, Jersey and Australia), with most jurisdictions using either domestic standards or IPSAS.

Should the IFRS Foundation gain acceptance of their proposed changes in relation to an International Sustainability Standards Board, consideration would need to be given to the appropriateness of and timeframe involved in translating this to a public sector context, given the limited application of IFRS in public sector reporting.

A common view arising from the research is that alignment and harmonisation of frameworks is critical and should continue. An important observation made by several participants was that public sector organisations should not wait for a framework to be finalised before they start their sustainability reporting journey. This is supported by a view from the CRD *Better Alignment Project*, which provided the following response in relation to questions about whether organisations should wait until harmonisation has been achieved.

### Should organisations delay adopting reporting standards and frameworks until the outcome of this process?

“Organisations should not delay using existing reporting standards/frameworks. Each of the reporting frameworks/standards has a unique purpose and focus that will not be changed through this project, and so organisations should not wait to adopt those that are right for them. This project will not lead to one framework or standard but will enable report preparers and users to coordinate their approach better, whichever reporting mechanism they use, as well as paving the way towards integrating financial and non-financial reporting”.<sup>7</sup>

While there are many standards and frameworks for the corporate world, few refer directly to public sector sustainability reporting. The key differences between the private and public sectors in terms of their purpose, motivation and responsibilities will impact the approach taken to sustainability reporting and how frameworks and standards for the corporate sector are adapted for use by the public sector.

<sup>4</sup> [Exposure Draft: Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to set IFRS Sustainability Standards](#) (IFRS Foundation, 2021).

<sup>5</sup> [Proposals for a relevant and dynamic EU sustainability reporting standard setting](#) (EFRAG, 2021).

<sup>6</sup> [International Public Sector Financial Accountability Index: 2020](#) (IFAC/CIPFA, 2021)

<sup>7</sup> [Better Alignment Project FAQs](#) (Corporate Reporting Dialogue, 2019)





# Current global landscape of public sector sustainability reporting



There is no clear definition of what constitutes sustainability reporting for public sector entities. This research has identified a number of different approaches, from using existing ‘corporate-focused’ frameworks and jurisdiction-specific environmental reporting to using a ‘wellbeing’ framework to consider the impact of public sector activities.

A clear theme emerging from the research is that sustainability reporting is immature in the public sector. The absence of a clear definition of what constitutes sustainability reporting for the public sector no doubt affects the variety of approaches that have been taken.

## Differences for the public sector

Participants in the research noted the multiple roles of the public sector, in particular the differing roles as a regulator of activity in their jurisdiction and as a provider of services. A view from the roundtables was that public sector entities need to be cognisant of their own carbon ‘footprint’ as providers of services and the consumption of resources to provide those services.

There was a strong view that it is simply not enough that the public sector only acts as a regulator. By also reporting on its own activities, it can provide leadership for this type of reporting and demonstrate accountability for the delivery of public services in addition to its effectiveness as a regulator.

*GRI Standards: A Guide for Policymakers* notes that public entities can use one of two approaches to report on their sustainability impacts:

- From a mission perspective, how have the sustainable development objectives assigned to the entity been fulfilled?
- From an organisational perspective, are the entity’s operations carried out in a way that considers the impact on sustainable development and how?

Furthermore, the GRI also noted in their *Guide for Policymakers*:

**“As reporters, public agencies can set an example by being transparent about their policies and practices and asking their suppliers to do the same. In fact, several countries have legislation in place requiring state-owned companies to produce sustainability reports”.**<sup>8</sup>

Interviewees and roundtable participants noted the significance and materiality of public sector activities in an economy. Consequently, it was seen as important for public sector entities to be leading by example, and that they must be accountable for their own impact and demonstrate this through transparent reporting.

In supporting the case for public sector entities to produce sustainability reports, one participant in the roundtables commented:

**“Carbon is carbon – the planet doesn’t care who produced it”.**

Interview and roundtable participants noted that state-owned enterprises (SOEs)<sup>9</sup> often provide market-based goods and services and so are more likely to align with the corporate sector in terms of their approach to sustainability reporting. On that basis, they felt there should be no difference in how a SOE reports compared to a private sector entity. However, when the functions and activities of the public sector are considered, there were mixed views as to whether differences existed.



<sup>8</sup> [GRI Standards: A Guide for Policymakers](#) (GRI, 2021).

<sup>9</sup> [Guidelines on Corporate Governance of State-owned Enterprises](#) (OECD, 2015). The OECD defines a SOE as any corporate entity recognised by national law as an enterprise and in which the state exercises ownership.



## Users of public sector sustainability reports

While a lot of corporate sector sustainability reporting is being driven by investor demand, the same cannot be said for the public sector. While governments and public sector entities do participate in capital markets as borrowers of funds, the pressure for public sector entities to produce sustainability reports on their own activities does not come from investors. However, there is broad public interest in the activities of the public sector and their impact.

Based on responses to the survey, for those entities that produced sustainability reports, 44% identified that the primary audience for those reports was the general public/community, with a further 37% identifying senior management from the organisation as the primary audience. Only 19% of respondents identified parliaments or governing bodies as the primary audience for their report.

Apart from some state-owned enterprises, the public sector typically lacks a 'profit' or 'return to investor' imperative, with most public sector entities being funded by taxes, fees, fines and other compulsory charges. This means that individual ministries, departments or agencies are unlikely to be accessing capital markets or dealing with investors of their own accord (this function is usually undertaken by a centralised debt management office). However, some public sector entities such as municipal governments will often undertake the full range of financing activities, similar to corporate sector entities.

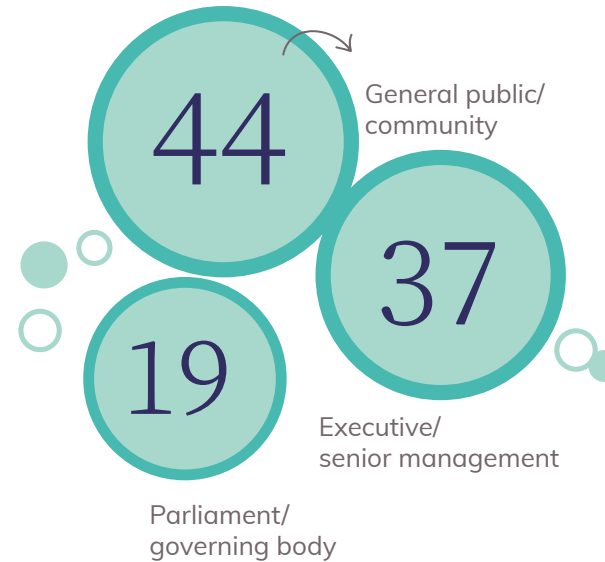


Figure 2: Primary audience for report (%).

There was a consistent view from the research that public sector entities should prepare sustainability reports. However, the definition of what constitutes a public sector entity was not as clear cut. There was a view that the diversity in the types of public sector entities would require some consideration before a framework can be applied to the public sector.

There were mixed views as to the definition of the reporting entity for public sector sustainability reports. There was no consensus on whether each ministry, department or agency should prepare individual sustainability reports or whether a sustainability report should only be prepared on a consolidated whole of government basis. Similarly, where public sector entities operate in an autonomous manner (with independence in their financing and management arrangements), whether they should follow requirements that are used for the corporate sector.

A key aspect of the diverging views was deciding who the target audience is for the report or the 'use' to which the report would be put. For example, if the report is targeted at debt markets (investors), there was a view that this should present consolidated information, but if it is targeted at accountability for the operations of the entity to the general public/community, then a separate report for the individual entity should be prepared.

# Case study: starting the sustainability reporting journey



Source: Interview with Heather Taylor, City of Toronto (Canada).

The City of Toronto has taken a voluntary approach to disclosing climate-related sustainability information in its annual financial statements. Building on its Green Bond Framework, the city's 2018 annual financial statements used a narrative-based model to describe their approach to climate risk and included this as an unaudited note in the annual financial statements. This was further developed in the 2019 annual financial statements when the city used the TCFD framework as the basis for its climate-related disclosures. In addition to the unaudited note in the annual financial statements, the city also included a section in the annual report providing greater detail on their TCFD disclosures.

Although the city has reported on its greenhouse gas emissions since 2007, climate risk and disclosures became more important when the city council declared a climate emergency on 2 October 2019. The first steps taken in the previous year meant the city was well placed to further develop its climate risk disclosures.

As an early adopter of public sector sustainability reporting, the city encountered several challenges. The absence of a mandated framework has created challenges in determining what should be reported. In addition, this form of reporting has identified gaps and quality issues in the data used in the report, and to build the reliability and credibility of the report, these issues have had to be addressed. Furthermore, this type of reporting has also identified the need for capacity and capability development of both the preparer and auditor roles.

