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FOREWORD

The UNCTAD Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) held its thirty-sixth annual session at the end of October 2019, at the Palais des Nations in Geneva. Since its establishment in October 1982 as a standing group of experts by the Economic and Social Council of the United Nations, ISAR has made significant contributions to global efforts aimed at promoting reliable and globally comparable reporting on both the financial and non-financial aspects of the economic performance and financial standing of enterprises. As an open and neutral forum, ISAR has helped articulate the collective wisdom of policymakers, regulators, standard-setters, academia and other interested stakeholders on a number of critical issues to global accounting and reporting, issuing pertinent guidance materials in a pioneering manner.

ISAR is playing a defining role in making the private sector a key partner in meeting the commitments of the 2030 Agenda for Sustainable Development. After a series of consultations and deliberations at its annual sessions, ISAR published the Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals to support baseline, comparable reporting by companies on their performance in relation to the Sustainable Development Goals. When properly implemented, the core indicators will facilitate behavioural change from "business as usual" to considering intergenerational equity when allocating resources. The availability of measurement tools such as the Guidance on Core Indicators will also enable a shift in resource allocation towards more sustainable modes of production.

It gives me great pleasure to present the 2019 volume of the International Accounting and Reporting Issues: 2019 Review, which contains two surveys on practical implementation of the Guidance on Core Indicators, as well as a review of recent developments on International Financial Reporting Standards and International Public Sector Accounting Standards.

Mukhisa Kituyi
Secretary-General of UNCTAD

LIST OF ACRONYMS

ACRONYM	DEFINITION
EDTF	Enhanced Disclosure Task Force
EFG	Egyptian Financial Group-Hermes Holding Company
EFRAG	European Financial Reporting Advisory Group
EGX	Egyptian Exchange
EPSAS	European Public Sector Accounting
ERP	Enterprise Resource Planning
ESA	European System of Accounts
FCF	Free Cash Flow
FRC	Financial Reporting Council
GGS	General Government Sector
GHG	Green House Gas
GRI	Global Reporting Initiative
IAAER	International Association for Accounting Education and Research
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IBOR	Interbank Offered Rate
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ISAE	International Standard
ISAR	Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
ISO	International Organization for Standardization
MENA	Middle East and North Africa
PCASP	Plan of Accounts Applied to the Public Sector
PCM	Multidimensional Accounting Plan
PSA	Public Sector Accounting
PV	Present Value
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goals
WGA	Whole of Government Accounts

INTRODUCTION

This volume of the *International Accounting and Reporting Issues* presents three chapters. The first and second chapters present respectively, findings of surveys of implementation of the core indicators (GCI) conducted on the Dow 30 companies in the United States of America and the 30 companies that form the index of the Egyptian Stock Exchange. The third chapter contains a review of recent developments in international standards of accounting and reporting in the public and private sectors.

International trade and investment require internationally comparable data on enterprise performance. To address the issue, in October 1982, the Economic and Social Council of the United Nations established the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). Since 1993, ISAR has been hosted by UNCTAD. For close to four decades, ISAR has become an open and inclusive forum of the United Nations and has been contributing towards the harmonization and comparability of enterprise reporting in member States as a means to facilitate an enabling investment and business climate for sustainable and inclusive growth.

More recently, ISAR has focused its deliberations on the assessment of the private sector's contribution to the implementation of the 2030 Agenda for Sustainable Development. Goal 12 of the Sustainable Development Goals (SDGs) on sustainable consumption and production (target 12.6) encourages companies, especially large and transnational companies, to adopt sustainable practices and integrate sustainability information into their reporting cycles. Since the adoption of the 2030 Agenda, ISAR has been working towards developing practical tools to help countries measure the contribution of the private sector to sustainable development, in particular towards achieving the Sustainable Development Goals, in a consistent and comparable manner.

Since the thirty-fifth session of ISAR in 2018, a number of developments have contributed towards enhancing the harmonization of sustainability/Sustainable Development Goal (SDGs) reporting, facilitating its practical implementation, and enabling coordination among key players. In concluding its deliberations at the thirty-fifth session, ISAR requested the UNCTAD secretariat to finalize its work on the guidance on core indicators for entity reporting on contribution towards the attainment of the SDGs in alignment with the monitoring framework for the SDGs. ISAR also requested the UNCTAD secretariat to conduct pilot testing of the core indicators at the country level with a view to supporting member States through capacity-building initiatives in this area.

