Dr Xinwu He
Queen's Business School
185 Stranmillis Road
Belfast
Northern Ireland
BT9 5EE
United Kingdom

26th February 2025

International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto ON
M5V 3H2
Canada

Response to the proposed IPSASB SRS Climate-related Disclosures Exposure Draft (ED) 1

Many thanks for the opportunity to respond to your SRS ED1 concerning principles for public sector entities' climate-related disclosures. I am responding as a Lecturer in Accounting with research and teaching experience in sustainability reporting, assurance, and accountability. One of my current research projects is centred around the IPSASB initial Public Consultation on advancing public sector sustainability reporting. Also, at Queen's University Belfast, I teach an undergraduate-level course *Advanced Financial Reporting* and a postgraduate-level course *Accounting in Society* where public sector sustainability reporting is one of the lecture topics. Further details can be viewed HERE. Please see below my comments on the proposed IPSASB SRS ED1.

The IPSASB's proposed SRS aims to enhance transparency and accountability by requiring public sector entities to disclose climate-related risks and opportunities affecting their own operations and climate-related public policy programs. However, by framing materiality within financial accountability rather than full sustainability accountability, it limits the scope of transparency to what is financially or policy-relevant, rather than fully capturing the public sector's environmental and social impacts. Accordingly, accountability is defined in relation to financial and operational decision-making, rather than broader societal and environmental responsibilities. The attempt to broaden traditional single materiality by including climate-related public policy program disclosures fails to capture a full view of public sector responsibility. Only public policy programs where an entity has responsibility for their outcomes are included, with many indirect but significant impacts ignored. For example, a Ministry of Transport may be responsible for emissions from government-owned fleets, but not the entire transport sector's emissions from public policies such as fuel subsidies or infrastructure investments. If an entity's policy decisions drive considerable emissions or social inequities but do not immediately affect financial performance, they may not be disclosed as material. Consequently, significant systemic sustainability risks could be overlooked simply because they do not fit into a financial materiality approach.

While public sector financial reporting traditionally centres on resource allocation and service delivery, the essence of sustainability reporting lies in understanding the entity's role within the broader environmental and social system. The IPSASB's materiality approach neither fully commits to financial materiality nor fully embraces double materiality, which can lead to potential inconsistencies or accountability gaps. One of the major theoretical concerns is that IPSASB defines primary users as service recipients, policymakers, and resource providers but then applies an accountability lens that prioritises financial and policy outcomes over societal impacts. Public sector entities exist to serve the public interest, meaning their actions have far-reaching implications for citizens, communities, and future generations. If the primary information users include citizens and policymakers, then accountability should extend to societal and environmental impacts, not just the financial or operational risks of climate-related policies. The IPSASB's materiality assessment primarily considers how climate-related issues impact an entity's financial sustainability and policy effectiveness, rather than whether the entity's activities negatively or positively impact society and the environment – this can create an accountability gap: citizens and policymakers may not receive a full view of how a government's policies and operations impact the environment and communities, but rather a selective picture tied to financial risk and policy implementation. The selective reporting can create a misleading picture of sustainability performance, leading to omissions of significant negative externalities, such as pollution from government-backed infrastructure projects; overemphasis on financial risks rather than long-term ecological and social risks which do not fit into a financial materiality approach; and/or strategic disclosures to appear aligned with climate goals while omitting the negative societal and environmental impacts of policy choices. Without a clear requirement to disclose impact-related information, public sector entities might engage in greenwashing at the policy-level where only financially material risks are acknowledged while broader sustainability failures remain hidden.

Another major concern is the artificial separation between "own operations" and "public policy programs". The ED requires entities to separately disclose (1) risks and opportunities impacting their own operations and (2) public policy programs and their outcomes. However, in the public sector, policies and operations are inherently interconnected – i.e., the development and implementation of public policy programs should be part of an entity's operations (the impact of which should be considered as an inside-out impact of its operations). By forcing disclosures on the same issue from two different angles, the proposed approach complicates the reporting structure rather than simplifying it. The overcomplication of the reporting structure is mainly due to the single materiality approach attempting to expand financial materiality with public policy impact. As mentioned above, this expanded single materiality approach still falls short of fully capturing the public sector's environmental and social impacts. It only considers the financial and operational risks (outside-in impact) but ignores the public sector's own impact on climate change (inside-out impact). Public sector entities do not only face climate-related risks but also actively shape environmental and social outcomes through their policies, regulations, investments, procurement decisions, and service delivery. Without a requirement to disclose inside-out impacts, the accountability in terms of climate change is significantly undermined. Moreover, the ED's limited scope on "climate-related public policy programs" excludes other policies that also drive climate outcomes (e.g., infrastructure, economic development, and social policies). Governments' various policy programs can impact climate-related risks and opportunities, not only the explicit "climate" ones. This limited reporting scope undermines the value of disclosures, as it fails to provide a full view of how government policies impact climate change.

Instead of artificially separating disclosures on own operations and public policy programs, a double materiality approach can integrate both dimensions into a single but coherent framework. Public policy programs should be considered as part of the reporting entity's operations, rather than a separate category. All government policies, not just climate-specific ones, should be reported in terms of their impact on climate change. Meanwhile, with the double materiality approach, disclosures can include both inside-out (the entity's impact on climate change through its day-to-day operations, regulatory decisions, investments, and policies) and outside-in (climate-related risks and opportunities impacting the entity's operations) impacts, thus more in line with global trends towards full sustainability accountability (e.g., EU's CSRD and GRI). This would provide a more holistic view of public sector accountability other than climate-related financial risks. With this single but coherent framework, the reporting will be clearer, more consistent, and easier to interpret for stakeholders.

The potential lack of widespread adoption of IPSASB's SRS is also concerning, given its relatively narrow scope: primarily focusing on core public sector entities while excluding state-owned enterprises (SOEs), government business enterprises, central banks, and other key public actors. By focusing only on core government functions and policy implementation, the IPSASB creates a fragmented accountability framework. Governments may only disclose their direct emissions, while their largest climate risks (e.g., indirect emissions from SOEs, infrastructure, and finance) remain hidden. This contradicts global trends toward more holistic sustainability reporting (e.g., EU's CSRD). Also, if only a fraction of public sector entities uses the SRS, the effort to develop it may not be fully justified. The IPSASB's effort could be viewed as reinventing the wheel, especially for those public entities already following well-established national/regional/global sustainability reporting frameworks may not see the need for a separate IPSASB SRS. Furthermore, the IPSASB does not have legal authority to require its standards to be adopted by governments, meaning the SRS will rely on voluntary uptake. Even if some governments find the framework useful, the lack of global regulatory endorsement means implementation may be slow or uneven. Meanwhile, many governments do not even (fully) apply IPSAS for financial reporting. Instead, they follow national public sector accounting standards or a modified cash or accrual system. Since adopting IPSAS remains voluntary, the IPSASB's SRS may also suffer from a lack of formal regulatory enforcement at the national level. Overall, the IPSASB's SRS risks becoming an unused or secondary standard which only leads to further redundancy in the global sustainability reporting landscape. The IPSASB's narrow scope and voluntary nature raise concerns that the SRS may struggle to justify its existence as a standalone initiative which have limited impact on public sector sustainability accountability. For IPSASB's SRS to be genuinely impactful, it would need to expand its scope, covering most (if not all) public sector entities impacting and being impacted by climate change and other critical sustainability issues, and adopt a double materiality approach capturing a holistic view of the public sector's economic, environmental and social impacts.

I hope the above comments are helpful. If you have any questions, please feel free to contact me at X.He@qub.ac.uk

Yours sincerely,

Dr Xinwu He