



Why the public sector must take the lead in sustainability reporting

KPMG International

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The case for vigorously pursuing the development and adoption of sustainability reporting standards for the public sector has never been stronger. NASA's Goddard Institute of Space Studies revealed that the summer of 2023 marked the Earth's highest temperatures since global records were initiated in 1880.¹ In fact, 2023 was the warmest year ever recorded in history, according to scientists from the National Oceanic and Atmospheric Administration's National Centers for Environmental Information.² The United Nations report, The Global Climate 2011-2020 observed that every successive decade since the 1990's has been warmer than all previous decades. Extreme weather events have had devastating impacts around the world, hindering efforts towards the United Nations Sustainable Development Goals.³ A United Nations Intergovernmental Panel on Climate Change report recently emphasized both near term risks of global warming through 2040, as well as longer term risks to 2100, including biodiversity loss, elevated extinction risks, diminished water availability, and increased exposure to, and frequency of extreme weather events.⁴

As the world prepares for the implementation of sustainability reporting standards from the International Sustainability Standards Board (ISSB), the need for public sector leadership is pronounced. While governments around the world have collaborated on vital policy and regulatory solutions, they have yet to provide sustainability reporting for their own government reporting entities. This presents a major obstacle to global sustainability ambitions, particularly considering the vast physical infrastructure, non-renewable resources, rare earth elements, water and natural assets controlled by governments

around the world. Olivier Boutellis-Taft, CEO of Accountancy Europe expressed this urgency succinctly, in noting that "There will be no sustainability transition without the public sector taking the lead."⁵ Simply put, the public sector needs to be out in front in the journey towards sustainability reporting.⁶

Two landmark events in the United Arab Emirates at the end of 2023 highlighted this theme. The United Nations Conference on Trade and Development's World Investment Forum emphasized "Investing in Sustainable Development," and featured several panels dedicated to sustainability reporting. COP28, the 28th session of the Conference of the Parties to the UN Framework Convention on Climate Change, aimed to assess the progress made by countries on the implementation of the Paris Agreement, and to chart a course of action to dramatically reduce greenhouse gas emissions. These forums highlighted a strong commitment to the adoption of ISSB standards globally, as well as the recognition that the public sector must be at the forefront of standards adoption. COP28 featured the launch of a number of initiatives designed to facilitate standards adoption around the world, such as the IFRS Foundation's launch of the Sustainability knowledge hub. COP28 also included the announcement that the work of the Taskforce on Climate Related Financial Disclosures (TCFD) will be officially transferred to the ISSB.

Building upon the initiatives of the ISSB, the International Public Sector Accounting Standards Board (IPSASB) continues to work on sustainability reporting standards tailored to the public sector, with the first standard on climate disclosures expected mid-2024.⁷

¹ <https://climate.nasa.gov/news/3282/nasa-announces-summer-2023-hottest-on-record/>

² 2023 was the world's warmest year on record, by far | National Oceanic and Atmospheric Administration (noaa.gov)

³ <https://library.wmo.int/viewer/68585/?offset=#page=4&viewer=picture&o=bookmarks&n=0&q=>

⁴ IPCC, 2022: Summary for Policymakers [H.-O. Pörtner, D.C. Roberts, E.S. Poloczanska, K. Mintenbeck, M. Tignor, A. Alegría, M. Craig, S. Langsdorf, S. Lössche, V. Möller, A. Okem (eds.)]. In: Climate Change 2022: Impacts, Adaptation, and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [H.-O. Pörtner, D.C. Roberts, M. Tignor, E.S. Poloczanska, K. Mintenbeck, A. Alegría, M. Craig, S. Langsdorf, S. Lössche, V. Möller, A. Okem, B. Rama (eds.)]. Cambridge University Press, Cambridge, UK and New York, NY, USA, pp. 3-33, doi:10.1017/9781009325844.001.

⁵ <https://www.ifac.org/knowledge-gateway/supporting-international-standards/discussion/public-sector-needs-holistic-approach-sustainability>

⁶ <https://camd.org.au/holistic-sustainability-in-public-sector/>

⁷ <https://www.ipsasb.org/consultation-projects/sustainability-climate-related-disclosures>

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Governments have shown a tempered approach towards their own sustainability reporting thus far, with many governments waiting for the release of public sector sustainability reporting standards, and an announcement of an official implementation date. While no senior governments have yet issued sustainability reporting in accordance with the ISSB or TCFD frameworks at the government-wide level, several initiatives are under way to advance reporting. Examples of these initiatives include:

New Zealand

In December 2020, the Government of New Zealand introduced the Carbon Neutral Government Program. A key requirement of this Program is that central government agencies, departments and tertiary institutions disclose specific metrics pertaining to their Greenhouse Gas emissions in their annual reports, including future emissions reduction targets. Entities are also required to submit reasonable or limited assurance statements or verified disclosure statements to the Ministry for the Environment annually. New Zealand's External Reporting Board (which develops and executes the financial reporting strategy for the country) has yet to adopt a mandate to issue sustainability reporting standards for the public sector.¹