Accordingly, the UNCTAD secretariat facilitated the preparation of selected case studies on the application of the guidance for companies in six countries, representing different regions and industries. In addition, an overview of the implementation of the guidance in several companies was conducted in Egypt and the United States of America. The objective of the case studies was to validate the applicability of the core common indicators, their suggested measurement methodology and the availability of the required underlying accounting data. In general, the case studies demonstrated a high level of applicability of the indicators in the *Guidance*. There was no indicator that the case study companies were unable to report on. Some were able to report on 30 out of the 33 indicators. The lowest number of indicators reported on was 26.

Sustainable Development Goal reporting by companies is an increasingly visible trend. Therefore, disclosure of sustainability data is becoming more and more common, and the Sustainable Development Goals are fuelling demand for relevant data. According to a recent survey, approximately 4 in 10 sustainability reports from both N100[1] and G250[2] companies link a company's corporate responsibility activities to the Sustainable Development Goals. The main countries making such a connection are Colombia, Finland, France, Italy, Mexico, the Netherlands, Portugal, Spain, Sweden and the United Kingdom of Great Britain and Northern Ireland[3] According to another

1 The N100 refers to a worldwide sample of 4,900 companies comprising the top 100 companies by revenue in each of the 49 countries researched in this study.

2 The G250 refers to the world's 250 largest companies by revenue based on the Fortune 500 ranking of 2016.

3 KPMG International Cooperative, 2017, The Road Ahead: The KPMG Survey of Corporate Responsibility Reporting 2017.

study, 72 per cent of 729 companies from 21 countries and territories and six broad industry sectors mention the Sustainable Development Goals in their corporate and sustainability reporting[4].

However, there is growing recognition that simply linking corporate responsibility activity thematically to the Sustainable Development Goals does not suffice. Regarding the current trend, civil society and non-governmental organizations are not the only stakeholders requesting information on how companies are contributing to the achievement of the Sustainable Development Goals and on the actual impact of such contributions. More and more large institutional investors are considering how they can align their investment decisions with the Sustainable Development Goals. The Global Investors for Sustainable Development (GISD) Alliance- comprised of 30 CEOs- has made fostering and harmonizing standards for sustainability reporting, and impact measurement, a priority. Such investment strategies will inevitably require impact disclosures from businesses[5].

A number of pronouncements were issued recently by key players in this area to assist stakeholders in furthering the implementation of the sustainability reporting agenda. In June 2019, the European Commission published new guidelines on climate-related corporate information reporting as part of its Sustainable Finance Action Plan[6]. One guideline is the European Union taxonomy on sustainable activities[7]. Another expert report on a European Union green bond standard[8] creates a new category of benchmarks, which will help investors compare the carbon footprint of their investments. The Commission also welcomed an expert report on European Union climate benchmarks and benchmarks on environmental, social or governance disclosure, which aims to improve disclosure requirements on how institutional investors integrate such factors into their risk processes[9]. These guidelines will provide 6,000 European Union-listed companies with practical recommendations on how to better report the impact of their activities on the climate as well as the impact of climate change on their businesses. The guidelines are part of the Commission's ongoing efforts to ensure that the financial sector can play a determining role in transitioning to a climate-neutral economy and funding investments on the scale required.

The Climate Disclosure Standards Board and the Sustainability Accounting Standards Board (CDSB) released an implementation guide on climate-related disclosures prepared by the Task Force on Climate-related Financial Disclosures[10]. The guide follows a report published by the Task Force in June 2017 with recommendations on such disclosures, providing context, background and a general framework on such disclosures for a broad audience[11].

Work by the World Business Council for Sustainable Development on sustainability reporting and disclosure provides an opportunity for entities to engage in the Sustainable Development Goals. The Council released the first guidelines to help companies achieve their sustainable energy objectives during the European Union Sustainable Energy Week. These guidelines provide companies with an understanding of the business case for sourcing and using low-carbon energy, while driving innovation across their value chains[12].

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4 PwC, 2018, From Promise to Reality: Does Business Really Care about the SDGs [Sustainable Development Goals]? And What Needs to Happen to Turn Words into Action.

5 KPMG International Cooperative, 2017.

6 European Commission, 2019, Sustainable finance: Commission publishes guidelines to improve how firms report climate-related information and welcomes three new important reports on climate finance by leading experts, press release, 18 June.

7 European Commission, 2019, EU [European Union] taxonomy for sustainable activities, 18 June.

8 European Commission, 2019, EU [European Union] green bond standard, 18 June.

9 European Commission (2019). EU [European Union] climate benchmarks and benchmarks' ESG [environmental, social and governance] disclosures, 18 June.

10 Climate Disclosure Standards Board, 2019, CDSB [Climate Disclosure Standards Board] and SASB [Sustainability Accounting Standards Board] release TCFD [Task Force on Climate-related Financial Disclosures] implementation guide, press release, 1 May.