The relative novelty of this type of report for a public sector entity means that the accountability aspects of this form of reporting are still being explored.

Apart from the reporting arrangements, the city is now proceeding to integrate sustainability thinking into its management practices. This includes using environmental and social criteria in its management practices (such as procurement) in addition to the traditional financial and other evaluation criteria.

The city's CFO Heather Taylor, a long-time advocate for ESG, said:

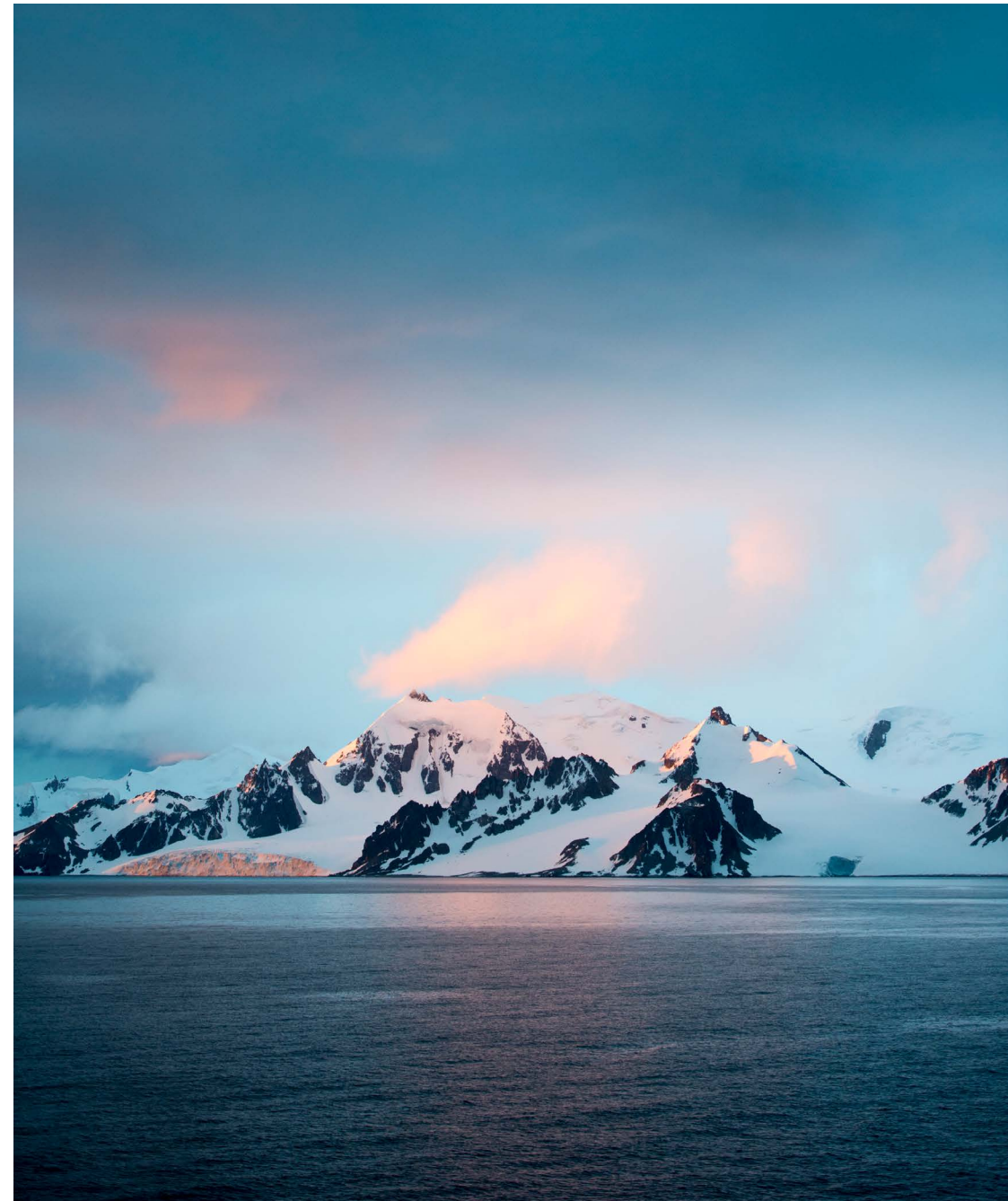
“Rather than wait for frameworks and approaches to be settled, we felt it better to take an iterative approach to incorporating climate-related matters into our financial reporting and management processes. In this way, we can start taking action now to deal with what is the most pressing issue facing us today”.

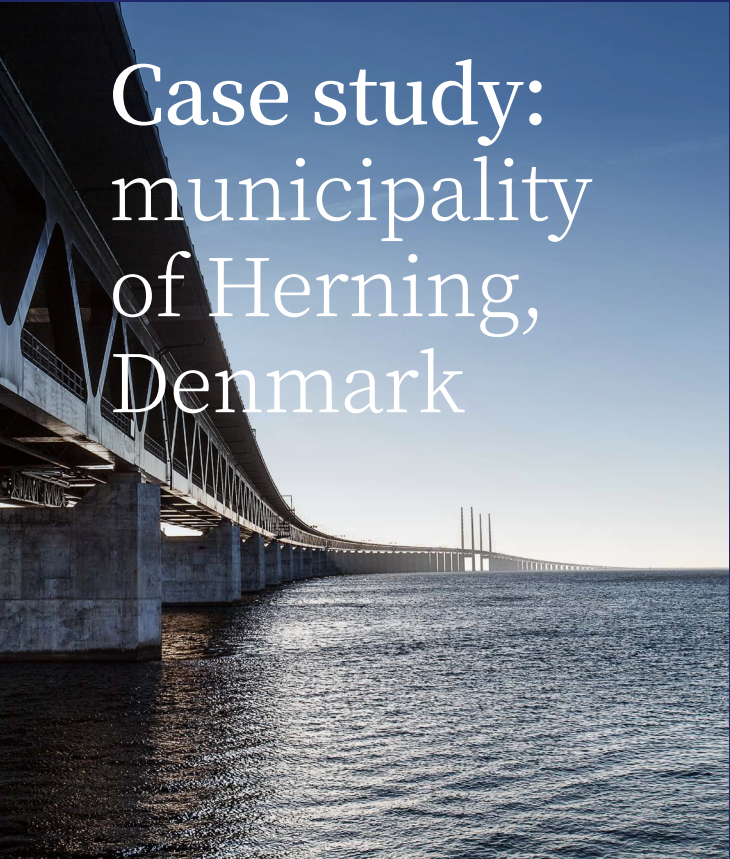
## Committing to sustainability reporting in the public sector

It appears that very few jurisdictions have mandated sustainability reporting for their public sector entities. 56% of survey respondents noted that sustainability reports are not prepared for their organisation, with the lack of a mandated requirement or framework one of the three most cited reasons for this being the case. Furthermore, of the 44% of respondents whose organisation did produce a sustainability report, only around half of them had a standard definition of sustainability. Therefore, sustainability reporting is largely undertaken on a voluntary basis. Interviewees and roundtable participants suggested that voluntary reporting is a useful place to start, but there needs to be a mandatory requirement for the reporting to become mainstream in public sector entities. However, one participant noted:

**“Mandating this type of reporting for the public sector is a complicated issue. Before it can be done, there must be an analysis of what is already mandated in that jurisdiction and what reporting is already done to avoid duplication of effort”.**

A number of interviewees noted that institutional commitment is a necessary prerequisite for sustainability reporting to occur. While some organisations have voluntarily prepared sustainability reports, it is only when there is institutional commitment from both the governing body and senior management that greater benefits can be derived from this form of reporting.





# Case study: municipality of Herning, Denmark

Since 2012, the municipality of Herning has been preparing environmental 'green' accounts on a voluntary basis that incorporate a variety of sub-themes.

The environmental green accounts include procurement, recycling and waste, nature and green areas, municipal properties, planning and private construction, transport (both for the municipality as a company and for the municipality geographically), energy consumption and CO2 lending (both for the municipality as a company and for the municipality geographically). While challenges have been experienced in preparing the environmental green accounts, particularly around data quality and the differing application of standards, the objective of creating transparency around goals and activities has been beneficial.

This work has largely been driven by professionals working within the municipality, with only limited political interest in the initiative in the early phases. In recent times, this has changed. From the budget of 2019/20, sustainability has risen as a general political issue, with a common public framework called DK2020<sup>10</sup> being developed and adopted for use by all 65 municipalities in Denmark. The approach stemming from DK2020 is focused on taking a systematic approach to reporting to aid transparency and bring it into alignment with international standards.

<sup>10</sup> For further information on the DK2020 framework, see [Realdania: DK2020](#).

Source: Response to survey questionnaire.