Canada

The Government of Canada's 2021 budget introduced a requirement for all federal Crown corporations to adopt TCFD requirements and standards as part of their corporate reporting by 2024. The government also committed to working collaboratively with Canada's provinces and territories to move toward mandatory climate-related financial disclosures. In the 2022 budget, the government extended these reporting obligations to federally regulated entities, including financial institutions and air transportation. However, formal assurance on this reporting is not yet mandated. Several provincial Crown corporations have also launched initiatives to adopt the TCFD requirements. In addition, numerous municipalities and local governments have already issued reporting based on TCFD, and in reference to the UN Sustainable Development Goals and the Global Reporting Initiative. Several municipalities are working to be amongst the early adopters of the Taskforce on Nature Related Financial Disclosures (TNFD).³

Germany

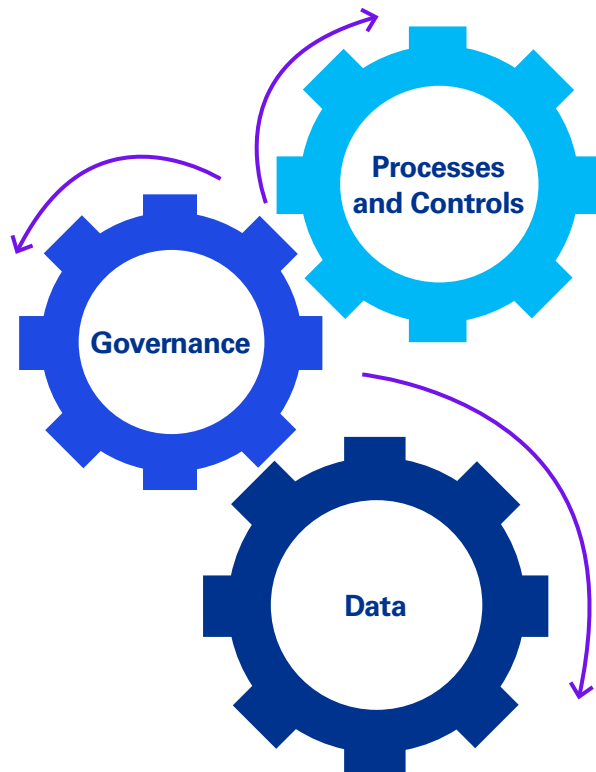
The Federal State of Hessen has launched a sustainability reporting initiative which is currently in the definition stage. The reporting requirements have not yet been formalized. The Federal State is planning to base the reporting on the European Sustainability Reporting Standards.²

United Arab Emirates

Currently, all joint stock entities listed in Dubai and Abu Dhabi are required to publish annual sustainability reports. From the perspective of governments and government entities, sustainability reporting remains voluntary. It is anticipated that governments and government entities will follow the sustainability standards to be issued by IPSASB, though a formal intent to adopt has not yet been communicated.⁴

^{1,2,3,4} KPMG firm partners' insights 2023

The experience of the public sector to date has highlighted some critical success factors for the move to sustainability reporting:



Data remains the single biggest challenge to sustainability reporting

The reliability and availability of comprehensive data is an essential foundation for any reporting initiative. Governments need to consider how this data falls under existing data governance models. Data sources must be identified to inform the oversight of climate-related risks, the measurement of financial impacts of severe weather events, as well as Scope 1, Scope 2, and Scope 3 Greenhouse Gas (GHG) emissions. With standards in development on biodiversity, ecosystems and ecosystem services, governments will also need to build inventories of natural assets and measure natural asset condition much like they do for physical infrastructure. Rigorous, comprehensive data is crucial for shaping and reporting on a government's metrics and targets with integrity. Thorough data sets, and the ability to project and forecast from that data are also a key enabler of the scenario analysis required under the sustainability reporting standards.



Processes and controls are essential to the credibility of sustainability reporting

A key objective of the ISSB standards is to support auditable, decision-useful information connected to financial statements. However, a comparison of sustainability reporting with financial statements suggests a significant difference in maturity. Governments have been preparing auditable, general-purpose financial statements for many years. This has allowed processes and controls to be refined and strengthened to support high-quality reporting. Sustainability reporting remains in its infancy and will require governments to build new processes and controls that interface with systems and data sources previously not part of financial reporting. Sustainability-related information must be of the same quality and reported at the same time as a government's financial statements. Processes and controls will be particularly important as assurance requirements are introduced over sustainability reporting.



Effective governance models are critical to a government's sustainability reporting ambitions

Given the broad array of public sector stakeholders, strong governance must be in place to support the alignment of stakeholder objectives, and the linkage of those objectives to sustainability reporting. Senior governance bodies and central agencies of government must be fully invested in the sustainability reporting journey. Board education, the prioritization of ESG on the Board and Audit Committee agenda, and comprehensive policies are key starting points.