11 Task Force on Climate-related Financial Disclosures, 2017a, Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures.

12 World Business Council for Sustainable Development, 2019, WBCSD [World Business Council for Sustainable Development] releases new guidelines to help companies achieve their sustainable energy objectives, 19 June.

In November 2018, the Sustainability Accounting Standard Board published a complete set of 77 industry-specific sustainability accounting standards on financially material issues. The Board provides an engagement guide for investors to consider questions for discussion with companies regarding such issues, as well as an implementation guide for companies that explains issues and approaches to be taken into account when implementing its standards[13].

The Global Sustainability Standards Board, an independent sustainability standard-setting body of the Global Reporting Initiative, appointed a multi-stakeholder technical committee of experts to develop the first global disclosures on tax and payments to Governments. The draft standard advances tax transparency by combining management approach disclosures on tax strategy. The Committee began its work to develop a draft in January 2018, which was made available for review and public comment[14].

A number of activities were aimed at facilitating coordination among key players and aligning their agendas. The Corporate Reporting Dialogue is a platform convened by the International Integrated Reporting Council that aims to strengthen cooperation, coordination and alignment among key standard setters and framework developers that have a significant international influence on the corporate reporting landscape[15]. The following organizations make up the Corporate Reporting Dialogue: CDP, Climate Disclosure Standards Board, Financial Accounting Standards Board, Global Reporting Initiative, International Accounting Standards Board, International Integrated Reporting Council and Sustainability Accounting Standards Board. The Better Alignment project is a two-year project focused on promoting alignment in corporate reporting to make it easier for companies to prepare effective and coherent disclosures that meet the information needs of capital markets and society[16].

The Action Platform on Reporting on the Sustainable Development Goals is based on continued cooperation between the Global Reporting Initiative and the United Nations Global Compact. The Initiative aims to provide a framework and methodology for companies to report on their Sustainable Development Goal-related performance. As a member of the Platform's multi-stakeholder advisory committee, the UNCTAD secretariat works closely with the Initiative and the Global Compact to ensure coordination and consistency. In February 2019, the Global Reporting Initiative and the United Nations Global Compact announced their continued partnership to develop best practices for corporate reporting on the Sustainable Development Goals, empowering businesses to prioritize Sustainable Development Goal targets, measure progress and report on it[17].

In addition, there is growing interest in assessing the ongoing efforts of businesses to address sustainability issues and the Sustainable Development Goals in their reports. The initiative of World Benchmarking Alliance initiative is aimed at increasing the private sector's impact on the Sustainable Development Goals through the creation of benchmarks in key areas that are considered to have high impact. By ranking the biggest companies in seven key areas, the Alliance expects to cover all benchmarks by 2023 and start tracking their progress. All information will be open source and free of charge[18]. The Alliance was selected as one of 10 winning projects that seek to develop solutions to deal with today's transborder challenges, showcased as part of the Paris Peace Forum[19]. In addition, the Alliance has set up the Alliance Learning Platform as a means of working together[20].

13 Globe Newswire, 2018, SASB [Sustainability Accounting Standards Board] codifies first-ever industry-specific sustainability accounting standards: Financially material reporting standards launched at London Stock Exchange, 7 November.

14 Global Reporting Initiative, 2018. New GRI [Global Reporting Initiative] draft standard on tax and payments to Governments now open for public comment, 13 December.

15 See https://corporatereportingdialogue.com/about/, accessed 19 August 2019

16 See https://corporatereportingdialogue.com/better-alignment-project/; accessed 9 July 2019

17 United Nations Global Compact, 2019, Global Reporting Initiative and the United Nations Global Compact announce continued collaboration to advance business reporting on the Sustainable Development Goals, 21 February.

18 Summary documents for the World Benchmarking Alliance round tables can be accessed at www.worldbenchmarkingalliance.org/consultation (accessed 9 July 2019).

19 World Benchmarking Alliance, 2019, WBA [World Benchmarking Alliance] is announced as one of ten project winners at Paris Peace Forum: Congratulations allies!

20 World Benchmarking Alliance, 2019, The Alliance: Collectively shaping the way forward.

The Alliance for Corporate Transparency is a three-year research project that analyses how European companies disclose information necessary for understanding their impact on society and the environment, as required by Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. After assessing over 100 companies to provide early reflections on the implementation of the Directive in practice, the Alliance issued the 2018 Research Report on the state of corporate sustainability disclosure under the Directive[21].

The Statistics Division of the Department of Economic and Social Affairs of the United Nations is setting up a body to provide guidance in the field of business and trade statistics. Cooperation opportunities between UNCTAD and the Department of Economic and Social Affairs through a dedicated task team has been recently discussed with a view to standardizing the data collection methodology to be used for business accounting and financial reporting. However, there are still several challenges to be addressed in facilitating the harmonization and enhancing the quality of enterprise reporting on sustainability issues, including within the framework of the 2030 Agenda.