The question of who needs to make the commitment is somewhat clouded in the public sector. The role of the parliament, executive government, cabinet, ministerial authority and public officials with statutory independence means that the ‘direction’ for sustainability reporting in a public sector entity can be influenced by multiple factors. Does it require a mandate from the government to undertake this form of reporting or can the senior management of a public entity do this themselves? Like all activities, priorities and resources will impact on the capacity of an organisation to undertake this form of reporting. A clear mandate or requirement from government or the governing body of the entity can make the priority clearer and hence enable the allocation of an appropriate level of resources to the activity.

A common view arising from this research is that there needs to be senior-level institutional commitment to sustainability reporting and that this is more effective if it aligns to the policy direction of the government in relation to climate risk. A number of interviewees and roundtable participants noted that voluntary reporting can be a good place to start, but there needs to be a strong mandate from political leaders and senior management of the entity for the reporting to become mainstream.

One country that has legislated sustainability information for the public sector is Canada. The Federal Sustainable Development Act<sup>11</sup> requires that federal departments and agencies produce a sustainable development strategy (SDS) every three years. All departments and agencies that prepare a SDS are required to report on them in every annual report. These reports are then subject to review by the Office of the Auditor General.

Although a legislative mandate can provide clarity on sustainability reporting requirements, other institutional elements can also be brought to bear to support sustainability reporting. The World Wildlife Fund (WWF) response to the *Dasgupta Review on the Economics of Biodiversity* undertaken in the United Kingdom in 2020, noted:

**“As the review outlines, this will require action on multiple levels. Finance ministries must play a key role, as they hold many of the levers of change. For example, they have the remit to introduce new measures of economic success (such as inclusive wealth), influence targets/goals, implement policy reforms, remove harmful subsidies, strengthen regulation in the finance sector, and help drive through changes to corporate law and governance, as well as institutional reform. As the review highlights, these changes are all achievable”.**<sup>12</sup>

Typically, a policy directive can be developed and implemented quicker than legislative instruments can. By using these non-legislative approaches, it may be possible for jurisdictions to introduce sustainability reporting sooner and provide greater clarity to any public sector entities in their jurisdiction that might already be voluntarily producing a sustainability report.

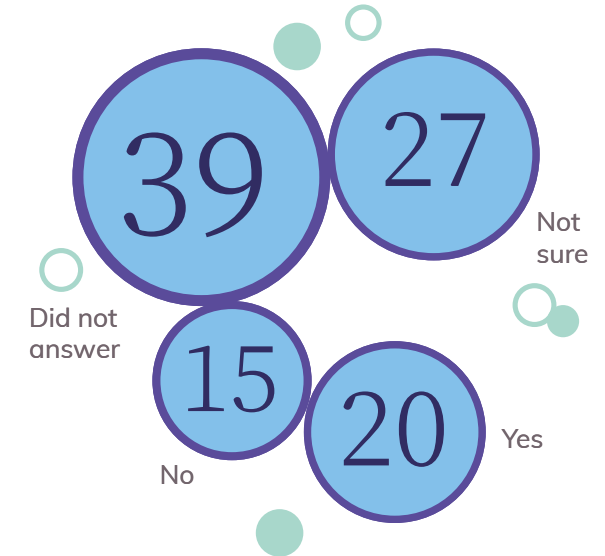


Figure 3: Do overarching policy goals support sustainability reporting? (%).

Only 20% of survey respondents noted that their sustainability reporting was supported by the overarching policy goals in their jurisdiction. This suggests that the majority of respondents were not able to assess whether the overarching policy goals supported the implementation of sustainability reporting. Interestingly, for those who reported that the overarching policy goals did support sustainability reporting, all had prepared reports for their organisation. This suggests that the take-up of reporting in the public sector is limited by the absence of a clear policy direction that is specific to public sector entities.

<sup>11</sup> [Federal Sustainable Development Act](#) (Canada Justice Laws).

<sup>12</sup> [WWF UK Response to the Dasgupta Review](#) (World Wildlife Federation, 2021).



## Using ‘wellbeing’ as a framework for sustainability reporting

A few countries have taken a broader approach and have legislated for a ‘wellbeing framework’. The wellbeing approach incorporates elements of sustainability reporting and encourages a broader assessment of matters that affect the wellbeing of people rather than just focusing on the environmental, economic or financial impacts.

# Example: embedding wellbeing – New Zealand and the wellbeing budget

Application of the New Zealand Treasury’s Living Standards Framework is a key element of how New Zealand has progressed to embed wellbeing into its decision-making process. The Living Standards Framework uses an analysis of policy impacts across the different dimensions of wellbeing, including the four capitals – human, natural, social, and financial and physical capital – and 12 domains of wellbeing, such as housing and social connections. These domains provide a wider account of the outcomes that the government can affect, which helps to inform investment decisions.

Source: [Wellbeing Budget 2021: Securing our Recovery](#) (New Zealand Treasury, 2021).



# Example: legislating wellbeing – Wales

Wales has adopted a wellbeing framework that incorporates some aspects of sustainability reporting. The Well-being of Future Generations (Wales) Act 2015 provides a definition of sustainable development and sets out seven wellbeing goals that apply to national government, local government, local health boards and other specified public bodies.

The Act requires bodies subject to it to set objectives that contribute to the wellbeing goals and to take steps to implement those objectives. The overarching aim is to enable better decision making by ensuring that those subject to the Act take account of the long term and act in a sustainable manner.

The Act requires individual public bodies to publish an annual report of the progress they have made in meeting their wellbeing objectives. The Act also encourages that the report should be part of an existing annual report and/or include financial and non-financial information.

In relation to public bodies, the accountability arrangements are focused on the Future Generations Commissioner for Wales and the Auditor General for Wales.

For public services boards, the accountability arrangements are focused on local authority overview and scrutiny committees.

In May 2020, the Wales Audit Office published a summary report entitled *So, what's different? Findings from the Auditor General's Sustainable Development Principles Examinations*. This report provides an overview of what was examined, findings arising from those examinations and some expectations for the future.

As the Auditor General noted in his foreword to the report:

“Overall, we have found that public bodies can demonstrate that they are applying the sustainable development principle. But it is also clear that they must improve how they apply each of the five ways of working if they are going to effect genuine cultural change – the very essence of the Act. In the next five-year reporting period, public bodies across Wales will need to work together in taking a more system-wide approach to improving well-being if they are to take their work to the next level”.



## Benefits of sustainability reporting

For those organisations that prepared a sustainability report, a number of benefits were identified. The most cited benefit was greater awareness of the impact of the organisation on the climate and natural environment, along with better visibility of social and environmental issues. Cost savings, improvement in operations and better economic outcomes were identified less frequently as areas benefitting from sustainability reporting.

This suggests that once a sustainability report is being prepared, the use and value of the information can influence decisions to deliver better outcomes on environmental and social matters.



Figure 4: Benefits of sustainability reporting (%).



# Key points and observations

Although there is no clear or consistent definition or approach to sustainability reporting, there was a definite view from the research that the public sector should undertake sustainability reporting. The size and nature of activities undertaken by public sector entities are critical to the overall achievement of any environmental or climate objectives, and information from sustainability reports can be used to inform decisions to deliver better outcomes. Thus, the public sector can provide leadership for sustainability reporting and demonstrate accountability for the delivery of public services.

There are many frameworks related to sustainability reporting, but none deal explicitly with the public sector. A strong view from participants in the research is that the harmonisation of the existing frameworks along with an appropriate structure for sustainability standard setting should continue as a priority. Participants also noted that while sustainability reporting for public sector entities is similar to private sector entities, specific consideration needs to be given to the pathway for the application of standards in the public sector.

Noting the multitude of frameworks, participants in the research felt that public sector organisations should commence their sustainability reporting journey sooner rather than later. As there is strong alignment between the main frameworks, choosing any one of those frameworks would provide a reasonable base to commence sustainability reporting. Participants in the research noted that they expected this type of reporting would evolve over time.

There is broad public interest in the activity and impact of the public sector. Reflecting this, the majority of research participants producing a sustainability report identified the general public/community as their primary audience.

While it was recognised that sustainability reporting in the public sector is largely on a voluntary basis, there was a strong view that sustainability reporting requirements should be mandated for the public sector. If reporting is done on a voluntary basis, then it was considered helpful for the policy direction of the government to support sustainable development. Gaining institutional commitment to sustainability reporting was seen as a prerequisite for the broader take-up of this form of reporting.







# Preparing sustainability reports for the public sector



There is a strong view within the research that sustainability reporting in the public sector is still in its infancy. The lack of data, the absence of a consistent and accepted framework and the lack of a requirement or mandate to produce a sustainability report were often cited as key impediments for a public sector entity to prepare a sustainability report.

Based on survey responses, fewer than half of respondents (44%) identified that their organisation prepares a sustainability report.