Ultimately, governments should begin their reporting journeys now, in advance of formal sustainability standards and reporting requirements. Data, processes and controls and governance models need time to mature and cannot be established on an impromptu basis. Governments can undertake several initiatives now to better ensure their reporting readiness, such as:

- Defining clear roles and responsibilities, including those of central agencies, departments and ministries, and encompassing key functions such as Finance, IT and operational teams.
- Developing guidelines on how sustainability reporting will build up from individual departments and ministries and state-owned enterprises to the government at a consolidated level.
- Building robust governance models and focusing on developing essential skills throughout government to enable sustainability reporting.
- Linking sustainability-driven performance indicators to funding models and performance pay.
- Completing comprehensive impact assessments, with the goal of identifying significant areas of impact of anticipated standards.
- Obtaining an understanding of their value chains to identify sustainability related risks and opportunities, and identify what information will be material to stakeholders.

- Developing an inventory of existing data sources and highlighting gaps to reporting under the standards.
- Commencing internal reporting on a pilot basis against a subset of existing frameworks, such as elements of TCFD.
- Developing processes and controls to support high quality sustainability reporting.
- Effectively consult the audit function (through either the national auditor or internal audit), to ensure an auditability lens is incorporated in the sustainability reporting journey.

The public sector needs to lead the sustainability reporting journey. The influence of governments extends beyond regulatory and policy matters. Governments are role models for their corporate citizens and broader society and must demonstrate leadership in the adoption of sustainability standards. Existing standards issued by the ISSB provide a good foundation for the standard-setting initiatives underway by IPSASB. Governments should also look beyond the standards immediately expected from IPSASB in 2024, to prepare for future standards around biodiversity, ecosystems, and ecosystem services. Governments should collaborate with their diverse stakeholders to foster knowledge exchange, enhancing the quality and rigor of sustainability reporting.



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- Assess and design your ESG strategy
- Embed ESG across your operations
- Measure progress and tell your ESG story
- Make future steps transformational

With our industry-leading experience, data-driven technology and global alliances, you can turn insight into opportunity for your business, people and the planet.

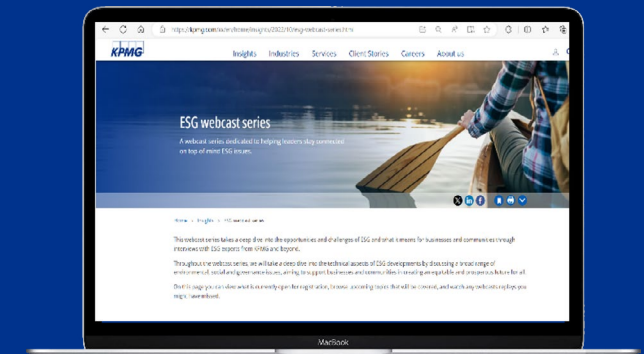
KPMG firms have designed their services to put ESG at the core of your operations — where it should be.

Related resources

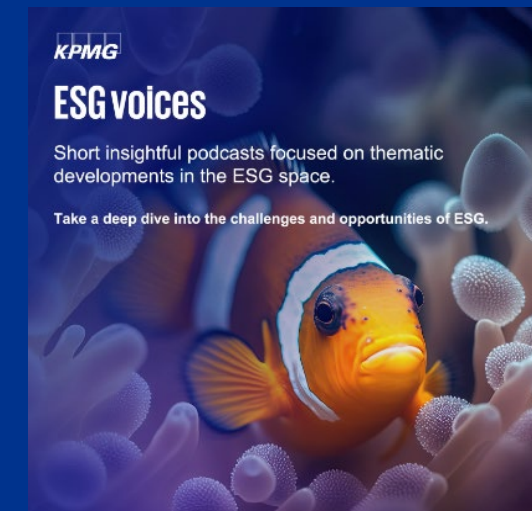
Insights



ESG webcast series



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KPMG ESG reporting services

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As ESG reporting becomes increasingly important, greater integration of ESG-related information into mainstream reporting is needed along with improvements in reporting quality. KPMG can help you identify data requirements, prepare methodology statements and review ESG disclosures for existing and new reporting processes to assess assurance readiness. By implementing stronger ESG reporting and standards, we can help build transparency and trust in your organization, while also protecting its future.

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Bailey is the National Leader of KPMG in Canada’s Public Sector Centre of Expertise on ESG. Bailey has advised multiple public sector entities at all levels of government on sustainability initiatives. Bailey is presently working with stakeholders across Canada to develop policies and guidelines around biodiversity and natural asset reporting. Bailey is the partner leading the Public Sector Accounting Advisory service line, where he advises entities on complex financial management, accounting, financial reporting, and auditing matters. As the leader of the Global IPSAS and Cash to Accrual Group, Bailey ensures governments around the world are aware of KPMG’s impressive skills and experience. Bailey specializes in sustainability reporting, environmental and nuclear accounting, public private partnerships, financial management transformation, transactions accounting advisory, cash to accrual, and complex accounting advice.

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