However, there are still a number of challenges to be addressed in facilitating the harmonization and enhancing the quality of enterprise reporting on sustainability issues, including within the framework of the 2030 Agenda.

Challenges also remain in relation to the prevailing voluntary nature of disclosure of sustainability performance by companies, which affects the quality and comparability of such information. Despite the positive trend in sustainability reporting, disclosure becomes widespread, consistent and comparable only when mandated by Governments[22].

Consistency with International Financial Reporting Standards is another challenge. One important area is determining the boundaries of the reporting entity; the other is assumptions and methods that underpin financial reporting and should be applied for sustainability/Sustainable Development Goal reporting. In some jurisdictions, such standards may only be required for the preparation of consolidated reports, not for legal entity financial statements. This may pose difficulty in compiling non-financial data, as companies may use different accounting rules in their statutory reporting of financial data and consolidated reporting at the group level. In any case, when information attributable to entities, facilities or activities outside an organization’s mainstream reporting boundary is also reported, it should be clearly distinguished from information on entities and activities within the financial boundaries.

During the intersessional period of ISAR, two important issues continued to be at the centre of the debate on the sustainability and Sustainable Development Goal reporting agenda: materiality and reliability of reported data.

Materiality. In the context of Sustainable Development Goal reporting, materiality has a new dimension, in addition to the definition established in the Conceptual Framework for Financial Reporting (“information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity”).

Adoption of the Sustainable Development Goals required multi-stakeholder consultations, and all parties agreed that certain aspects of economic, environmental and social activities were material to them. Further, the Task Force on Climate-related Financial Disclosures in 2017 provided recommendations on how entities could conduct materiality assessments for the disclosure of sustainability information[23]. In its final report, the Task Force “recognizes that most information included in financial filings is subject to a materiality assessment. However, because climate related risk is a non-diversifiable risk that affects nearly all industries, many investors believe it

21 Alliance for Corporate Transparency, 2019*, 2018 Research Report: The State of Corporate Sustainability Disclosure under the EU [European Union] Non-financial Reporting Directive*.

22 KPMG International Cooperative, 2017.

23 Task Force on Climate-Related Financial Disclosures, 2017b, Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures.

requires special attention"[24]. In this regard, the report recommends that certain organizations with an annual revenue of more than $1 billion should consider disclosing such information in other reports (that is to say, not in the annual financial filings) when the information is not deemed material and not included in financial filings. Further, "organizations should consider including metrics on climate-related risks associated with water, energy, land use and waste management where relevant and applicable",[25] allowing for trend analysis. The Task Force cautions organizations against making the premature conclusion that climate-related risks and opportunities are not material based on perceptions of the longer-term nature of some climate-related risks.

In the case of the European Union, the European Commission refers to a double materiality perspective that encompasses two dimensions: financial materiality, and environmental and social materiality[26]. The former takes into account a company's development, performance and position, and considers investors to be the primary audience. The latter takes into account the impact of a company's activities and considers consumers, civil society, employees and a growing number of investors to be the primary audience. In this regard, the selection of core Sustainable Development Goal indicators relies on the idea that the Sustainable Development Goal targets and macro indicators are integrated into current materiality assessments framework for companies and thus guides the suggested common disclosure baseline.

On the other hand, disclosure of immaterial information also makes a non-financial statement less easy to understand, since it would obscure material information. Generic or boilerplate information that is not material should be avoided[27]. Companies sometimes refer to the Sustainable Development Goals without necessarily adding value to sustainability reporting. In this regard, inclusion of the appropriate context makes understanding of the material information easier. For instance, it can include the mention of a reference to strategies and broader goals when presenting the company's performance to describe how non-financial issues relate to their long-term strategy, principal risks and policies[28]. Such narrative information allows entities to apply a lens of materiality that enables them to engage with additional disclosures, drawing on sustainability reporting guidelines, industry standards, national regulations or other available mechanisms.

Reliability and assurance. Credibility of non-financial reporting assurance would be enhanced by facilitating the relevance and reliability of reporting. The accuracy of information available varies depending on the source and the subsequent ability of the reporting entity to assure this information. Therefore, it is important that entities use the right mix of internal and external assurance to ensure the reliability of the published data. For example, the European Commission has recently suggested that entities can make non-financial information fairer and more accurate through, for example, the following mechanisms[29]:

(a) Appropriate corporate governance arrangements (for instance, certain independent board members or a board committee entrusted with responsibility over sustainability and/or transparency matters);

(b) Robust and reliable evidence, internal control and reporting systems;

(c) Effective stakeholder engagement;

(d) Independent external assurance.