Furthermore, the *GRI Sustainability Disclosures Database* has 279 organisations identifying as a 'public agency' from a population of 15,475 organisations.<sup>13</sup> This represents only 1.8% of those organisations that have recorded in the database that they produce a sustainability report. Although the database uses a self-reporting approach, this provides some further corroboration that sustainability reporting has limited penetration in public sector organisations.

Even though sustainability reporting is considered to be in its infancy, a number of respondents identified other forms of reporting that are undertaken by public sector entities that include some sustainability information. Some examples are outlined in Table 1.

**Table 1:** Examples of reporting that incorporate sustainability information.

Example	Practice
Preparing for sustainability reporting	In November 2020, the State Treasury of Finland <sup>14</sup> published the first guideline on sustainability reporting. The purpose of the guide is to direct ministries, agencies and institutions in preparing for sustainability reporting.
Integrating sustainability reporting	In Germany, local governments are required to prepare a report showing the outcome per business area. Rather than produce a separate sustainability report, the City of Cologne incorporates sustainable development goal information into this report. <sup>15</sup>
Separate reporting of environmental information	In Japan, the Ministry of the Environment publishes an Annual Report on the Environment, the Sound Material Cycle Society and Biodiversity in Japan. <sup>16</sup>
Integrating with financial reporting practices	In the United Kingdom, the Financial Reporting Manual (FReM) mandates some sustainability reporting in line with various pieces of legislation. <sup>17</sup> Furthermore, government departments are required to follow the sustainability reporting guidance that is mandated for most government entities and requires reporting against certain environmental targets (Greening Government Commitments (GGC) 2016–20 <sup>18</sup> covered greenhouse gases, flights, waste, water and paper).
Green budgeting	<p>Green budgeting uses the tools of budgetary policymaking to provide policymakers with a clearer understanding of the environmental and climate impacts of budgeting choices while bringing evidence together in a systematic and co-ordinated manner for more informed decision making.</p> <p>According to the <i>2020 OECD and European Commission – Joint Survey on Emerging Green Budgeting Practices</i>,<sup>19</sup> more than one-third of OECD countries practise some form of green budgeting, with an additional five countries indicating they plan to introduce green budgeting in the future.</p> <p>For 2021, France has undertaken a 'green budgeting' process by including an annex to the 2021 Finance Bill.<sup>20</sup></p>

<sup>13</sup> [Sustainability Standards Database \(GRI, 2020\)](#) [accessed 12 May 2021, using search criteria 'public agency', 'GRI-Standards'].

<sup>14</sup> [Sustainability reporting within the central government](#) (State Treasury of Finland, 2020).

<sup>15</sup> [City budget 2020/21](#) (City of Cologne, 2019).

<sup>16</sup> [Annual Report on the Environment, the Sound Material Cycle Society and Biodiversity in Japan](#) (Government of Japan Ministry of the Environment, 2020).

<sup>17</sup> UK Government [Government Financial Reporting Manual: 2020-21](#). (HM Treasury, 2020).

<sup>18</sup> [Greening Government Commitments](#) (UK Department for the Environment, Food and Rural Affairs and Cabinet Office, 2020).

<sup>19</sup> [Green Budgeting in OECD Countries](#) (OECD, 2020).

<sup>20</sup> [Report on the environmental impact of the central government budget](#) (French Government, 2020).

Even though sustainability reporting in the public sector is in its infancy, adaptations to existing public financial management frameworks and the separate reporting of some climate and environmental information mean that some sustainability reporting information is available for the public sector. By building on these reporting arrangements, the path to more widespread sustainability reporting can be shortened.

About 66% of the group that prepared a sustainability report used an established framework to do so. While there was a greater tendency to use an existing framework in the preparation of the report, there was little consistency in which one was chosen, with 50% of that group referencing the SDGs, 20% referencing GRI and 10% referencing TCFD. 20% did not specify the framework used.

### Purpose and objectives of public sector sustainability reports

Similar to the responses for the primary audience of a report, the purpose of sustainability reporting was also mixed. ‘The public interest’ and ‘senior management accountability’ were identified as the two main purposes for producing a sustainability report, accounting for 66% of the responses. The question of to whom senior management is accountable was not addressed.

Political interest and legislative or mandatory requirements together accounted for a further 33% of the reasons given for producing a report. They were therefore a significant but not individually leading reason for producing sustainability reports.



Figure 5: Main purposes for producing a sustainability report (%).

There was a strong correlation between those organisations that currently prepare a sustainability report and the establishment of sustainability objectives or outcomes. 80% of organisations that prepared a sustainability report had established sustainability objectives or outcomes. This dwindled to just 24% of organisations where a sustainability report was not prepared.

This demonstrates the importance of sustainability reporting in achieving sustainable development.

For those organisations that prepared reports, 40% did not include targets for the measures included in the report. For those that did include targets, 33% had both annual and multi-year targets; 13% had annual targets only and 13% had multi-year targets only.

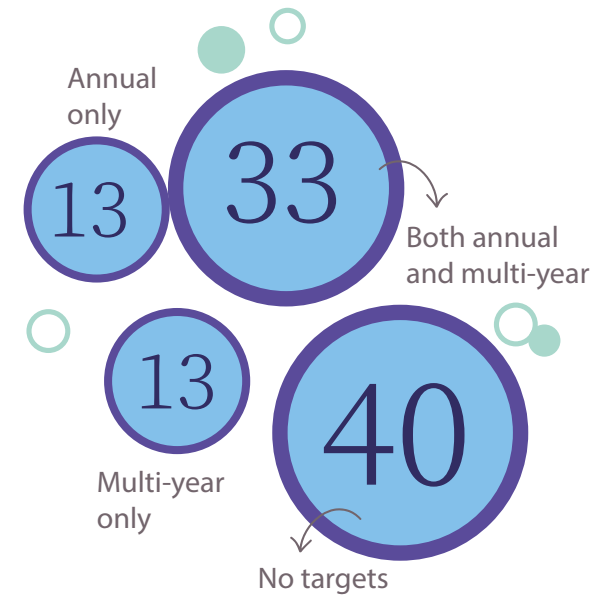


Figure 6: Type of target (%).

In terms of approval of the targets, the majority of respondents did not identify an approval authority for the establishment of targets. This could well reflect the lack of institutional engagement for what is still a voluntary report in many jurisdictions. For those that were approved, only 7% of respondents identified that the targets were approved by the government, with the remainder evenly split between being approved by senior management or being approved by the governing body of the entity.

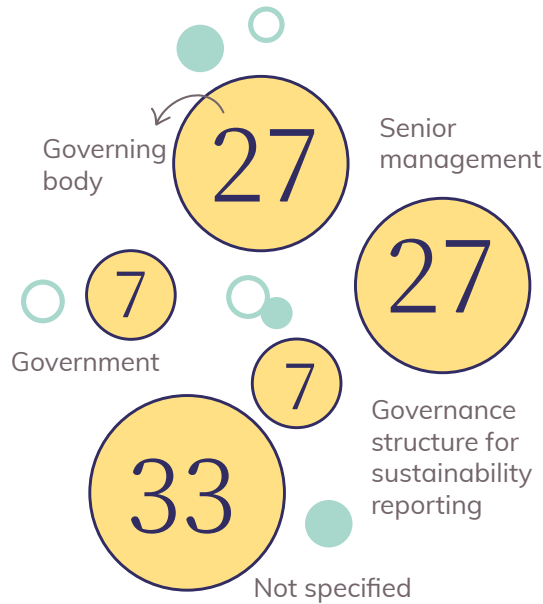


Figure 7: Who is the target approved by? (%).

### Content of sustainability reports

For those organisations that prepared a report, the following sections were most commonly included in their report.

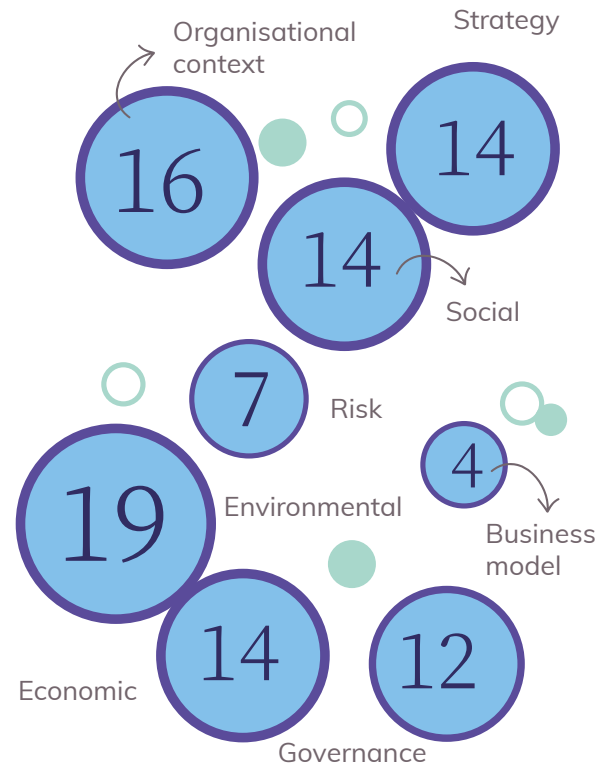


Figure 8: Commonly included sections in public sector sustainability reports (%).

