# Comments on "International Public Sector Accounting Standards Board. (2010). *Conceptual Exposure Draft 1*"

This submission is in three sections. Each is on a separate topic and was compiled by a pair of participants from the Bachelor of Commerce (Honours) (Accounting and Information Systems) programme at the University of Canterbury (*Te Whare Wānanga o Waitahā*), Christchurch, New Zealand. The topics were chosen by the participants themselves. All six authors are young adults and although what they have to say may reflect some immaturity in knowledge and understanding of accounting, it also reflects what they see as significant long-term issues, ones that will still be with them when this writer and the members of the IPSASB have passed on. So, I hope that what they have to say is given due weight.

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# Cultural Differences: Islamic vs. Western Culture

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## Submission Argument

This submission responds to the call for comments from the International Public Sector Accounting Standards Board (IPSASB) on its recently released exposure draft containing a proposed conceptual framework for general purpose financial reporting by public sector entities. The submission is concerned with how appropriate the present proposed framework is to countries dominated by the Islamic religion because of the significantly different culture of these countries compared to Western countries. We note that there is a much wider range of religions and cultures around the world than the very basic distinction we have made between Western culture and Islamic culture. We have used the Western and Islamic cultural differences simply to illustrate our point that culture has an impact on both accounting and politics; and therefore, a ‘one-size-fits-all’ approach to a conceptual framework and future accounting standards is not the appropriate course of action.

## Background of Muslim Religion and Islamic Culture

The Muslim religion accounts for around a quarter of the world’s population. Being such a large proportion of the world, the way the Muslim culture impacts on accounting and the public sector needs to be taken into careful consideration. Muslims must accept all commandments, rules and values as they are Allah’s (God’s) rule. This means they often cannot agree with Western laws as they are not based on religion and therefore they may be in conflict with their beliefs

Islam can never be separated from social, political, or economic life, since religion provides moral guidance for every action that a person takes. Islamic accounting should regulate and establish a harmonious integration among the parties of these various diverse domains. In Islamic countries, God is acknowledged as the sole sovereign of human affairs, so there has never been a distinction between religious and state authority. The vision of an Islamic state and the purpose of its political authority are to implement the divine law. The function of the Islamic state is to provide security and order so that Muslims are able to carry out both their religious and worldly duties. Islamic law is possible under a monarchy or a democracy. However, it is a question over how Sharia (Islamic law) is interpreted as to whether it can be applied in a democracy. The form of state depends on the interpretation of Koran (sacred text of Islam) and Sharia. For example, in Iran the political leader insists on the interpretation that Sharia and democracy are often in conflict, just to assure his power.

There is a certain level of flexibility in regards to the system of governance and its establishment in Islam. However, religion must be implemented fully into state and society. The Muslim religion influences all aspects of life, as value judgment and rules of behaviour are seen as a divine instruction.

## Background of Western Culture

We understand that in Western countries, religion is considered to be more about beliefs than following rules, and no one religion drives law making. This is in contrast to the Islamic culture described above. The Western culture is also focused on individual welfare, emphasising the individual's needs rather than society as a whole. Religion is often only one aspect of life within Western countries, with many other aspects guiding the individuals.

**How the Differences in Culture Affect Accounting in General**

We believe that because Islamic and Western countries have such fundamentally different cultures they require their own accounting systems, including their own conceptual framework and accounting standards. Western accounting is based on modern commercial law. The focus is on what you can get away with legally, rather than what is ethical.

Western accounting only provides for limited disclosure. The provision of information is subject to public interest. It focuses on profit maximisation, and accountability is focused on the individuals who control the resources. Conversely, accounting in Islamic countries is based on ethical law, requires full disclosure (not only what is deemed to be of interest to the public), and the focus is on public accountability.

**Specific Issues with the Conceptual Framework**

The framework states that the board recognises the diversity of forms of government, social and cultural traditions, and service delivery mechanisms that exist in many jurisdictions that may adopt IPSA, and that the framework has attempted to respond to and embrace that diversity. However, we believe this diversity has not been sufficiently considered, and therefore we believe it is still a significant concern.

We believe the scope of the conceptual framework is too wide, in terms of the scope of the countries it will apply to. In particular, we believe it should not be intended for application in Islamic countries, and it is only appropriate for use in Western countries.

In particular we have identified two key concepts in the exposure draft that we consider being inappropriate to apply in the same manner to countries dominated by Islamic beliefs, as opposed to countries with a Western culture. These two concepts are information usefulness and information relevance. The relevance of information also influences the usefulness of the information.

Usefulness of information is one of the fundamental ideas driving the conceptual framework. Islamic culture believes in full disclosure to satisfy any reasonable demand for information in accordance with the Sharia. Therefore, the idea of "useful information" might be irrelevant in Islamic accounting. In Western cultures, the focus is only on providing useful information. Useful information is determined with reference to what the public is seen to be interested in. This raises concerns about what is considered to be useful information and who is responsible for determining this. We question whether the IPSASB, with its headquarters in a country with a Western culture, should be responsible for determining what is defined to be useful information to countries with Islamic cultures, because of the fundamental culture differences.

According to the framework, information is considered relevant if it has confirmatory value, predictive value, or both. Confirmatory value is when information confirms or changes past or present expectations. Predictive value is when information provides information about the future. In Islamic countries they are not focused on what information has confirmatory and predictive value. Relevant information is considered to be all information, in other words, full disclosure. This is partly because they believe every individuals information needs should be met, and for this to occur, full disclosure is necessary.