KPMG International Cooperative 2017 shows that the 100 biggest companies have an increasing tendency to use external assurances. In contrast to financial reporting, the assurance of sustainability reporting by a third party

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24 Task Force on Climate-related Financial Disclosures, 2017a.

25 Ibid

26 Consultation document on the update of the non-binding guidelines on non-financial reporting, available at https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2019-non-financial-reporting-guidelines-consultation-document_en.pdf (accessed 20 August 2019).

27 European Commission, 2017, Communication from the Commission: Guidelines on non-financial reporting (methodology for reporting non-financial information), *Official Journal of the European Union*, 2017/C 215/01, 5 July.

28 Ibid

29 Ibid

is still voluntary in most countries. Yet, Accountancy Europe[30] and the Global Reporting Initiative, for instance, encourage independent assurance to increase the quality of sustainability reporting. Also, according to a recent UNCTAD research,[31] the quality of non-financial data must be verifiable and of the same quality as financial data. The publication also proposes that the audit of data for the core indicators be carried out according to the International Standard on Assurance Engagements 3000 Assurance Engagements other than the Audits or Reviews of Historical Financial Information Review Framework, which does not prevent entities from using the AccountAbility AA1000 Assurance Standard[32].

The two most commonly used international standards are the International Standard on Assurance Engagements 3000 and AccountAbility AA1000 Assurance Standard. Both are indicated as consistent with different reporting frameworks such as the Global Reporting Initiative and the Integrated Reporting (<IR>) frameworks.[33]

Entities can choose between reasonable and limited assurance. In a reasonable assurance engagement, the practitioner collects sufficient appropriate evidence to reduce the assurance engagement risk and to be able to conclude that the subject matter conforms in all material respects with identified suitable criteria and gives a report in the form of a positive assurance (for example, "the financial statements have been prepared in accordance with applicable legislation and accounting standards"). In a limited assurance engagement, the practitioner obtains less evidence than in a reasonable assurance engagement; however, this evidence is sufficient and appropriate to conclude that the subject matter is plausible in the circumstances, and a report is provided in the form of a negative assurance (for example, "nothing has come to our attention that causes us to believe that the financial statements have not been prepared in accordance with applicable criteria" (such as legislation and/or accounting standards). For a limited assurance engagement, the practitioner performs different or fewer tests than those required for reasonable assurance and uses smaller sample sizes for the tests.

The International Integrated Reporting Council also takes into consideration the possibility of having hybrid or mixed assurance levels, so that assurance can vary on a disclosure-by-disclosure basis (reasonable on some disclosures and limited on others). This could be especially relevant to types of information that present technical challenges in providing audit and assurance services, such as in the area of human rights[34].

30 Previously known as the Federation of European Accountants, Accountancy Europe brings together 51 professional organizations from 37 countries.

31 JT Jagd and T Krylova, Reporting on the Sustainable Development Goals: A survey of reporting indicators, Research Paper No. 1, UNCTAD.

32 For a review of the state of the art on assurance practices, see www.cpajournal.com/2017/07/26/current-state-assurance-sustainability-reports/ (accessed 9 July 2019).

CHAPTER I.
REPORTING ON THE UNCTAD-ISAR GLOBAL CORE INDICATORS: A SURVEY OF THE DOW 30 COMPANIES

A. INTRODUCTION[36]

The United Nations (UN) launched the Sustainable Development Goals (SDGs) in September 2015, and since then several surveys have addressed the extent to which companies worldwide are integrating the SDGs into their public reports. In 2018, for instance, PwC[37] analysed published information from 729 companies representing 21 countries and territories and six broad industry sectors. The key findings of the analysis include:

- 72% of companies mentioned SDGs in their annual corporate and/or sustainability report
- 50% of companies identified priority SDGs
- 19% of Chairman or CEO statements in annual reports mentioned the SDGs
- 23% of companies disclosed meaningful Key Performance Indicators (KPIs) and targets related to SDGs

The most frequently referenced sustainability framework in PwC's analysis was the Global Reporting Initiatives (GRI) Standards. While the analysis included 32 companies from the United States (US), PwC did not report findings by country.

A year prior to the PwC study, KPMG[38] undertook an analysis of the corporate reporting of Global 250 companies. KPMG's findings revealed that about 40% of companies referenced the SDGs, with German (83%), French (63%), and United Kingdom (60%) companies most likely to report. Only 31% of Global 250 US companies directly reported on the SDGs.

