

Filling the negative space:

Integration of sustainability reporting topics into public sector financial accounting education programs

EduCoP session 2 / 9th Joint Education and Financial Reporting Communities of Practice Workshop

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Mainly based on Hines (1988; 1992) & Manes-Rossi et al. (2023)

Approaches to integrate sustainability reporting into Public Sector Accounting education programs

- **(Critical) Accounting Theory** → inter alia HINES
- **(New) Development in Standard Setting** → inter alia IPSASB
- **(New) Developments in the Reporting Landscape**
 - inter alia Manes Rossi, F./Brusca, I./Cohen, S./Lorson, P. C. (2023): **Alternative reporting and non-financial accounting formats**, in: Lorson, P.C./Jorge, S./Haustein, E. (2023, Ed.): European Public Sector Accounting, 2nd Ed., Coimbra – full open access <https://doi.org/10.14195/978-989-26-2464-8> ; p. 506-534

Motivation

- Financial results (i.e. Financial Statements) can result from more or less sustainable actions and decisions. Thus, transparency on the links between financials and sustainability is needed for discharging accountability (and aiming for decision-usefulness)
- Sustainability reporting is key for discharging accountability towards citizens. But sustainability reports could suffer the same fate as financial reports - the flood of information overloads their addressees and therefore, they might not be used

Notabene:

- Sustainability reporting matters;
- Sustainability information needs may be derived and reported in different ways

AGENDA

- 1 • Motivation
- 2 • **(Critical) Accounting Theory**
- 3 • New developments in standard setting
- 4 • New developments in the reporting landscape
- 5 • Summary and discussion

(Critical) Accounting Theory (Hines 1988)

- Hines explains: „Financial Accounting – in communicating reality, we construct reality” (Accounting, Organizations and Society, Vol. 13, No. 3, pp. 251-261, 1988)
- Dialogue
 - between a teacher (**T**) and a student (**S**)
 - while **regarding a valley** with trees as far as the eye can see and with a river that also flows through a large fenced-in area with buildings, machinery and people
- **One major topic:**
 - **What is covered by financial accounting (and how) and**
 - **what is excluded from General Purpose Financial Statements (GPFS)?**

(Critical) Accounting Theory (Hines 1988)

S: What about the river? The river water is used for production!

T: The river provides water that is necessary for production, but it is **not part of the organisation** - unless it is sold, in which case the river would be part of the **goodwill** paid.

S: Good heavens, the water is called goodwill then? Hm, the river water becomes an 'asset' when the organisation is sold and thus part of the **real organisation**.

...

T: Can you see the brown colour downstream of the plant? That's **pollution**! Is it **part of the organisation**?

S: So, the average citizen would say yes. But not accountants?

T: That used to be the case. As long as there was a lack of awareness of the organisation's

responsibility for environmental pollution. But no longer, because **the organisation has now become accountable in this respect**.

....

T: **The more that is produced, the greater the environmental pollution**.

S: If people 'understand' pollution as part of the organisation, it would have to be 'measured'. How is that supposed to work? **It costs the organisation nothing. Other people pay**.

....

T: **We will come up with something**. But find a consensus. As long as we accountants argue about the **right measurement**, people won't trust our reports.

(Critical) Accounting Theory (Hines 1992) – Filling the negative space

Terminology: Negative space means here sustainability topics

- The **positive space** is the main subject
→ picture drawn by **GPFS**
- The **negative space area**
 - around the main subject
 - not directly perceived
→ **sustainability conditions**
 - attract not much attention, surround the positive space and give it a buffer
→ **excluded from GPFS**

- Relationships are unclear, not fully known and/or vary over time (short, medium, long term)

What conclusions can we draw from Hines' considerations

- Sustainability issues are essential for a **holistic understanding** of how the picture drawn by GPFS came about.
- They should actually be at the forefront of public accounting, as this is where the **true performance and main task fulfilment in terms of public welfare / common good orientation** is revealed
- At best, mainly included in separate/ accompanying (management) reports.