The framework talks about "discharging responsibilities". However, because in Islam the overall responsibility is to God, these reports are not sufficient to discharge this responsibility. This may suggest that to be of use to the public Islamic countries require their own framework that takes these additional responsibilities into consideration.

**Academic Research**

To back up our comments about the problems with having a single conceptual framework applying to two very different cultures, we have examined academic research on related topics.

One academic research paper describes different cultures between countries and its relation to the public sector (Brown & Humphreys, 1995). The authors suggest the models, theories, and frameworks developed to assist efficient and effective administration in one nation may not be directly applicable in another. We suggest that this means systems and ideas that have been developed in the Western world, may need to be modified and adapted in order to fit the cultural beliefs, values and expectations of Islamic nations.

Further research has shown that the Muslim countries do not have the same level of economic freedom as Western countries (Facchini, 2011). For example, this paper uses various indicators of economic freedom to demonstrate the measure of freedom in the Muslim world, which has a low average. These include business freedom, fiscal freedom, free trade and monetary freedom. One explanation for this is that Islamic law, as emphasised above, differs in many respects to the ideal of liberal order: in particular, it justifies an economic model of rent. This law restricts the freedom of ownership on moral principles and promotes the collective ownership of natural resources. Overall this paper highlights the fundamental differences between Western and Muslim countries.

Further academic research attempts to explain the inapplicability of internationally developed administration models to the developing world (Ohemeng, 2010). The authors state that a "one-size-fits-all" model is not appropriate internationally when it comes to the public sector. In particular, the authors consider the implementation of new public management across developing countries, leading to a "one-size-fits-all" method for reforms. The authors state that *"what may work in one country may not work in another because of different environmental constraints"* (Ohemeng, 2010, p.470). They also emphasise the importance of understanding the local environment and that the country's history, system of governance, and relationship with the outside world should all be considered in determining policies. We believe these factors should be considered in determining the contents of the conceptual framework for different countries.

Another paper looks at cultural differences in relation to accounting in general (Gray, 1988). The author provides a framework to assess the impact of culture on the form and functioning of accounting. The paper looks at four key dimensions relating to the differences in culture. One of these relates to the idea of individualism versus collectivism. Individualism is where individuals are supposed to take care of themselves and their immediate families only, which is characteristic of Western culture. Collectivism is where society is seen as being made up of individuals who are all inter-dependent on one another, and everyone takes care of each other. This is common in Muslim cultures. This paper highlights a fundamental culture difference which affects all aspects of life.

In summary, we believe that academic research has established the importance of recognising the differences in cultures and the need to fully consider these before attempting to implement international policies. This research supports our belief that the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities is not appropriate to be applied in the same form to countries dominated by the Islamic religion because of the significantly different culture of these countries compared to Western countries.

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# The use of financial and non-financial information in the IPSASB exposure draft

***By Hayden Shivas and Kurt Gurden***

This submission responds to the call for comments from the International Public Sector Accounting Standards Board (IPSASB) on its recently released exposure draft containing a proposed conceptual framework relating to how public sector entities report information to stakeholders. The submission is concerned with how the exposure draft refers to financial and non-financial information. Firstly, the primary users of public sector financial information are discussed, with the authors providing an alternative view of this issue. Secondly, the authors provide recommendations to improve financial disclosures with specific regard to the understandability of financial information, and the disclosure of human resource expenses. Finally, non-financial information is discussed, with particular regard to sustainability reporting and performance budgeting. The authors believe that these factors should be included in the final conceptual framework.

## Financial Information

### *Primary Users of Financial Information*

The IPSASB exposure draft makes reference to two primary users of financial information in public sector reports. This can be found in section BC2.4, which states “service recipients and their representatives and resource providers and their representatives” are considered to be primary users (IPSASB, 2010). However, the authors are of the belief that financial information should primarily be prepared for the government, specifically the executive branch and cabinet ministers, and resource providers.

It is agreed that resource providers should be classified as primary users of financial information in public sector reporting. This is because, as a main funding source of public sector entities, it is important that these entities are accountable to these users for the financial performance and efficient operation of a public sector entity. This assists resource providers in making informed decisions when supporting a political party at an election. Many academics including Wayne (2004), and Bolívar, Perez and Hernandez (2007) also support resource providers as primary users of financial information in public sector entities.

The authors believe that financial information in public sector reports should be prepared for the executive branch of government as a primary user. This branch is responsible for decisions with regards to the creation of policy within the public sector, the implementation of new objectives leading to potential outcomes, and is accountable to parliament and citizens. Therefore members of this branch require high quality financial information from public sector entities, such as those provided in budgets and financial statements, to ensure they discharge these responsibilities in a way that is efficient, viable and meets the needs of citizens. Financial information in public sector reporting should therefore be generated for the executive level of government as a primary user. This view is supported by Jubb and Kelso (1998) who highlights the importance of financial accountability in the upper level management of public sector entities.

Finally, the view that service recipients should be a primary user of financial information in public sector reporting is not supported by the authors. Service recipients experience the operations of a public sector entity first-hand and do not necessarily require public sector reports to understand the body's financial performance. For example, someone on a long hospital waiting list will already be aware of a lack of staff funding in the hospital's budget. It can be argued that financial reports may help service recipients understand the source of problems (such as the one described previously). However, the authors believe that service recipients will seek this information directly from the public-sector entity as opposed to using their reports. Therefore it is believed that service recipients should only be classified as users as opposed to primary users.