For public sector entities that did prepare a sustainability report, there was a greater tendency to report measures related to 'environment', as well as the context in which the organisation operates, but 'business model' and 'risk' were included by fewer organisations. It is not clear why these were included in comparatively fewer reports, but it may relate to the lack of a clear purpose in relation to the use of sustainability reports, or that the potential impact on the balance sheet of the public sector is not well understood.

## Challenges to preparing a sustainability report

A number of obstacles to producing sustainability reports were identified in the research. Survey respondents cited lack of data (24%) as the most common challenge in preparing a sustainability report, closely followed by the lack of an accepted framework (20%) and insufficient political support (19%). These were also cited by some participants in both roundtables and interviews as significant contributors to the relatively immature state of sustainability reporting in the public sector. However, it was also noted in discussions that the decision (or requirement) to report has resulted in new data sources being identified and existing data sources being reported for the first time.

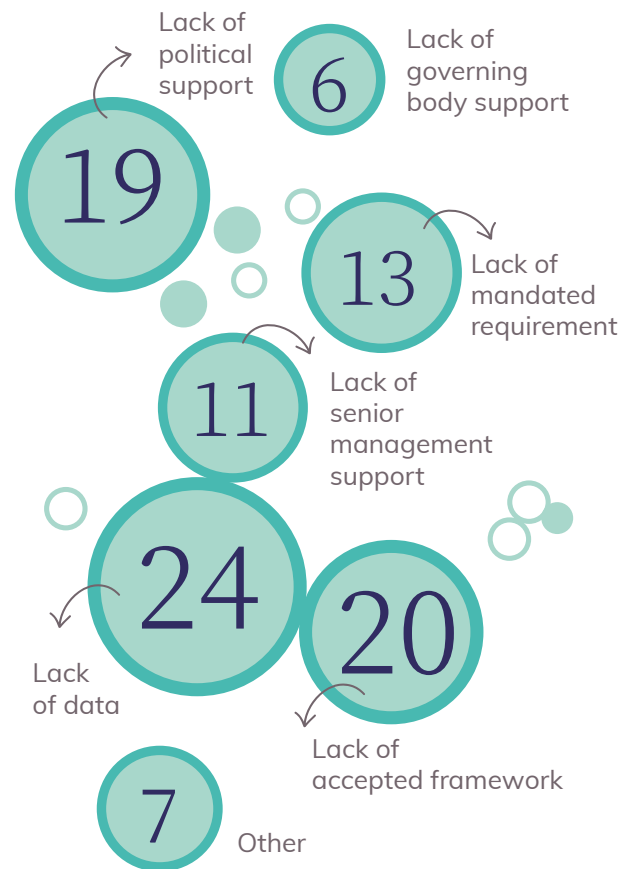


Figure 9: Challenges to preparing a sustainability report (all respondents) (%).



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**Data limitations**

Lack of data was cited by 24% of survey respondents as an obstacle to reporting. Data availability and quality issues were also reported as one of the practical challenges faced by those interviewees and roundtable participants who had prepared sustainability reports. They also noted that the preparation and audit process provided an impetus to address those data challenges.

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**Lack of public  
sector framework**

The absence of an accepted framework for public sector entities was cited by 20% of survey respondents as a challenge to reporting. Given the degree of alignment between the existing frameworks, the adoption of any of these frameworks would enable at least some reporting by public sector entities on their impact on the climate and environment. It was noted that reporting on the impact of the public sector on sustainable development was critical and important in the context of monitoring progress against national government commitments to the United Nations SDGs.

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**Lack of political  
support**

This was also identified as a significant obstacle to preparing sustainability reports for public sector entities by 19% of survey respondents. While governments around the world have been active in progressing sustainability reporting initiatives for the private sector, there appears to have been more limited activity to support this type of reporting for public sector entities.

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For those organisations that prepared a report, 33% used established corporate systems to obtain the data, 46% used ad hoc methods to obtain data for the report and 20% did not specify the manner in which data was obtained. While lack of data was identified as an obstacle to preparing a sustainability report, once the preparation process begins, it appears that organisations can adapt to the data requirements for this type of reporting.

Sixty percent noted that their systems supported the ongoing monitoring and reporting of data included in the sustainability report, although 40% noted that their systems do not currently support appropriate aggregation and disaggregation of data.

During interviews, some preparers noted that obtaining data for their reports had proven challenging during the early stages of preparing a sustainability report. However, the process of preparing the report enabled these shortcomings to be identified and then remediated.

# Key points and observations

Sustainability reporting in the public sector is relatively immature, with fewer than half of respondents stating that their organisation produces a sustainability report. Several challenges including lack of data, lack of an accepted framework and a lack of political support were identified as preventing the take-up of this form of reporting.

Even though sustainability reporting is in its infancy in the public sector, some environmental information is available to enable a degree of reporting. In addition, there has been some adaption of existing public financial management frameworks to incorporate elements of sustainability reporting. These reports could be harnessed to accelerate the introduction of sustainability reporting in the public sector.

Across participants that did prepare sustainability reports, there was no consistency in the choice of frameworks used. However, the content that was included in their sustainability reports was similar. The majority of those preparing reports had established sustainability objectives/outcomes, and many included targets for the measures included in their report, demonstrating the importance of sustainability reporting for achieving sustainable development.

There were mixed views on the purpose of sustainability reports for public sector entities. Public interest and senior management/organisational accountability were the most cited purposes for producing a sustainability report.

Preparers of sustainability reports confirmed that data challenges do exist when starting out with sustainability reporting. However, the process of reporting (and any related assurance activity if that is undertaken) provides an impetus to address those data challenges and improve the reliability of data for management and reporting purposes.



# Assurance and accountability



There was a strong view from interviews and roundtables that some level of assurance is an essential element of any sustainability reporting arrangements that a public sector organisation undertakes. Participants at the roundtables felt that reports would be more credible if they were subject to some form of assurance.

The roundtable discussions and expert interviews noted that 'greenwashing' (ie producing a report that presents only favourable data) is a risk, and that mandating standards and the independent verification of reports were essential to mitigate this risk and ensure that any sustainability reports produced are reliable and credible.

## Current assurance activity

Audit or verification of sustainability reports was relatively uncommon, with only 25% of those that prepared sustainability reports subjecting them to an audit or verification process. For this group, external third parties were used to undertake the audit, which was sometimes supplemented by internal audit or other internal resources.

From the survey, those identifying as auditors indicated that the main challenges in undertaking audits of sustainability reports were the lack of an established framework for preparing reports and a lack of specific auditing standards for these reports.

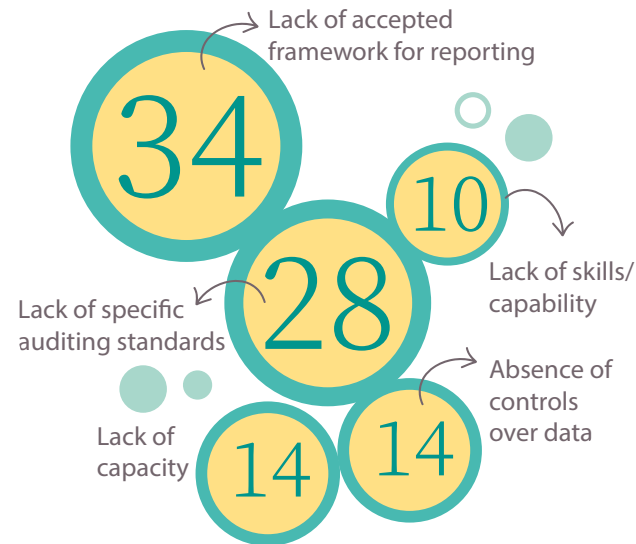


Figure 10: Challenges in auditing sustainability reports (%).

Interestingly, none of the survey respondents who prepared sustainability reports had their reports audited by the supreme audit institution (SAI) in their jurisdiction. Instead, external parties, sometimes supplemented by internal resources, undertook the verification process. This could point to a lack of skills or capacity in SAIs, or it could relate to the mandate of the SAI. However, this is not uniformly the case, as we know from literature reviews that there are examples of assurance activities being carried out by SAIs.

These findings could also suggest that those external third parties undertaking the verification process are better able to harness the multiple skill sets and expertise that are required to undertake an audit of sustainability information.