Reasons for traditionally outscoping sustainability matters from GPFS

- **Right measurement problems:** objectifiability, measurability, quantifiability, monetarisability

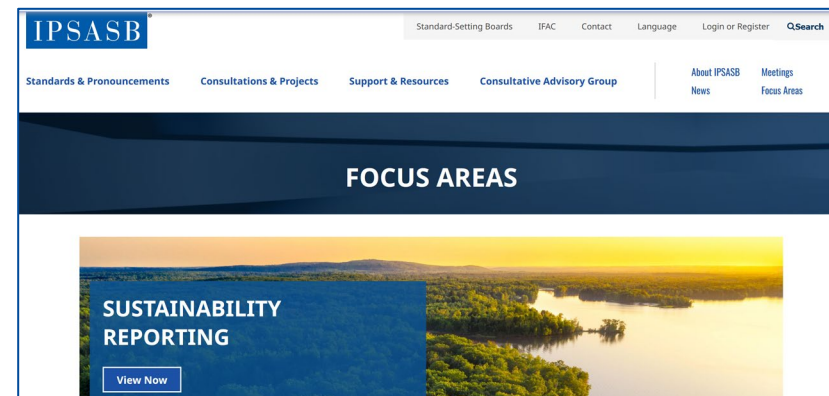
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New developments in standard setting → IPSASB

- General Purpose Financial Statements (GPFS) → IPSASs
- General Purpose Financial Reporting (GPFR)
 - IPSASs + RPGs
 - **Recommended Practice Guidelines**
 1. Reporting on the **Long-Term Sustainability** of an Entity's Finances
 2. Financial statement discussion and analysis
 3. Reporting service performance information

[Reporting Sustainability Program Information - Amendments to RPGs 1 and 3: Additional Non-Authoritative Guidance](#)



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Reporting landscape and recent developments

Recently, non-financial / sustainability and integrated reporting gain in importance (as well as popular reports)

- **Sustainability or non-financial reporting** (Manes-Rossi et al. (2023)):
... the content of non-financial reports can be characterised by the perspectives or dimensions of the goals depicted in them:
 - traditional: social, ecologic, economic → 3 P's/PPP (people, planet, profit)
 - nowadays prevails: ESG (environmental, social, governance), or
 - UN-SDGs: 5 P's (people, planet, prosperity, peace and partnership)
- **Integrated Reporting** means **linking sustainability information with GPFS** (e.g. between six capitals/ressources; see below)

Reporting landscape and recent developments – Main formats (Manes-Rossi et al. (2023))

- Non-financial or sustainability report or Intellectual Capital Statement or ...** – here a guideline found in Baden-Württemberg/Germany – excerpt from field of action and related key performance indicators

A: Ecological sustainability

- Climate protection and energy transition
- Sustainable mobility
- Natural resources

B: Economy and Social Affairs: Good life in municipalities

- Sustainable economy and work
- Social, healthy and safe city/municipality
- Culture and education
- Family friendliness and a balanced population development
- Coexistence, integration and equality

C: Framework conditions for sustainable municipal development

- Framework for sustainable, future-oriented sustainable municipal development
- Municipal sustainability management
- Fiscal sustainability
- Citizen participation
- Citizen engagement
- Inter-municipal cooperation
- Global responsibility

Field of action: municipal sustainability management

- C1 Good municipal energy management
- Energy consumption of municipal properties
 - per square meter of used space in kilowatt hours
- C2 Sustainable municipal procurement
- Proportion of recycled paper in paper consumption of municipal facilities in percent

Field of action: Fiscal sustainability

- C3 Healthy structure of the public budget
- Municipal debt per inhabitant

Field of action: Citizen participation

- C4 High level of democratic commitment
- Voter turnout in elections for municipal representation and mayoral elections in percent
- C5 High level of civic participation
- Number of citizens' meetings according to municipal regulations

Field of action: Civic engagement

- C6 High level of voluntary commitment
- Number of registered associations per 1,000 inhabitants and inhabitants

Reporting landscape and recent developments – Main formats (Manes-Rossi et al. (2023))

- UN-SDGs** (progress) reporting

on selected or all 17 United Nations’s Sustainable Development Goals and 169 targets/ sub-goals



Reporting landscape and recent developments – Main formats (Manes-Rossi et al. (2023))