***Understandability of Financial Information***

Section 3.18 of the exposure draft states that users are assumed to have a reasonable knowledge of a public entity, and have the ability to understand information in reports with reasonable diligence. This assumption appears to be drawn from private sector reporting principles where it is fair to assume that investors are financially literate. However, public sector users may not necessarily have "reasonable knowledge" and an understanding of financial information, such as accounting assumptions or different types of assets and liabilities. Therefore the authors believes that, even though some accounting concepts can be complex, information should be prepared for citizens who may not have reasonable financial literacy, especially since citizens are a primary user of this information. Therefore the exposure draft should include recommendations for public sector entities to disclose a sufficient amount of explanatory, qualitative information to assist users who do not possess "reasonable knowledge" to improve their understandability of public sector reports. Other methods could also be recommended such as the setup of a hotline or a website. This may reduce a user's dependence on an external advisor (currently recommended in section 3.18). This view is supported by Barton (2005) who states that understandability is when users' can comprehend what information means. Holzer and Yang (2004) also recognise that understandability is important in assisting the public in understanding performance measurement in public sector reporting.

***Disclosure of Human Resource Expenses***

Finally on the subject of financial information, the authors believe that a recommendation for the breakdown and disclosure of funding allocated to human resources in public sector entities should be included in this exposure draft. Human resources are usually the largest expense item in these entities with obvious examples being education and public health systems. Jurkiewicz, Massey and Brown (1998) state that employee compensation is the largest budget item in the public sector; while Edwards (2010) notes that half of all public spending in the United States is attributable to employee benefits. In New Zealand, a lack of investment in human resources in some public sector entities has resulted in a lack of quality and sufficient number of staff, such as a lack of doctors or school teachers in some areas. Therefore, a complete breakdown of human resource expenses in public sector reporting may be considered an important form of accountability to citizens. Public sector employees play an important role in determining the level of satisfaction provided by a public sector entity.

Therefore citizens who experience low satisfaction due to a lack of funding in human resources may view this financial information as an important form of accountability, and may base their voting decisions on supporting a larger investment in human resources. This recommendation should be considered in section two of the exposure draft under the heading "Information Needs of Service Recipients and Resource Providers".

**Non-financial Information**

***Sustainability Reporting***

The authors believe that the exposure draft should contain more non-financial information within it. Throughout this report there are no paragraphs solely dedicated to non-financial information, as this is grouped with financial information in all paragraphs that refer to it. The report mentions nothing about sustainability reporting which is a type of non-financial information that should be recommended in this report, as its use has increased over the last 20 years. Ernst and Young (2009) describe sustainability reporting as the "Practice of measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goals of sustainable development." Sustainability reporting is important because it bears on the ability of organisations to continue into the future, and many are becoming more conscious of the environment because of political, economic and environmental movements pushing for a greener Earth. The Australian Government recently moved towards sustainability reporting as a result of demand from stakeholders, including investors, regulators and customers, who wanted great transparency from corporations (Ernst & Young, 2009).

Ernst and Young (2009) discuss the principles that make up sustainability reporting. We believe that these should be included in the exposure draft under a separate non-financial information section, as follows:

- Inclusivity: the commitment to be accountable to the stakeholders.
- Materiality: the analysis on information that takes into consideration sustainability drivers, and accounts for needs, concerns and expectations of the organisation and stakeholders.
- Responsiveness: relates to how an organisation demonstrates its response and accountability to stakeholders.
- Stakeholder inclusiveness: when reporting should identify its stakeholders and explain how they responded to their expectations.
- Completeness: includes "coverage of the material topics" and the "definition of report boundary that significantly reflects economic, environmental and social impacts".
- Sustainability context: presents the organisation's wider context of sustainability.

***Performance Budgeting***

The exposure draft does not make any recommendations with regards to performance budgeting. This is a practice that is growing in many countries, including New Zealand. It is based on linking policy, services, resources and finance, indicated by Shah and Shen (2007):

> A system of budgeting that presents the purposes and objectives for which funds are required, costs of programs and associated activities proposed for achieving those objectives and outputs to be produced or services to be rendered under each program(me).

The components of performance budgeting as:

- Inputs: resources to produce outputs
- Outputs: quantity and quality of goods and services produced
- Outcomes: progress in achieving program objectives
- Impact: which consists of the goals
- Reach: the people that benefit or are hurt by the programme (Shah & Shen, 2007).

New Zealand's movement towards accounting for outputs and outcomes started in the late 1980s with the introduction of the Public Finance Act 1989 which shifted the budget emphasis from inputs to outputs. This was followed by the Fiscal Responsibility Act 1994 which positioned New Zealand as a pioneer of performance oriented budgeting. This was aimed at improving budget transparency through the requirement of outlining the fiscal objectives and the reporting process to achieve them (Webber, 2004). The New Zealand Government argued that outcomes should be the primary focus of non-financial information; therefore a shift from an outputs to an outcomes focus in public expenditure management has occurred consistently since 1999, when the Labour-led Coalition Government was determined to remove some policy reforms from the previous years of National-led Coalition Government. This was undertaken to implement more effective approaches to public sector management. As a result of these movements towards outputs and outcomes, performance budgeting began to flourish.

There are several additional reasons given by Shah and Shen (2007) as to why performance budgeting should be included in the exposure draft. Firstly, it results in enhanced communication between budget actors and citizens, which assists public managers in communicating more effectively about their activities to members of executives and legislatures, and the public. Performance budgeting also improves management in government agencies, as it helps programme managers specify organisational goals and achievements, and it provides a better knowledge of problems with program structure and operation. It also assists in making better informed budgetary decisions because politicians are able to exert pressure for improvements and can better understand the issues involved. Performance budgeting also provides higher transparency and accountability by making it easier for the public to obtain a better sense of major government activities and achievements.