## Guidance available for assurance of sustainability reports

The International Organisation of Supreme Audit Institutions (INTOSAI) issues guidance on a wide range of topics relevant to SAIs. The INTOSAI website notes that:

“INTOSAI pronouncements foster credibility and relevance of public audit by setting internationally recognized professional principles and standards that promote excellence in the application of methodology, and support the effective functioning of supreme audit institutions in the public interest”.<sup>21</sup>

The following INTOSAI pronouncements deal specifically with auditing environmental information:

- 5200 – Activities with an environmental perspective – provides a basis for SAIs to understand the nature of environmental auditing.<sup>22</sup>
- 5201 – Environmental auditing in the context of financial and compliance audits – provides guidance on how to conduct environmental audits using financial and compliance audit practices.<sup>23</sup>

<sup>21</sup> The INTOSAI Framework of Professional Pronouncements (INTOSAI).

<sup>22</sup> GUID - 5200 - Activities with an Environmental Perspective (INTOSAI, 2019).

<sup>23</sup> GUID - 5201 - Environmental Auditing in the Context of Financial and Compliance Audits (INTOSAI, 2019).



- 5202 – Sustainable development: the role of supreme audit institutions – provides an overview of sustainable development and how SAIs might play a role in auditing progress.<sup>24</sup>
- 5203 – Cooperation on audits on international environmental accords – outlines approaches by which these audits might be carried out.<sup>25</sup>

IFAC and the IIRC recently released guidance and a road map for moving from 'limited' assurance to 'reasonable' assurance for integrated reporting. The publication entitled *Accelerating Integrated Reporting Assurance in the Public Interest* aims to provide clarity on what integrated reporting assurance involves for organisations, auditors and others and encourage discussion to promote the development and evolution of integrated reporting assurance.

The document notes:

“Whilst some of the foundations are in place, significant challenges remain for all those involved in integrated reporting. Guidance and practice will need to develop further in this immature part of the reporting and assurance world – trying to force a solution based largely on historical assurance approaches will likely not be sufficient when there is much more emphasis on things like narrative and forward-looking information. Preparers and assurance providers need to innovate and feed back to standard setters.

**Users need to be realistic in their expectations as the assurance system matures. It will require all participants to take some calculated risks in the interest of ongoing relevance and trust”.**<sup>26</sup>

From a practical perspective, some roundtable participants noted that they received some 'pushback' from their auditors in the early stages of preparing a sustainability report. The pushback largely stemmed from concerns that the immature nature of the reporting would result in significant audit issues being identified that could undermine the credibility of the report and demoralise those involved in their production. The discussion noted that given the under-developed stage of this type of reporting in the public sector, there was some concern that an adverse opinion from the auditor would detract and discourage this type of reporting. As one participant noted during the roundtable:

...given the relative new-ness of this type of reporting and the data challenges that exist, it's important to keep people optimistic and engaged with this form of reporting at the outset.

### Institutional arrangements for accountability

The level of scrutiny applied to sustainability reports appears to be limited. The bulk of respondents to the survey did not identify any accountability mechanisms for sustainability reports, with only 17% stating that reports are subject to scrutiny.

The lack of SAI involvement in the audit and verification process was also seen as limiting the accountability arrangements. As one discussant in the roundtables noted:

**SAIs are really good at getting parliaments and their committees involved in any issues that they audit.**

Some jurisdictions have already implemented institutional arrangements in response to environmental and climate concerns. The United Kingdom House of Commons established an Environmental Audit Committee in 1997. The role of that committee, as detailed on their website, is shown below:

“The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House”.<sup>27</sup>

<sup>24</sup> GUID - 5202 - Sustainable Development: The Role of Supreme Audit Institutions (INTOSAI, 2019).

<sup>25</sup> GUID - 5203 - Cooperation on Audits of International Environmental Accords (INTOSAI, 2019).

<sup>26</sup> *Accelerating Integrated Reporting Assurance in the Public Interest* (IFAC, 2021).

<sup>27</sup> UK Parliament, House of Commons Select Committees, [Environmental Audit Committee](#).



# Case study: reporting on the activities of government

In May 2020, the National Audit Office (NAO) in the United Kingdom published an Environmental Sustainability Overview on the Ministry of Defence. The report noted that the size and range of the department's activities made its performance vital to the government meeting its environmental targets, particularly the Greening Government Commitments (GGCs). The GGCs cover emissions, waste reduction, water use and 'green' procurement of goods and services.

The report also noted that:

- In 2017/18, the department was responsible for half of the greenhouse gas emissions reported by central government.
- The department had significant sustainability impacts outside the scope of the GGCs. For example, emissions associated with operating and supporting armed forces' equipment were around twice as high as those reported through the GGCs.
- Over one third of the department's estate is made up of sites of special scientific interest, covering a larger area than those of any other government body.

As a consequence, the report considered that "the department is critical to the government's sustainability objectives, due to its size, supply chain, and the amount of land it controls". The report noted:

The department had achieved some of the targets set for it through the GGCs, including on greenhouse gas emissions, but has made less progress in other important areas. Environmental data in some areas is incomplete or historic.

Furthermore, the report noted that the department had put in place guidance and methodologies to deliver against its environmental objectives. However, the NAO observed that it lacked the central oversight to gain assurance over whether the activity that is taking place is sufficient to deliver the desired outcomes.

In 2018/19, the department began incorporating reporting of its sustainability performance into its annual report and accounts.

Source: National Audit Office (NAO), [Environmental Sustainability Overview, 2020](#).

The Inter-Parliamentary Union has produced a self-assessment toolkit for legislators to use in assessing their parliaments. The toolkit enables parliaments to assess their preparedness to engage with the SDGs and to help identify ways to support the implementation of the SDGs.

In particular, the self-assessment toolkit identifies ‘oversight’ as one of the key roles that parliaments can play.

“Oversight: Monitoring results is a critical element of SDG implementation. Parliaments must make sure that implementation is on track and can be recalibrated in light of evidence and public feedback. Parliamentary oversight mechanisms such as Question Time, written questions to government and parliamentary committee hearings can be very effective in identifying obstacles or assessing progress. Parliamentary committees should have the power to call on government officials to provide information on the impact of government policies and programmes. Committees should also be able to call public hearings to garner citizens’ views on SDG implementation. The knowledge collected can be fed back into government planning and delivery mechanisms through a national SDG working group or equivalent body in which parliamentarians participate”.<sup>28</sup>

A topic of interest that was identified as part of the roundtables was the role that independent fiscal institutions (IFIs) such as parliamentary budget offices may be able to play in relation to sustainability reporting. Often these institutions have a wide remit to review fiscal matters within a jurisdiction. Some interviewees felt that given the limited mandate that SAs have in relation to commenting on government ‘policy’, perhaps IFIs could play a role in reviewing sustainability reports and identifying areas of concern and perhaps expanding or enhancing their function to play a similar role in relation to sustainability matters.



<sup>28</sup> [Parliaments and the Sustainable Development Goals: A self-assessment toolkit](#) (Inter-Parliamentary Union, 2016).



# Key points and observations

Assurance of sustainability reports was not a common practice among those preparing sustainability reports. For those that did undertake assurance, this was done by external third parties, sometimes supplemented by internal resources.

A key concern identified by those that did prepare sustainability reports was the risk that adverse audit or assurance outcomes could impact on the organisation's desire to produce a report. In the absence of mandatory reporting, some noted that a phased approach to the assurance of sustainability reports would be appropriate to enable the reporting to mature somewhat before it is subjected to an assurance process.

Research participants identified 'greenwashing' as a significant risk in sustainability reporting. There was a strong theme emerging from the research that assurance of public sector sustainability reports was essential to lend credibility to those reports. The research identified the availability of guidance in relation to environmental auditing (noting that it is guidance for SAs) that provides a basis on which the evolution of the assurance aspect of sustainability reporting can be developed.

Parliamentary oversight was seen by research participants as a key catalyst for driving the uptake of this type of reporting in public sector entities. There was a view that it is only when there is an interest from parliamentarians and other public sector governing bodies that creates a 'demand' for this type of information that public sector entities will devote time and effort to meeting the information needs of those stakeholders.





# Capacity, capability and communication



With sustainability reporting an emerging area of reporting in public sector bodies, this research has shown the differences in the type and level of resource being used. It has also shown how sustainability reports are communicated and the extent to which they are integrated in other forms of reporting.

## Resourcing

For those organisations that produced a sustainability report, 60% had a dedicated sustainability area responsible for the preparation of the report. For those without a dedicated area, the balance was spread across finance, marketing and communications and strategy and planning functions.

Only 37% of survey respondents believed that they had sufficient skills in sustainability reporting and only 34% believed that they had sufficient staffing capacity to meet the requirements of sustainability reporting in the future.