- UN-SDGs** (progress) reporting

on selected or all reclassified 17 SDGs and 169 targets – here Eurostat’s SDGs progress report structure



Reporting landscape and recent developments – Main formats (Manes-Rossi et al. (2023))

- **Integrated Reporting** → Special format: Popular Integrated Annual Report
 - Objective: Explanation of value creation over short, medium or long-term for investors and others
 - Guiding principles (e.g. ‘materiality’; ‘conciseness’, ‘reliability and completeness’, ‘consistency and comparability’) the ‘strategic focus and future orientation’ and especially ‘connectivity of information’)
 - Describing strategies and actions etc. in a ,holistic/multi-perspective way, e.g. indicating the connectivity between e.g. GPFS and sustainability conditions (Manes-Rossi et al. (2023)) – e.g. between six capitals/resources
 - Financial CAPITAL → Manufactured CAPITAL → Intellectual CAPITAL
 - Human CAPITAL → Social and Relationship CAPITAL → Nature CAPITAL

Reporting landscape and recent developments – Main formats (Manes-Rossi et al. (2023))

• Integrated Reporting - Example

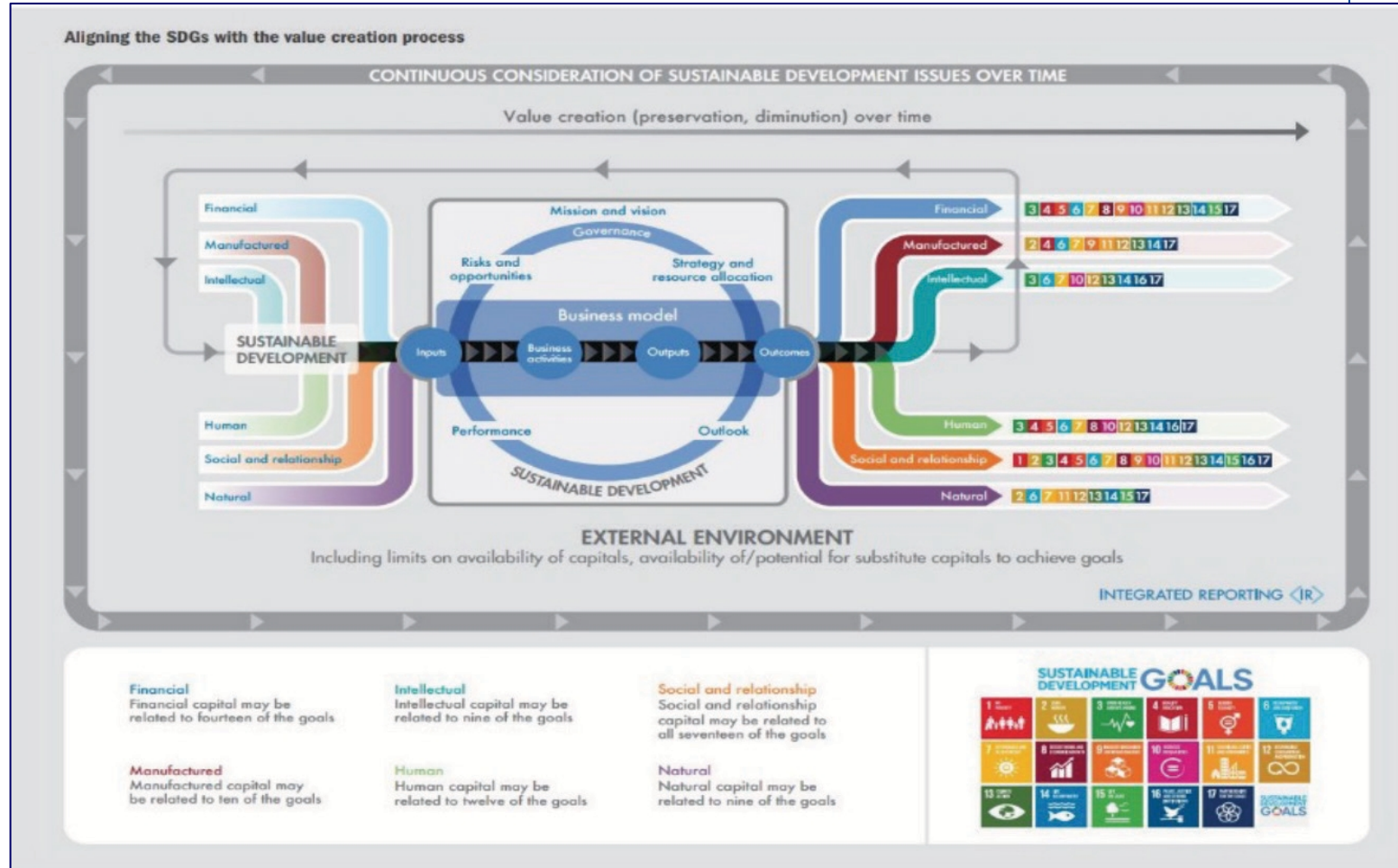
A local government prepares an integrated report to inform on its **strategies in fostering and enlarging carbon neutral local public transportation (here acquisition of new buses)**. This affects the following capitals/resources:

- **financial** (decreases by the acquisition, training and infrastructure amendment cost),
- **manufactured** (increases by the acquisition cost),
- **intellectual** (may raise as new processes have to be designed),
- **human** (raises because bus drivers and maintenance personal gain new skills; decreases because some of the existing staff will no longer be needed),
- **social and relationship** (may increase as new supplier relationships are to be established and – at least in the long run – positive outcomes on citizens' health are expected),
- **natural** (may increase due to a decrease in air pollution).

➔ Explanation of short term, medium term and long term effects in value creation

Reporting landscape and recent developments – Main formats (Manes-Rossi et al. (2023))

- Integrated Reporting – linked to UN-SDGs**



Reporting landscape and recent developments – Main formats (Manes-Rossi et al. (2023))

- **Popular Financial Annual Statements (PFiAS) → PIAR**

- **PFiAS:** Citizen-centered GPFS in order

- to prevent from information overload and lack of understandability and thus non-use and mistrust to politics and governments,

to discharge accountability by raising the potential of awareness, interest and use

- Nevertheless, empirical exploration of citizen interests (information needs) reveal:

- PFiAS information does not (or not completely) match citizens interests

- **Citizens**

- miss non-financial / sustainability information

- rather expect a Popular Integrated Annual Report (**PIAR**)

PIAR is a type of PFiAS, enriched with non-financial/sustainability information (e.g. on progress in achieving relevant UN SDGs)

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Integration of sustainability reporting topics into public sector financial accounting education programs

!!! Integration is now standard - the new normality !!!

Sustainability accounting, management and reporting can be easily integrated into any accounting module.

Approaches:

- **(Critical) Accounting Theory**
 - reveals a systematic blind spot in GPFS
- **(New) Developments in Standard Setting**
 - reveal huge efforts in developing global sustainability reporting standards for the public sector
- **(New) Developments in the Reporting Landscape**
 - reveal a broad range of approaches to sustainability reporting (maybe in connectivity with GPFS
 - integrated reporting) - based on selected or all UN SDGs or not; citizen-centered or not; ...

CAVEAT / not illustrated: Developments in the private sector (inter alia raising investors' demand for sustainability information; standard setting in the European Union or under the supervision of the IFRS Foundation; etc. etc. etc.)

DISCUSSION

Thank you very much

- **for your attention**
- **for your upcoming questions and remarks**

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- **Lorson, P.C. Jorge, S./Haustein, E. (2023) (Ed.)**: European Public Sector Accounting, 2. Aufl., Coimbra (<https://doi.org/10.14195/978-989-26-2464-8>) → Revised DiEPSAm-Textbook
- **DiEPSAm**: EU funded Erasmus+ project „Developing and implementing Public Sector Accounting modules“ at universities in the member states of the European Union (14 online video-lectures plus assessment materials and textbook in English);
 - Project Homepage: <https://www.diepsam.uni-rostock.de/>
 - Online Course (full open access): <https://www.uni-rostock.de/weiterbildung/offene-uni-rostock/onlinekurse/european-public-sector-accounting/>
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