A study of the 2015/16 public reports of 551 Canadian and US companies by the Centre for Sustainability Excellence (CSE)[39] found that one year following SDG adoption only 6% of companies had integrated all 17 SDGs into their reports.[40] While most (74%) had integrated some of the SDGs, 21% only mentioned the goals when indicating they would review and assess various approaches to integrating SDGs into their reporting. A follow-up study by CSE[41] of the 2016/17 sustainability reports of 642 private companies and other organizations based in Canada and the US revealed a 124% increase in the number of companies referencing and reporting on SDGs. 59% of the sustainability reports were based on the GRI framework. However, only 25.7% of reports included an assurance report from an external provider (down 5.4% from 2015).

According to a Forbes publication of 2017. 41% of North American companies were expected to incorporate SDGs into their strategy and business practices within five years. Furthermore, 71% of the Fortune 500 indicated they were planning how to incorporate the UN SDGs into their reporting processes. The number of externally assured sustainability reports in North America was lower than in the European Union (EU).

In a report published in September 2018, EcoAct[42], for the first time, addressed the sustainability reporting performance of the Dow 30. EcoAct North America

36 This chapter was prepared with contributions from Dr. Donna L. Street, Professor University of Dayton and Director of Research and Educational Activities IAAER and Dr. Christopher Calvin, Assistant Professor University of Dayton.

37 PwC, 2018. *From Business to Reality: Does Really Care About the SDGs? And What Needs to Happen to Turn Words into Action.* Available at: https://www.pwc.com/gx/en/sustainability/SDG/sdg-reporting-2018.pdf.

38 KPMG, 2017. *The Road Ahead: The KPMG Survey of Corporate Responsibility Reporting 2017*, Available at: https://assets.kpmg/content/dam/kpmg/be/pdf/2017/kpmg-survey-of-corporate-responsibility-reporting-2017.pdf.

39 CSE. 2017. *Sustainability Reporting Trends in North America*, Available at: https://www.cse-net.org/wp-content/uploads/documents/Sustainability-Reporting-Trends-in-North%20America%20_RS.pdf.

40 Many of these companies are part of the Fortune 500.

41 CSE. 2018. *Sustainability Reporting Trends in North America, 2018-2019.* Available at: https://cse-net.org/wp-content/uploads/2018/11/SUMMARY_-NORTH_AMERICA_Sustainability-Reporting-Trends_2018-1.pdf.

42 EcoAct. 2018. The Sustainable Reporting Performance of the Dow 30. Annual Report September 2018. Available at: https://tinyurl.com/yjw2vhfy (last accessed on 12 November 2019).

scored the Dow 30 across four broad subject areas based on information available in the companies' 2017/18 corporate sustainability reports, annual reports, and any additional links from company websites, including sustainability micro-sites. EcoAct evaluated CDP disclosures only if a company provided a direct link to its CDP response documentation on its website. The 2018 report included comparisons to similar analyses undertaken by EcoAct of the FTSE 100, CAC 40, and IBEX 35. Notable findings for the DOW 30 included the following:

- 78% of companies reported consistent with the GRI framework
- 77% of companies addressed how their operations contribute to the global aims of the SDGs established by the UN in 2015

EcoAct[43] once again addressed the sustainability reporting performance of the Dow 30 in its 2019 annual report. EcoAct found that, while commitments to addressing climate change are increasing, the average EcoAct score of the top ten Dow 30 companies decreased from 75% in 2018 to 68.8% in 2019. Additionally:

- 100% of companies reported on carbon emissions, with 80% reporting Scope 3 emissions
- 77% of companies reported carbon reduction targets, but only 57% were on track to meet those targets
- 70% of companies engaged with and/or quantified progress toward the UN SDGs, and another 7% mentioned the UN SDGs in their public disclosures

This chapter presents the findings of an examination of the Dow 30's most recent publicly available sustainability reports (hereafter referred to as 2018 sustainability reports), 10-Ks, and proxy statements.[44] Our primary objective is to ascertain whether companies disclosed each of the UNCTAD's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) *Guidance on core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals* (GCI) specified in Tables 2, 3, 4, and 5. This limited number of core SDG indicators, which was announced by UNCTAD in 2018, represents a starting point in relation to sustainability and SDG reporting[45]. Accordingly, the core indicators represent the minimum disclosures companies need to provide for governments to evaluate the contribution of the private sector to the implementation of the SDGs. Additionally, the core indicators are intended to assist entities in providing baseline data on sustainability matters in a consistent and comparable manner to meet the common needs of different stakeholders of the SDG agenda. The core indicators address economic, environmental, social and institutional areas.