Some interview participants noted the very specialised expertise that is required for some aspects of sustainability reporting, particularly the science-based climate measures.

This affected not just the preparation of the report, but also any audit or verification of the report where that was undertaken. There was recognition that a broader set of skills and expertise are required for sustainability reporting.

Interviewees and roundtable participants noted that the capacity and capability of staff involved in this type of reporting are key enablers for producing these reports. The different skill sets that are required to report across a multitude of different measures (in sometimes very specialised areas) mean that organisations need to develop multi-disciplinary teams that have the capability to prepare sustainability reports. The same issue was noted in relation to the assurance of sustainability reports.



Figure 11: Area responsible for preparing report (%).

## Integrated reporting

The intersection between sustainability reporting and financial reporting is also a matter that has been addressed in some jurisdictions. In Australia, the Australian Accounting Standards Board and the Australian Auditing and Assurance Standards Board has issued joint guidance, which notes that:

**“Given investor statements on the importance of climate-related risks to their decision making, the impact of the materiality definition and APS/PS 2 is that entities can no longer treat climate-related risks as merely a matter of corporate social responsibility and may need to consider them also in the context of their financial statements”.**<sup>29</sup>

In Australia, standards and guidance apply to public sector entities as well as corporate entities. The New South Wales (NSW) Treasury has supplemented guidance and issued instructions for use by public sector entities on how to reflect the effects of climate-related matters in their financial statements.<sup>30</sup> This provides a high-level overview of some of the potential impacts of climate-related matters on an agency’s financial statements and notes that the potential climate-related impacts will vary depending on each agency’s circumstances.

Importantly, this means that sustainability reporting is not being seen as an isolated reporting requirement, but something that is essential to, and needs to be integrated with, existing financial reporting requirements.

<sup>29</sup> [Climate related and other emerging risk exposures: Assessing financial statement materiality using AASB/IASB Practice Statement 2](#) (Australian Government, Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB), 2019).

<sup>30</sup> [Guidance on how to reflect the effects of climate-related matters in financial statements](#), (New South Wales Government, 2021).



The International Public Sector Accounting Standards Board (IPSASB) published a document that outlines the current IPSASB guidance relevant to climate risk disclosures.<sup>31</sup> This identified three recommended practice guides (RPGs) published by IPSASB and a number of existing IPSASs that are relevant to climate change reporting.

- RPG 1, *Reporting on the long-term sustainability of an entity's finances*, provides guidance on broader disclosures about long-term fiscal sustainability and includes guidance on the projection of inflows and outflows based on assumptions regarding policy decisions and future economic and other conditions.
- RPG 2, *Financial statement discussion and analysis*, recommends the provision of information on the external trends, risks and uncertainties that are impacting or may impact a public sector entity's financial position, financial performance and cash flows. If these trends, risks or uncertainties include climate change, RPG 2 calls for discussion of this impact.

- RPG 3, *Reporting service performance information*, provides good practice recommendations on reporting information on the services that a public entity provides, its service performance objectives and the extent of its achievement of those objectives. Climate change is relevant to the extent that it is affecting or may affect the services performed by the entity and the extent to which it is achieving its service performance objectives.

This approach provides a link between financial reporting and sustainability reporting.

While some jurisdictions have considered this intersection, based on the research and the immaturity of the public sector on sustainability reporting, the nature of this intersection will likely evolve over time.

In practice, the majority of organisations that prepared a sustainability report did not integrate it with other internal or external reports. While the release of standalone information can assist in raising awareness and increase the focus on sustainability information, integrating with other forms of reporting is seen as important to provide a more comprehensive picture of the entity's performance and to better enable these reports to inform decision making.



Figure 12: Are reports integrated? (%).

<sup>31</sup> Staff Questions and Answers, *Climate Change: Relevant IPSASB Guidance* (IPSASB, 2020).

# Case study: integrated sustainability report



Source: [AGSA Integrated Annual Report 2020](#).

The Auditor General's office in South Africa produces an integrated annual report that measures its performance against the commitments contained in its strategic plan and budget. The report aligns with a number of standards and legislation including:

- Public Audit Act 25 of 2004 (PAA)
- Global Reporting Initiative (GRI) standards
- International Integrated Reporting <IR> framework
- King IV principles and codes
- International Standards of Supreme Audit Institutions (ISSAI) 12
- Sustainable Development Goals.

The report notes that it complies with the general disclosures of the GRI guidelines for sustainable reporting and the International Integrated Reporting <IR> framework and that those frameworks are used to inform the content and format of the report.

The report is subject to external assurance, which is undertaken according to the International Standard on Assurance Engagements 3000 (ISAE 3000: revised), issued by the International Auditing and Assurance Standards Board.

## Channels of communication

Overall, 60% of organisations used a single channel to communicate their sustainability report, with a further 27% using two or more channels, and 13% did not publish or did not specify how they communicated their sustainability report. The use of a website was the most common form for communicating sustainability information with 60% of respondents reporting that their report was available on their website.

Only 26% of organisations that prepared a sustainability report used multiple channels to communicate or make available their report. For those organisations, the approach taken was to publish a standalone sustainability report or to include it in the organisation's annual report in addition to making it available on their website.

## Role of finance professionals in sustainability reporting

Some interviewees noted that the finance profession can play an important role in defining and delivering how sustainability is measured and reported in the public sector. They possess the skills to develop robust, credible and consistent sustainability reports that meet the requirements of whichever framework is used. In addition, the finance profession has capability to provide assurance on sustainability reports and has valuable experience in the communication of robust and reliable information in corporate reporting.

Therefore, the finance profession can play a leading role in the preparation and communication of reliable and credible information for inclusion in sustainability reports. It was noted that although the measures often included in sustainability reports are 'non-financial', finance professionals have expertise in the implementation of controls and frameworks to deliver relevant and reliable information.

However, participants also noted that sustainability reporting also presents several challenges for the finance profession, particularly in relation to professional development and establishing a clearer understanding of the links between social, environmental and economic issues. There was recognition of the need for collaboration with other professions and developing accounting practices that enable a more forward-looking perspective.



# Key points and observations

For those research participants that prepared sustainability reports, they are largely being prepared by dedicated sustainability areas within public sector organisations.

There was a strong view emerging from the research that the capacity and capability of staff involved in this type of reporting is a key enabler for producing these reports. They noted that the different skillsets required to report what are sometimes very specialised measures mean that organisations need to develop multi-disciplinary teams with the capability to prepare sustainability reports. The same issue arises for the audit and verification of sustainability reports.

The integration of sustainability information into a public sector entity's annual report was fairly limited, although this gave a more comprehensive view of organisational performance. While standalone sustainability information can increase focus and raise awareness, integration with wider forms of reporting can provide a more holistic overview of an organisation's performance.

Reporting of sustainability information for public sector entities is still not mainstream, with the majority of research participants preparing reports using only one channel to communicate the report.

Notwithstanding the relative infancy of this type of reporting, some jurisdictions are adapting their financial reporting to increase disclosures for climate and sustainability related risks that impact on an entity's financial performance, financial position or cash flows.

The finance profession can play an important role in the preparation of reliable and credible information for inclusion in sustainability reports. Although measures often included in sustainability reports are 'non-financial', finance professionals have expertise in the implementation of controls and frameworks to deliver relevant and reliable information. As part of the evolution of this type of reporting for public sector entities, finance professionals can play a much greater role in developing the mechanisms, reporting structures and control frameworks to support the preparation of sustainability reports.





An aerial photograph of a vast field of yellow flowers, likely rapeseed, with a single, dense green bush standing out in the center. The field is divided into sections by dark, winding paths or furrows. The overall scene is bright and vibrant, with a strong contrast between the yellow and green.

# Conclusions and next steps



There has been an increasingly high level of interest and engagement in sustainability reporting for the corporate sector, but less consideration of the public sector context. While this research explores the current state of environmental sustainability reporting in the public sector, it does not attempt to determine the prevalence of such reporting in the public sector, nor to assess the quality of sustainability reports prepared by public sector entities.

This research found that public sector sustainability reporting, as it relates to climate change, is in its infancy and there are many aspects that require further consideration. Despite this, the overarching message from this work is that public sector entities should embark upon the journey of sustainability reporting without delay – even if the route to be taken and the final destination is not yet clear. Indeed, this research has shown that the move to reporting on sustainability can provide the impetus to clarify and potentially overcome some of the obstacles involved.

The research identified seven key areas that require further consideration for sustainability reporting to become a mainstream part of public sector external reporting. However, these are not intended to be exhaustive. Other areas were touched on but not explored in depth as part of this research – for example, real-time reporting, data collection/analysis and wider public/community engagement. They also require further consideration as part of the maturation of this type of reporting.