## Conclusion

The IPSASB conceptual framework has included many sensible recommendations for the disclosure of information in public sector reporting. However some financial disclosures are in need of improvement. The authors believe that the exposure draft should make an increased distinction between the users of financial information in public sectors and private sectors. Specifically increased disclosures are required to assist users in understanding public sector financial information, which will assist them in making more informed voting decisions. With regard to non-financial information, the report appears to have a lack of separation between financial and non-financial information. The report should also recommend the disclosure of practices such as sustainability reporting and performance budgeting to meet the demand of current and future stakeholders. We hope these views on the disclosure of financial and non-financial information are thoroughly considered by the IPSASB.

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# Public Sector Sustainability Reporting

***By Kirti Patel and Siew Ping Wong***

This submission responds to the call for comments from the International Public Sector Accounting Standards Board (IPSASB) on its recently released exposure draft containing a proposed conceptual framework relating to how public sector entities report. It argues that the IPSASB Exposure draft should incorporate sustainability reporting as essential because there are increasing public expectations and concerns about sustainability. Sustainable development has become increasingly important in public sectors as, internationally, these sectors represent approximately 40% of all economic activity (Ball and Grubnic, 2007, p. 243). We subscribe to the view that the issue of whether public sectors should contemplate their social responsibility or the impacts of their actions on the stakeholders should no longer be debated (Farneti and Guthrie, 2008). As Epstein (2008) argues, we should no longer focus on "why" sustainability reports should be produced, but on "how" we should construct them.

## Definition of Sustainability Reporting

Sustainability reporting (SR) is described as "the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance" (Global Reporting Initiative (GRI), 2011, p.3). By referring to the New Zealand Business Council for Sustainable Development (NZBCSD), Milne *et al.* (2009) depicted that SR comprised stating economic, environmental, and social impacts. The economic component of this definition demonstrates how an organisation performs financially and is usually presented in the financial report. The economic factor in the context of SR differs from the financial reporting as it refers to the organisation's contribution towards the sustainability of the larger economy (GRI). The environmental element of sustainability deals with how the organisation affects "the living and non-living natural systems including land, air and water" (p. 29). The final aspect of sustainability is social. The social dimension portrays the interaction with the community and how any risk associated with the interaction is managed (GRI). The proposed collaboration of the three components can be portrayed in Figure 1.

Sustainability reports are quite similar to Statements of Service Performance (SSP), which are the form of performance reports used across public sector entities in New Zealand. However, there are two key factors that distinguish SSP from sustainability reports. Firstly, a SSP largely consists of non-financial information whereas a sustainability report encompasses both financial and non-financial information (Thomson, 1995). A SSP also is produced on the basis that it will reveal how efficient the public sector is in providing the services to the community. A sustainability report, on the other hand, is more concerned about the general accountability and transparency of the public sector and its effect on the social, environment and economic aspects of the community in general; rather than how efficiently the public sector's services are being delivered.

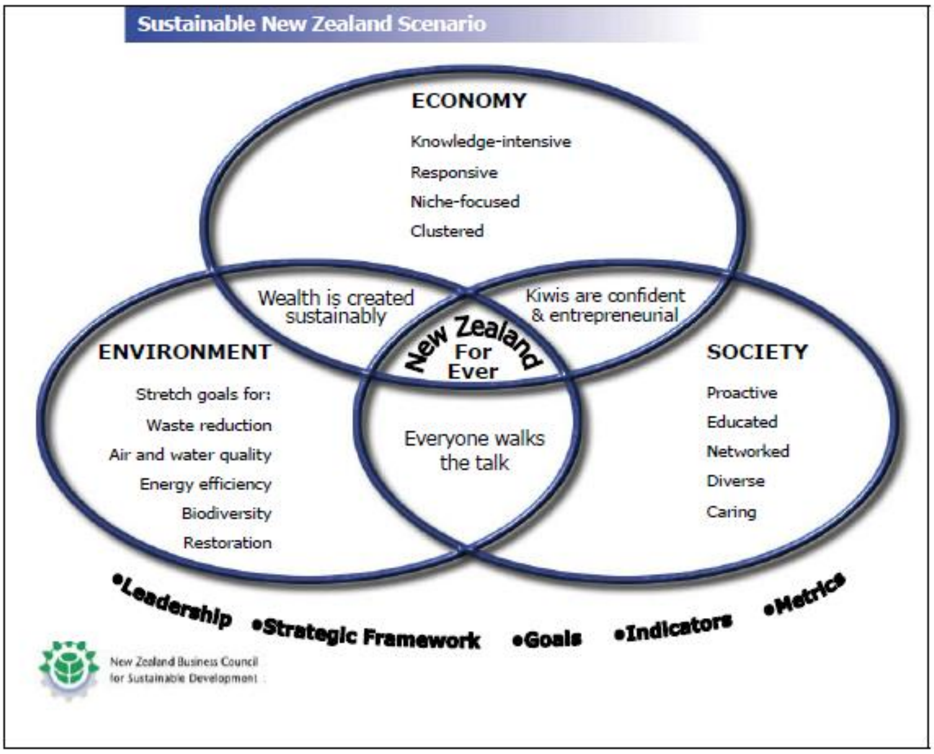


*Figure 1: Sustainable NZ scenario with economy, environment and society dimensions.*