This chapter additionally addresses whether available Dow 30 sustainability reports refer internationally recognized standards (i.e., GRI Framework, IIRC, CDP) and the UN SDGs, identify priority SDGs, disclose meaningful Key Performance Indicators (KPIs) and/or targets related to the SDGs, and provide external assurance for specified disclosures. For those sustainability reports that include external assurance, the report specifies the scope of the assurance (i.e., broader than Green House Gas (GHG) emissions, limited to GHG emissions), where the assurance statement/reference is located, and who the assurance provider is. The research also aims at determining whether the Chairman or CEO Statement in the sustainability report refers to the SDGs.

B. RESEARCH METHOD

For each of the Dow 30 companies, the most recent publicly available sustainability report, 10-K, and proxy statement as of July 30, 2019 were downloaded. A disclosure checklist that included the following components and coding format was developed:

- Reference to GRI framework in the sustainability report (no, yes)
- Reference to the UN SDGs in the sustainability report (no, yes)
- Disclosure of UN Core SDGs in the sustainability report (no, yes)

[43] EcoAct. 2019. The Sustainable Reporting Performance of the Dow 30. Annual Report September 2019. Available at: https://tinyurl.com/ykxthdfn (last accessed on 12 November 2019).

[44] We used July 30, 2019 as our cut-off date for publicly available information. At this date, one of the Dow 30 had not released a 2018 sustainability report; therefore, our analyses for this company are based on its 2017 report. Another company had not released a 2018 Proxy Statement; hence, our analyses for this company are based on the 2017 Proxy Statement.

[45] UNCTAD. 2019. *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals*. Available at: https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=2469.

- For those disclosing UN Core SDGs in the sustainability report, disclosure of meaningful KPIs and/or targets related to the SDGs in the sustainability report (no, yes)
- For those disclosing meaningful KPIs and/or targets related to the SDGs, disclosure of progress toward achieving these goals (no, yes)
- External assurance provided for specified disclosures in the sustainability report (no, yes but limited to GHG emissions, yes with broader scope than GHG emissions)
- For companies providing some form of external assurance for their sustainability report, the external provider
- For companies providing some form of external assurance for their sustainability report, where the assurance statement/reference was located
- Disclosure attributes for each of the GCI (not disclosed, disclosed in the sustainability report, 10-K, and/or proxy statement or calculable from information contained in these three reports)
- Reference to the SDGs in the Chairman/CEO letter introducing the sustainability report

For each of the Dow 30 companies, the disclosure checklist coding began with a review of the company's sustainability report by a researcher/assistant. For Core Indicators not disclosed in the sustainability report, the researcher/assistant reviewed the 10-K. Indicators more likely to appear in the 10-K (as opposed to the sustainability report) included Revenues (A.1.1), Value Added (A.1.2) (calculable), Net Value Added (A.1.3) (calculable), Taxes and Other Payments to the Government (A.2.1), and Total Expenditures on Research and Development (A.3.3). For Core Indicators not disclosed in the sustainability report or 10-K, the researcher/assistant reviewed the proxy statement. Indicators more likely to appear in the proxy statement (as opposed to the sustainability report or 10-K) included Number of Board Meetings and Attendance Rate (D.1.1), Number and Percentage of Women Board Members (D.1.2), Board Members by Age Range (D.1.3), and Number of Meetings of Audit Committee and Attendance Rate (D.1.4).

For each company's disclosure checklist, a second researcher/assistant reviewed the initial coding to 1) confirm those items marked as disclosed and 2) to perform an additional search of the three company reports for items coded as not disclosed by the initial researcher/assistant. The initial coder and reviewer discussed any discrepancies and agreed the proper coding. Another assistant not involved in the initial coding or first review conducted a second review. Any discrepancies noted during the second review were discussed with one of the researchers and the proper coding agreed.

C. FINDINGS

1. References to internationally recognized standards in the sustainability report

As discussed previously, PwC's (2018) analysis of the reporting practices of 729 companies worldwide revealed that the most frequently referenced sustainability framework was the GRI framework. Similarly, CSE's review of the 2016/17 sustainability reports of 642 private companies and other organizations based in Canada and the US revealed that 59% referenced the GRI framework.

Our analysis of the Dow 30 revealed that 80% (24) referenced the GRI framework (see Table 1). However, only four of these companies specifically referenced the GRI comprehensive index in their sustainability report. One Dow 30 company further noted that its 2018 business and sustainability report represented an initial move toward Integrated Reporting (IR). Another indicated that during 2018 the company continued to progress its integrated reporting strategy to include environmental, social, and governance information in its 2018 annual report, proxy statement, and investor relations website.