Our seven key areas for development include:

1

#### Clarity on the definition of sustainability and its scope.

The research focused on environmental and climate-related reporting, but there was no clear and standardised interpretation of what this meant among those preparing sustainability reports. As most definitions of sustainability incorporate environmental, social and governance (ESG) aspects, the absence of a common definition of what constitutes sustainability reporting for the public sector no doubt impacts on the variety of approaches currently being taken.

2

#### Greater institutional/organisational focus and commitment to public sector sustainability should be encouraged.

This was found to be a key driver for sustainability reporting, and indeed some jurisdiction-specific legislation has added impetus. The commitment to sustainability reporting can also provide a pathway to improving data. Supranational organisations have a role to play in encouraging, promoting and advocating for such commitment, as well as the broader evolutionary process of public sector sustainability reporting.

3

#### Prioritising development of skills and capabilities needed to deliver sustainability reporting.

The research recognises that a range of skills and capabilities are needed. Public sector organisations need to prioritise the development of multi-disciplinary teams with the required capability to meet the challenges of robust sustainability reporting. The finance profession has a lot to offer with its experience of financial reporting, but it has a lot to learn too. The profession can use its skills to support the development of controls and processes, but it needs to develop so that members are best able to support governments in understanding the long- and short-term financial implications of the decisions they make. Priority also needs to be given to ensuring appropriate capability and capacity for audit and assurance of sustainability reports.

4

#### Determining the role of audit and assurance.

The findings questioned the value of sustainability reports if there is no independent assurance over their production to give confidence to the users of the information. Existing guidance on assurance does exist, but perhaps needs to be more widely recognised. Consideration should also be given to the timing of assurance on sustainability reports in the early stages of reporting to address concerns regarding the risk of adverse audit opinions, undermining credibility and demoralising those involved in reporting. This could be addressed by exploring phased arrangements for auditing sustainability reports during the early stages of reporting.



**Increasing scrutiny of sustainability reports.**

5

Strengthening institutional arrangements for oversight of sustainability issues (such as parliamentary oversight adopted in some jurisdictions) should be considered to add impetus for the evolution of public sector sustainability reporting. Given the wide remit of IFIs on fiscal matters, their potential role in sustainability reporting should be explored.

**Accelerating efforts to align and harmonise existing frameworks and standards.** Greater priority should be given to the appropriateness of these to the public sector and the pathway by which they might be applied.

6

Therefore, this report is the tip of a very large iceberg for the public sector. It provides a baseline from which the evolution of public sector sustainability reporting can be measured. There is much to do in the public sector to turn these green shoots into a more robust and consistent approach towards sustainability reporting.

**Integrated reporting.** Integration of sustainability information with wider forms of reporting can provide a clearer view of an organisation's overall performance and add broader context to better inform decision making. Global integrated reporting frameworks already exist that cater for different types of capital, including environmental capital. While integrated reporting is not used widely in the public sector, some jurisdictions are making links between financial and non-financial reporting, which should be developed as part of the evolution of such reporting.

7



# Appendices

# Appendix 1: research methodology

## Literature review

A list of the literature and sources reviewed as part of this research is included at [Appendix 2](#).

## Roundtables and interviews

A series of roundtable discussions and interviews were conducted as part of the research. The discussion for each roundtable focused on four key areas relating to sustainability reporting:

### Key areas



Sustainability reporting frameworks.

Preparers' experience in producing sustainability reports.

Audit and verification of sustainability reports.

Citizen and community engagement  
(including accountability arrangements).

Interviews were conducted in a semi-structured way using the four key areas discussed in the roundtables, but focusing more intently on the interviewee's area of expertise. Each interviewee was given the opportunity to comment on each of the four areas mentioned above.

## Survey approach

An electronic survey was distributed using a 'snowball' methodology, recognising that there is no authoritative list of sustainability reporting contacts in public sector organisations or jurisdictions.

Apart from high-level demographic information, the survey included 35 questions covering:

- organisational details
- basis of reporting
- accessibility of the report
- preparation and audit of the report
- resources and capability
- outcomes and evaluation
- policy coherence
- improving sustainability reporting practices.

Recognising that the population for the electronic survey is largely self-selected, the data does not provide a comprehensive view of sustainability reporting in the public sector globally. However, it does provide some insight into the current practices and the challenges and opportunities for this type of reporting for public sector organisations.



## Summary of respondents

### Roundtables and interviews

Three roundtables were held – one in Oceania, one in Europe/Middle East/Africa and one in the Americas. A total of 34 individuals participated in the roundtables.

Interviews – eight interviews were conducted with a range of individuals comprising standard-setters, preparers, auditors, academics and general users of sustainability reports.

**Table 2:** Roundtable and interview participants.

#### Oceania roundtable

**Chair: Ian Ball**  
Victoria University of Wellington

**Judith Leung**  
New South Wales Treasury

**Adinda Aan Fertina and Dominika Dayvera Rosana**  
Audit Board of Indonesia

**John Purcell**  
CPA Australia

**Karen McWilliams**  
Chartered Accountants Australia & New Zealand (CAANZ)

**Matthew Cavicchia**  
Institute of Public Accountants (IPA) Australia

**Ken Warren**  
New Zealand Treasury

**Brian Blood and Elaine Hong**  
Confederation of Asian and Pacific Accountants

**Virender Kulharia**  
Comptroller and Auditor General of India

#### Europe/Middle East/Africa roundtable

**Chair: Renaud Seligman**  
World Bank

**Isabell Nehmeyer-Srocke**  
City of Cologne

**Carol Adams**  
Durham University Business School

**Caroline Aggestam Pontoppidan**  
Copenhagen Business School

**Peter Welch**  
European Court of Auditors

**Julien Parkhomento**  
Global Reporting Initiative

**Max Greenwood**  
HM Treasury, UK

**Sebastian Gil**  
INTOSAI Development Initiative (IDI)

**Andrew Blazey**  
OECD

**Antonia Grafi**  
University of Zurich

**Mark Hendrix**  
Netherlands Court of Audit

**Yoseph Asmelash**  
UNCTAD

**Barry Wyatt**  
South Gloucestershire Council/ADEPT, UK

**Ravi Abeywardana**  
Climate Disclosure Standards Board

**Americas roundtable****Chair: Milt Isaacs**Orbit Strategic Management  
Consulting**Diane Peressini**Treasury Board of Canada  
Secretariat (TBS)**Virginia Harper Ho**University of Kansas School  
of Law**Srinivas Gurazada**

World Bank

**Oscar Gustavo Nunez del  
Arco Mendoza**Ministry of Economics and  
Finance, Peru**Heather Taylor**

City of Toronto, Canada

**David Madon**International Federation  
of Accountants**Sebastian Gil**

INTOSAI

**Kimberley Leach**Auditor General Office  
Canada**Elida Reci**

UNDESA

**Karen Bell**Auditor General's  
Department, Jamaica**Interviews****David Madon**International Federation of  
Accountants (USA)**Heather Taylor**

City of Toronto (Canada)

**Ian Carruthers**International Public Sector  
Accounting Standards Board  
(UK)**Katharina Bryan**European Court of Auditors  
(Luxembourg)**Kimberley Leach**Office of Auditor-General  
(Canada)**Loshni Naidoo**South Africa Institute of  
Chartered Accountants  
(South Africa)**Paula Dutra**Brazil Court of Audit  
(Brazil)**Richard Barker**Said Business School,  
Oxford University (UK)



### Survey

Valid responses were received from 41 respondents. The following provides information on the capacity and level of government of the respondents.



Figure 13: Capacity in which survey answered (%).

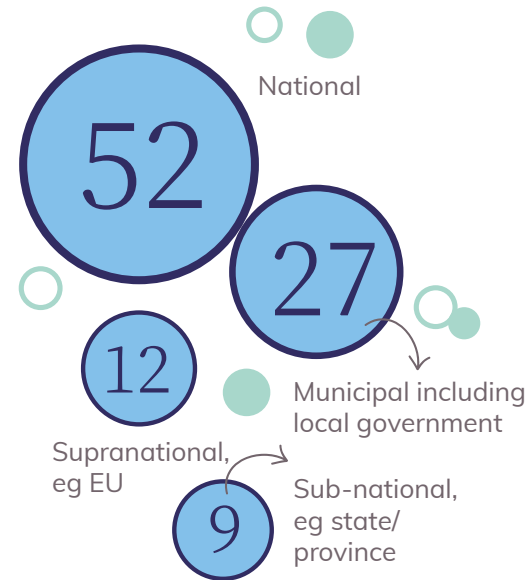


Figure 14: Level of government (%).

## Appendix 2: literature considered as part of the research

In addition to references cited in footnotes, a wide range of literature, websites and reports were reviewed as part of this research. The following bibliography provides details of the main sources consulted and contains links to the relevant website or document for ease of access.

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