**Why the IPSASB should incorporate Sustainability Reporting**

The IPSASB Exposure draft currently does not include guidelines on SR for public sectors. The exposure draft states that the "IPSASB recognizes the diversity of forms of… *social traditions*, and in developing this Conceptual Framework, the IPSASB has attempted to respond to and embrace that diversity" (2010, p. 3). From this quote, it signifies that the IPSASB intends to acknowledge and include "social traditions" in the annual reports. It can be argued that sustainability reporting could be a form of an upcoming social norm; therefore it should be recognised in the IPSASB. By referring to Gray *et al.* (1995) and Owen (2008), Bellringer *et al.* (2009) suggest that legitimacy is one of the persuasive incentives for sustainability reporting. Legitimacy theory relates to the generalisation that certain activity or concept is in the 'norms' or 'standards' "within some socially constructed system" (Suchman, 1995, p.574). This is particularly true as public sustainability reporting has become more evident in some jurisdictions, including France and New South Wales, Australia (Kolk, 2005; Frost and Seamer, 2002). Hence, it seems to be only a matter of time before public sectors in others begin to produce such statements. Furthermore, a sustainability report endorsed by the IPSASB will have the advantage of containing information which is comparable with all jurisdictions that adopt the IPSASB's guidelines for SR. Countries will be able to evaluate the outcomes and possibly generate new ideas for achieving sustainability objectives, as well as identifying appropriate benchmarks to ensure that they are in-line with other countries in terms of results (Leeson *et al.*, 2006). Apart from that, public sectors ought to raise SR amongst private sectors by taking the lead as SR is still in its infancy (Farneti and Guthrie, 2009). In short, public sectors play vital roles in promoting national and worldwide progress towards SR.

Another emphasis of the need for sustainability reporting guidelines relates to one of the main objectives of most public sectors: ‘accountability’ and ‘transparency’ to the public (Coy et al., 2001). The IPSASB’s (2010, p.3) purpose is interpreted as: “develop[ing], concepts, definitions and principles that respond to the objectives, environment and circumstances of governments and other public sector entities.”

To respond to expectations of public sectors being accountable for the resources they used and how they use them, the IPSASB should provide guidelines on sustainability reporting. Production of a sustainability report will enable more transparency in the public sector’s transactions and will therefore provide useful information to decision makers, which is one of the primary objectives of the ISASB’s Conceptual Framework project. Moreover, as public sectors begin to report on sustainability development of their countries, this will increase the community’s concern and awareness about diverse sustainability issues arising nowadays (Bellringer *et al.*, 2009). It is important that the information about sustainability is understandable and accessible by the public since public sectors are responsible for the effects of their actions on society and environment.

By referring to Gray *et al.* (1995) and Owen (2008), Bellringer *et al*. (2009) contended that stakeholder theory is another persuasive motive for SR. In the context of public sectors, stakeholder theory depicts those with a ‘stake’ as interested parties such as managers, taxpayers, beneficiaries of public services, businesses, and other government departments or ministries. The majority of these stakeholders would be interested in the sustainability aspects of public sectors (Argandoña, 1998); including economic, social and environmental factors like local air and water pollution, global climate change, political upheaval in human rights and the economic impacts of the public sector through society (Epstein, 2008). Nevertheless, it is doubtful that these stakeholders will read the sustainability reports thoroughly. Consequently, Bellringer *et al.* (2009) identifies employees and taxpayers as the groups that are most likely to be concerned about public sectors’ sustainable development. As public sectors require their employees to act in a sustainable manner, they will need to serve as the role model. Hence, sustainability reports can demonstrate to employees the way that they can behave sustainably. On the other hand, sustainability reports provide relevant information to taxpayers on how their resources are being consumed to promote sustainability development within public sectors. Sustainability reports are essential mediums to inform the stakeholders about public sector’ roles as an employer and consumer; therefore IPSASB should incorporate SR into annual reports.

Last but not least, the IPSASB should recommend SR for public sectors so as to make more non-financial information available. Sustainability reports encourage both financial and non-financial information to be disclosed. This aligns with the IPSASB Exposure Draft, which also encourages the disclosure of non-financial information (Farneti and Guthrie, 2008). According to Bellringer *et al.* (2009), SR is also driven by financial motives in terms of saving money and enhancing investments prospects as well as concern on environmental impacts. Therefore, as more non-financial information can be obtained, it is easier to measure the effects of public sectors' actions on the environment. This relieves the burden to produce sustainability reports compared to previous periods.

**Steps in Developing a Public Sustainability Report**

Maclaren (1996) employed the plan-formulation process as a model to build a nine-step sustainability reporting process. As shown in Figure 2, this is a circular process and contains several feedback loops. This allows for frequent revision of the indicators that play vital roles in measuring the reliability and accountability of public sustainability reports. The steps involve the following.

