

Ian Carruthers
Chair
IPSASB

Submitted online

Brussels, 13 January 2023

Consultation Response – ED 83 *Proposed Amendments to Recommended Practice Guidelines*

Dear Mr Carruthers,

Accountancy Europe is pleased to provide you with our comments on the IPSASB's public consultation, ED 83 *Proposed Amendments to Recommended Practice Guidelines* (RPG).

1. As we stated in our response to the IPSASB's consultation on *Advancing Public Sector Sustainability*, the public sector must be far more active in promoting, and reporting on, sustainability-aware behaviour, both at an entity-level for public sector bodies and at a whole-of-government level for the wider economy.
2. We welcome the IPSASB's interest in this area and believe that it has an important role in promoting public sector sustainability reporting.
3. Consequently, we support the IPSASB using existing material, such as the RPGs, as a short-term measure to emphasise the importance of sustainability for the public sector while more comprehensive public sector specific sustainability issues are being considered.
4. However, we do have some reservations in respect of the ED's focus – in particular, the proposed amendments to RPG 1, which concentrate on the reporting of sustainability programme information. We provide more information on our concerns in the response to SMC 1.

A ROLE FOR RPG 2.

5. We also would suggest that RPG 2 *Financial Statement Discussion and Analysis* has a useful role to play in entity-level sustainability reporting.
6. We would highlight the following issues as those amongst the most important for sustainability reporting in the public sector:
 - a. Performance reporting for sustainability related projects and programmes. This would be covered by RPG 3.
 - b. Entity-level sustainability reporting, including:

- i. The impact of sustainability issues on the entity and its ability to deliver its service potential. This could be based on, for example, International Sustainability Standards
 - ii. The impact of the entity on the environment, local community etc. This could be based on, for example, GRI's standards
 - c. The impact of sustainability issues on the fiscal sustainability of the entity (or the nation, at whole of government level). This is already included in RPG 1.
 - d. The entity's commitments and performance in reaching international targets and commitments under, for example, the Sustainable Development Goals or the Paris Agreement. Often this would be more at the consolidated, whole-of-government level and it is conceivable that RPG 3 could also be used for this purpose.
7. Currently, there is no obvious reference to where entity-level sustainability information should be reported for public sector entities. Accountancy Europe believes that such information should be presented with the same prominence as financial information and should be as connected as far as possible with the relevant financial information.
 8. Consequently, we support the requirement of the EU's Corporate Sustainability Reporting Directive that sustainability information must be presented in an entity's management report. Equally, sustainability information for public sector entities should also be presented in their equivalent of the management report.
 9. We appreciate that the IPSASB has hurdles to overcome before it can produce its own, or endorse private sector, sustainability guidance or standards. Perhaps, however, RPG 2 could be amended to stress the importance of such information and propose that public sector sustainability information using national and / or private sector standards should be included in the financial statement's Discussion and Analysis.
 10. For example, RPG 2 already contains consideration of the entity's:
 - a. operations and the environment in which it operates
 - b. objectives and strategies
 - c. the entity's principle risks and uncertainties and its strategies for mitigating these
 11. Sustainability issues could be included under one or more of these categories, depending on the nature of the entity and of its operations.
 12. RPG 2 could also be revised to include the consideration and disclosure of 'governance' and 'metrics and targets', which would make RPG 2 more closely aligned to the 'four pillars' of the TCFD/ISSB and the ESRS.
 13. Introducing sustainability as an element of the financial statement's discussion and analysis in RPG 2 would, of course, require amendments to RPG 2, starting with its objective, stated in paragraph 1. The objective would need to be amended to assist users to understand how the entity's financial position, performance and cash flows could be affected by sustainability-related risks and opportunities. This would then drive the reporting intention.

We present our responses to the detailed questions below.

Specific Matter for Comment 1 – Chapter 1

Do you agree with the proposed additional implementation guidance for RPG 1?