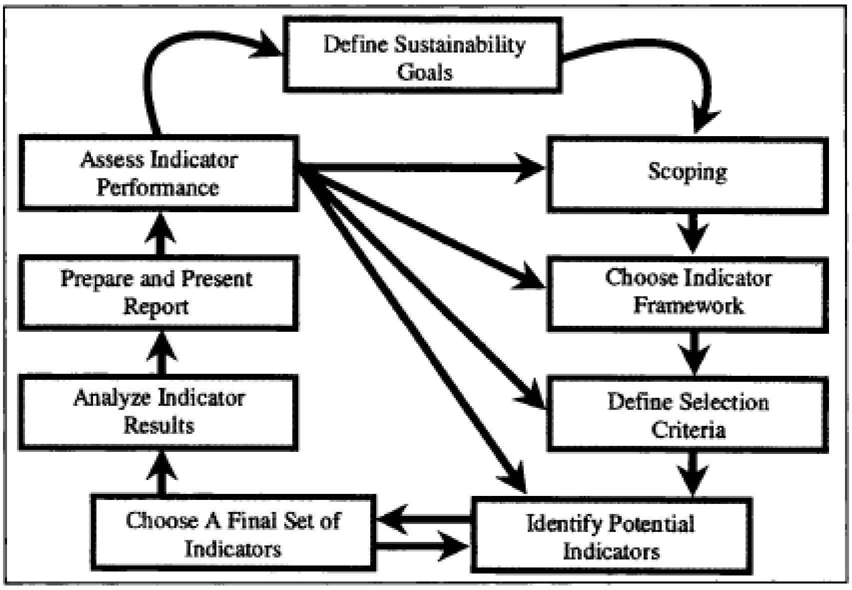


*Figure 2: Steps in sustainability reporting progress*

Firstly, public sustainability targets should be identified for which indicators are needed. Goals should be developed specifically for sustainability reporting if they are not included in other strategy formulation proposals. The second step is the scoping stage. This stage will classify the users of public sustainability reports and then determine the format to display indicators according to the needs of users. For instance, the media and the community may prefer a simple set of indicators that are easily understandable and have direct link to their interests.

Thirdly, a conceptual framework should be selected properly to develop sustainability indicators. Public sectors are highly recommended to apply the GRI framework in generating their sustainability report as it is recognized world widely, thereby allowing comparison between reports to be done easily. The fourth step is to identify the general criterion to choose indicators. Characteristics of good sustainability indicators embed "scientifically valid, representative of a board range of conditions, responsive to change…unambiguous" (Maclaren, 1996, p.196). The fifth step is to determine a set of potential indicators. Hence, both experts and non- expert (members of the public) stakeholders should participate jointly in the process as experts can contribute their professional suggestions whereas the non-experts provide guidance to the experts in classifying indicators that are relevant to users.

In the sixth step, the indicators are examined and chosen in order to comply with the requirement of the conceptual framework selected in step 3 and satisfy the criteria of good sustainability indicators as illustrated in step 4. The seventh step involves data collection and interpreting results they indicate. This is recognized as the hardest stage as people will have diverse opinions and principles in evaluating indicators. Therefore, the sustainability report should clarify the rationales underlying the interpretations of indicator results. After that, the format of the sustainability report is prepared according to the target audience. It should at least include the illustration, importance and assessment of each indicator. Lastly, performance indicators should be evaluated periodically to ensure that they are functioning satisfactorily to measure what they were supposed to measure. Performance indicators may not be assessed simultaneously due to the availability of data.

Although the steps recommended by Maclaren (1996) are meant for a standalone sustainability report, they can be adapted so as to be applicable and compatible for incorporating a sustainability development section in public sector entity annual reports, as will be produced according to the IPSASB conceptual framework.

**Potential Contents for a Public Sector Sustainability Report**

Public sectors are encouraged to employ "comply or explain" approach when producing sustainability report. This indicates that they are required to adhere to provision or provide explanation on why they have not done so. Apart from that, comments about the impacts from implementing sustainability development should also be included in the report. Both positive and negative results should be reported fairly in order to assess the strategy effectiveness and improve the sectors' performance.

Moreover, the report should comprise comprehensive environmental, economic and social aspects. These could include greenhouse gas emissions; consumption of energy, including use of gas and water; health and safety measures; development and impact of infrastructure investments; and other important areas like business travel, waste and recycling. Appendix 1 shows a feasible template for a sustainability report produced by the UK Treasury. Although this template only contains environmental aspects, further economic and social criteria for adoption by IPSASB and public sectors can be found in the GRI guidelines.

Sustainability supply chains are another key aspect that should be reported. A supply chain relationship in the public sector could comprise of contractors and suppliers. The relationship should be evaluated on its social, environmental and economic factors. A good relationship with supply chain partners can "enable…lower transaction costs, react more quickly to changes in the market, and respond more promptly to requests" (Markley and Davis, 2007, p.766). Similarly, by focusing on supply chain sustainability and emphasizing supplier codes of conducts, public sector can reduce risk and avoid negative consequences. This is to ensure that society well-being is being looked after from the beginning of the process.

Furthermore, sustainability report which comprises the incorporation of public sectors with well-known environmental groups would enhance the accountability and reliability of the report to its users. Each key product or line of service that implants sustainability principles should also be included in the report.

**Global Reporting Initiative**

After specification of what aspects can be potentially included in sustainability reports, one of the obstacles is to measure the public sector's performance against its initial targets. The GRI framework has potential for adoption by IPSASB, modifying it to suit public sector sustainability reporting. It is currently the most extensively used sustainability reporting framework. It is evident that the GRI guidelines are influential in private companies, especially in their benchmarking practices (Veleve *et al.*, 2003). Presently, a public sector and not-for-profit framework is being piloted by the sustainability committees. In the near future, this is likely to be appropriate for IPSASB to commend as a guideline for sustainability reporting.

Furthermore, GRI is also supported by most of the public sector sustainability report advocates such as Guthrie and Farneti (2008), Lesson *et al.* (2006) and Epstein (2008). In particular, Guthrie and Farneti analysed how GRI measurement and performance indicators had been used by some states in Australia for sustainability reporting in their public sectors. They discovered that GRI indicators on the whole could be used for sustainability reporting provided that the indicators were modified specifically for public sectors. Appendix 2 portrays some of the aspects measured by the seven Australian states using GRI reporting indexes. This can provide the IPSASB with some ideas on what to incorporate for public sector sustainability reporting. Examples of environmental indicators from GRI are provided in Appendix 3. In addition, the GRI reporting guide identifies several other economic and social indicators and guidelines on how to measure specific economic, social and environmental criteria.

**Discussion and Conclusion**

We contend that IPSASB should incorporate sustainability reporting in the conceptual framework for general purpose financial reporting by public sector entities. This would enhance the transparency and accountability of public sectors as viewed by the public. The significance of SR is increasing gradually and globally. Milne *et al*. used the 'journey' metaphor to "encourage participation in worthy endeavours…to signal worthy participants" (2005, p.15). It is a long term commitment to sustainable development that should underlie an organization's impacts on society, the economy and the environment. Although there may be hardships and challenges in the journey of SR, GRI serves as a comprehensive framework and public sectors can refer to it as a useful guideline to produce sustainability reports. The outcomes for SR by public sectors can only be reaped in the long run but are beneficial to the overall community.

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# Appendix 1

HM TREASURY

HMT Guidance
Sustainability Reporting in the Public Sector

**EXAMPLE: Public Sector Carbon Account Format**

| Department/Agency Yellow Carbon Account For the Year ended 31 March 20XX | 20XX-XX Tonnes $CO_2e$ | | 20XX-XX (Prior Year) Tonnes $CO_2e$ | |
|---|---|---|---|---|
| ADMINISTRATIVE EMISSIONS (Related to Admin Expenditure Activity – See Note 1 below) | | | | |
| SCOPE 1 EMISSIONS | | | | |
| Fuels combustion (e.g. boilers, furnaces or turbines) | XX | | XX | |
| Owned Transport | | | | |
| Admin vehicles | XX | | XX | |
| Process Emissions (e.g. waste processing) | XX | | XX | |
| Fugitive Emissions | | | | |
| Air conditioning | XX | | XX | |
| Refrigeration | XX | | XX | |
| TOTAL SCOPE 1 GROSS ADMINISTRATIVE EMISSIONS | | XXX | | XXX |
| SCOPE 2 EMISSIONS | | | | |
| Purchased Energy Consumption | | | | |
| Office Electricity Consumption | XX | | XX | |
| Office Gas Consumption | XX | | XX | |
| TOTAL SCOPE 2 GROSS ADMINISTRATIVE EMISSIONS | | XXX | | XXX |
| SCOPE 3 EMISSIONS ACCOUNTED FOR | | | | |
| Administrative Travel | | | | |
| Private Vehicles use for Duty purposes. | XX | | XX | |
| Hire Vehicles | XX | | XX | |
| Taxis | XX | | XX | |
| Bus/Coach | XX | | XX | |
| Rail/Underground | XX | | XX | |
| Air | XX | | XX | |
| Embodied Carbon in Resources Consumed | | | | |
| Office Water Usage | XX | | XX | |
| Non Recycled Waste | XX | | XX | |
| Recycled Waste | XX | | XX | |
| Aggregates | XX | | XX | |
| Cement | XX | | XX | |
| Other Administrative Emissions | XX | | XX | |
| TOTAL SCOPE 3 GROSS ADMINISTRATIVE EMISSIONS | | XXX | | XXX |
| TOTAL GROSS ADMINSTRATIVE EMISSIONS | | XXX | | XXX |
| Reducing Factors | | | | |
| Permitted reduction from purchase of Renewable Energy | (XX) | | (XX) | |
| Purchased Offsets for Administrative Air Travel through the GCOF | (XX) | | (XX) | |
| | | (XX) | | (XX) |
| NET ADMINISTRATIVE EMISSIONS | | XXX | | XXX |
| OPERATIONAL EMISSIONS (Related to Programme Expenditure Activity) | | | | |
| SCOPE 1 EMISSIONS | | | | |
| Operating a Service | | | | |
| Fuel Consumption by owned operational vehicles | XX | | XX | |
| Process Emissions (e.g. operational waste processing) | XX | | XX | |
| TOTAL SCOPE 1 GROSS OPERATIONAL EMISSIONS | | XXX | | XXX |
| SCOPE 2 EMISIIONS | | | | |
| Operational buildings, including outbuildings and compounds. | | | | |
| Electricity Consumption | XX | | XX | |
| Gas Consumption | XX | | XX | |
| Op Technology Electricity Consumption (Lighting, CCTVs, etc) | XX | | XX | |
| TOTAL SCOPE 2 GROSS OPERATIONAL EMISSIONS | | XXX | | XXX |

HM TREASURY

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Sustainability Reporting in the Public Sector