If not, what changes would you make?

14. RPG 1 *Reporting on the Long-Term Sustainability of an Entity's Finances* provides guidance on reporting and the impact of current policies and decisions made on future inflows and outflows. The aim is to provide an indication of the projected long-term financial viability of an entity over a specified time horizon.
15. As such, it correctly states in paragraph 4 that 'an entity should assess any financial impacts of environmental factors and take them into account when developing its projections.' Additionally, paragraph 50 states that an entity's economic assumptions, may include environmental factors, such as the impact of the depletion and degradation of ecosystems and the depletion of water and finite natural resources on economic growth.'
16. These paragraphs rightly highlight that environmental factors could have a significant impact on many public sector entities, both in terms of the sustainability of their financial resources and their ability to deliver their service potential.
17. Consequently, we consider it restrictive to limit the potential amendments to RPG 1 in ED 83 to communicating the applicability of RPG 1 to reporting information on specific sustainability programmes, rather than providing additional guidance as to how environmental (and other sustainability issues more broadly) could impact on the entity's overall financial resources and ability to deliver its services.
18. RPG 1 paragraphs 4 and 50 could also be reinforced by changing the wording from 'should' or 'may', respectively, to 'shall'. This would emphasise the importance of considering environmental issues when assessing an entity's long-term financial sustainability.
19. Additionally, by concentrating on specific sustainability programmes in RPG 1, it could facilitate a form of greenwashing where the broader impacts of sustainability issues on the entity's financial resources are side-lined by emphasising the reporting of 'success stories', in respect of specific sustainability programmes.
20. For example, it could encourage governments to disclose policy successes in, say, promoting the generation and consumption of renewable energy, whilst failing to disclose the negative environmental impact of subsidies provided to power generation from fossil fuels.
21. If the intent of amending RPG 1 only in respect of sustainability programmes is maintained, a question arises as to whether ED 83 requires guidance to be added to help entities decide which sustainability programmes should be included. Guidance in paragraphs 10 to 13 (and particularly paragraph 13) of RPG 1 is useful but, since ED 83 is implementation guidance, it may be useful to provide specific additional guidance in ED 83 relating to sustainability programmes, particularly as this will be an unfamiliar topic for many preparers.
22. We would also refer to our comment in point 27 below in respect of defining 'sustainability programs'.
23. In respect of Principles and Methodologies, many of the principles in RPG 1 paragraphs 41-53 will be applicable to sustainability programmes and we believe that IG 3 in ED 83 should

specifically reference these paragraphs. While we note that sensitivity analysis is highlighted (probably due to increased uncertainty as the time horizon extends further) a key principle underlying the projection to assess the entity's long-term fiscal sustainability is the reasonableness of assumptions (paragraph 51).

Specific Matter for Comment 2—Chapter 1

Do you agree with the proposed additional implementation guidance and illustrative examples for RPG 3?

If not, what changes would you make?

24. We agree with the proposed additional implementation guidance and illustrative examples for RPG 3 *Reporting Service Performance Information*.
25. Furthermore, we believe that they provide useful information to stakeholders in respect of the effectiveness and efficiency of sustainability information. They also provide a useful framework for policymakers and preparers to establish the criteria for the effectiveness of their sustainability programmes.
26. We would, however, suggest expanding on the existing examples to include illustrations of performance reporting for whole of government sustainability policies and programmes – for example, those contributing towards Sustainable Development Goals and achieving Paris Agreement targets.
27. We are unable to find a definition in IPSASB literature of what constitutes a 'sustainability program'. It is important that the IPSASB define this term to reduce the risk that different entities will classify fundamentally the same types of programmes in different ways.
28. The IPSASB should also consider whether RPG 3 should require that the entity consider whether a programme has negative environmental impact and disclose this negative impact in order that stakeholders can assess the broader impacts of a programme.

Sincerely,



Olivier Boutellis-Taft
Chief Executive

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