| | | | | |
|---|---|---|---|---|
| SCOPE 3 EMISSIONS | | | | |
| Embodied Carbon in Uniformed Service Activities | | | | |
| Vehicles & equipment – embodied carbon | XX | | XX | |
| Maintenance Activities through contractors | | XXX | | XXX |
| Embodied carbon in assets consumed | XX | | XX | |
| Fuel Consumption in maintenance activities | XX | | XX | |
| Maintenance Vehicles & equipment – embodied carbon | XX | | XX | |
| Improving the Managed Assets through contractors | | | | |
| Resource Consumption | | | | |
| Electricity Consumption in construction | XX | | XX | |
| Gas Consumption in construction | XX | | XX | |
| Water Usage in construction | XX | | XX | |
| Non Recycled Waste in construction | XX | | XX | |
| Other | (XX) | XXX | (XX) | XXX |
| Embodied Carbon in Construction Materials used | | | | |
| Aggregates | XX | | XX | |
| Cements | XX | | XX | |
| Metals | XX | | XX | |
| Plastics | XX | | XX | |
| Timber | (XX) | XXX | (XX) | XXX |
| Construction-related travel | | | | |
| Private Vehicles use for Duty purposes. | XX | | XX | |
| Hire Vehicles | XX | | XX | |
| Taxis | XX | | XX | |
| Bus/Coach | XX | | XX | |
| Rail/Underground | (XX) | XXX | (XX) | XXX |
| Other Operational Emissions | | XX | | XX |
| TOTAL SCOPE 3 OPERATIONAL EMISSIONS | | XXX | | XXX |
| TOTAL GROSS OPERATIONAL EMISSIONS | | XXX | | XXX |
| Reducing Factors | | | | |
| Permitted reduction from purchase of Renewable Energy | (XX) | | (XX) | |
| Recycled Waste | (XX) | | (XX) | |
| | | (XX) | | (XX) |
| NET OPERATIONAL EMISSIONS | | XXX | | XXX |
| TOTAL GROSS EMISSIONS | XX | | XX | |
| TOTAL REDUCTIONS | XX | | XX | |
| TOTAL NET EMISSIONS | | XXX | | XXX |

**Notes**
**Classification of administrative and programme emissions to relate to the public expenditure classification (confirms to the HM Treasury definitions as laid down in 'Managing Publiic Money).**

*Source: HM Treasury (2010)*

## Appendix 2

**Table 1. The public sector sustainability reporting disclosure instrument.**

| *Categories* | *Aspects* | *Elements* |
|---|---|---|
| 1. Environmental (EN) | Materials | EN1 EN2 |
| | Energy | EN3 EN4 EN5 EN6 EN7 |
| | Water | EN8 EN9 EN10 |
| | Biodiversity | EN11 EN12 EN13 EN14 EN15 |
| | Emissions, effluents, and waste | EN16 EN17 EN18 EN19 EN20 EN21 EN22 EN23 EN24 EN25 |
| Products and services | | EN26 EN27 |
| Compliance | | EN28 |
| Transport | | EN29 |
| Overall | | EN30 |
| 2. Social—human rights (HR) (HR) | Investment and procurement practices | HR1 HR2 HR3 |
| | Aspect: non-discrimination | HR4 |
| | Freedom of association and collective bargaining | HR5 |
| | Child labour | HR6 |
| | Forced and compulsory labour | HR7 |
| | Security practices | HR8 |
| | Indigenous rights | HR9 |
| 3. Social—labour practices and decent work social performance: labour practices and decent work (LP) | Employment | LA1 LA2 LA3 |
| | Labour/management relations | LA4 LA5 |
| | Occupational health and safety | LA6 LA7 LA8 LA9 |
| | Training and education | LA10 LA11 LA12 |
| | Diversity and equal opportunity | LA13 LA14 |
| 4. Social—product responsibility (PR) | Customer health and safety | PR1 PR2 |
| | Product and service labelling | PR3 PR4 PR5 |
| | Marketing communications | PR6 PR7 |
| | Customer privacy | PR8 |
| | Compliance | PR9 |
| 5. Social—society (SO) | Community | SO1 |
| Corruption | | SO2 SO3 SO4 |
| Public policy | | SO5 SO6 |
| Anti-competitive behavior | | SO7 |
| Compliance | | SO8 |
| 6. Public agencies—specific (PA) | New disclosure elements for public agencies and new social indicators for public agencies | PA2 PA3 PA4 PA5 PA6 PA7 PA11 PA12 PA13 PA14 |
| | Administrative efficiency | PA15 |

*Source: Guthrie and Farneti (2008)*

# Appendix 3

Sustainability Reporting Guidelines

## Environmental Performance Indicators

**ASPECT: MATERIALS**

- CORE **EN1** Materials used by weight or volume.
- CORE **EN2** Percentage of materials used that are recycled input materials.

**ASPECT: ENERGY**

- CORE **EN3** Direct energy consumption by primary energy source.
- CORE **EN4** Indirect energy consumption by primary source.
- ADD **EN5** Energy saved due to conservation and efficiency improvements.
- ADD **EN6** Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.
- ADD **EN7** Initiatives to reduce indirect energy consumption and reductions achieved.

**ASPECT: WATER**

- CORE **EN8** Total water withdrawal by source.
- ADD **EN9** Water sources significantly affected by withdrawal of water.
- ADD **EN10** Percentage and total volume of water recycled and reused.

**ASPECT: BIODIVERSITY**

- CORE **EN11** Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.
- CORE **EN12** Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.
- ADD **EN13** Habitats protected or restored.
- ADD **EN14** Strategies, current actions, and future plans for managing impacts on biodiversity.
- ADD **EN15** Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.

**ASPECT: EMISSIONS, EFFLUENTS, AND WASTE**

- CORE **EN16** Total direct and indirect greenhouse gas emissions by weight.
- CORE **EN17** Other relevant indirect greenhouse gas emissions by weight.
- ADD **EN18** Initiatives to reduce greenhouse gas emissions and reductions achieved.
- CORE **EN19** Emissions of ozone-depleting substances by weight.
- CORE **EN20** NO, SO, and other significant air emissions by type and weight.
- CORE **EN21** Total water discharge by quality and destination.
- CORE **EN22** Total weight of waste by type and disposal method.
- CORE **EN23** Total number and volume of significant spills.
- ADD **EN24** Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.
- ADD **EN25** Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.

*Potential performance indicators on how to measure certain aspects of sustainability report*

*Source: GRI Report (2011)*