KPMG's analysis of the 2017 corporate reporting of Global 250 companies indicated that approximately 40% referenced the UN's SDGs. However, only 31% of the US companies KPMG reviewed directly reported on the SDGs. In contrast, our analysis of the 2018 sustainability reports of the Dow 30 revealed that 73% (22) referred to the UN SDGs. Nineteen (63%) referenced both the GRI index and SDGs. In addition, seven Dow 30 CEOs/Chairmen referred to the SDG's in their letter to shareholders.

Ten of the Dow 30 are signatories to the UN Global Compact. All ten signatories and two additional Dow 30 companies (12) mentioned the UN Global Compact in their sustainability report.

To illustrate the form references to internationally recognized standards could take in Dow 30

Table 1
References to GRI and the UN SDGs and in the Dow 30 2018 Sustainability Reports Global Compact

Dow 30 Sustainability Report Reference	Number of Dow 30	Percentage of Dow 30
Reference to GRI	24	80%
Reference to UN SDGs	22	73%
Reference to both GRI and SDGs	19	63%
Reference to UN SDGs in CEO/ Chairman's letter	7	23%
Global Compact Signatory	10	33%
Reference to Global Compact	12	40%
Mapping to SDGs	21	70%
KPIs / targets based on mapping (prioritization of select SDGs)	17	57%
Progress on achieving targets	16	53%

sustainability reports, excerpts from 3M are provided below. 3M's sustainability report included a section entitled *Global Principles and Guidelines*. In this section, the company discussed the GRI and stated

The following GRI Index outlines where specific GRI reporting elements and indicators are addressed in the report or other reporting sources, including the Annual Report 2018, 2019 Notice of Annual Meeting & Proxy, and / or other noted sources on 3M's Investor Relations website. (p. 223)

3M further explained that the company selected GRI as the primary source referenced in the sustainability report due to the global reach of the standard. In this section, 3M also discussed the UN Global Compact (UNGC). The company stated

3M committed to the UNGC principles in early 2014. This report includes an index of our COP implementing the 10 principles as well as alignment with the United Nations 2030 Sustainable Development Goals (SDGs) within the content of this 2019 Sustainability Report. (p. 223)

3M also referred readers to a GRI Index table for cross-references between content of the sustainability report and the 10 Principles of the United Nations Global Compact, as well as alignment with the 2030 SDGs. In his message to stakeholders introducing the 2019 sustainability report, CEO Roman stated

In 2019 we plan to announce substantial new Sustainability initiatives under our new framework in accordance with the United Nations Global Compact and its principles. And we invite you to join us. (p. 5)

Finally, 3M mentioned the Sustainability Accounting Standards Board (SASB) and noted that, for their sustainability

reporting strategy, the company utilizes multiple tools and frameworks to assure they are objective, transparent, and globally relevant in our public reporting process. This includes GRI, SASB, and the SDGs. (p. 223)

As noted previously, according to a *Forbes publication*, companies reporting on sustainability use internationally recognized standards or guidelines such as the GRI framework and CDP. Review of the US Corporate Scores reported by CDP[46] reveals that 21 fully reported to the CDP: six partially reported; three did not report. Of those reporting, eight made the 2018 North American A-list.

2. Mapping of SDGs

In a 2019 report addressing the public disclosures of the Dow 30, EcoAct reported that 70% of the companies engaged with and/or quantified progress toward the UN SDGs, and another 7% mentioned the UN SDGs. Our review of the Dow 30 2018 sustainability reports revealed that 21 (70%) had mapped their sustainability goals to the UN SDGs (see Table 1). Furthermore, based on a mapping and identification of key areas where companies believe they can best contribute to achievement of the UN SDGs, 17 (57%) had set KPIs/targets. Of these, all but one also reported on progress toward achieving their targets.

To illustrate the form SDG mappings and KPIs/targets could take in Dow 30 sustainability reports, excerpts from Coca Cola are provided below In Coca Cola's 2018 Business and Sustainability Report, which represents the company's first movement toward IR, it provided a table that lists the 2015 UN SDGs, identifies the company's priorities for contributing to the achievement of the SDGs, and maps to documents and websites where stakeholders can obtain more information. Coca Cola's sustainability report stated:

[46] CDP. 2019. *U.S. Corporate Scores 2018,* Available at: https://www.cdp.net/en/reports/archive.

The Sustainable Development Goals (SDGs) were first launched in 2015 and are a core part of the agenda developed by the 193 member states of the United Nations to work towards the future we want, one where all people thrive within a healthy environment. The 17 goals – geared towards a 2030 timeframe – and the related 169 targets have become an important framework for companies to rally around as they address an array of complex, interrelated global issues.

We recognize that we cannot achieve any one of the SDGs on our own. Yet, as a global company with a wide supply chain and consumer reach, we have a potentially significant role to play in meeting many of these ambitious aims. We have taken a closer look at where we can make contributions to the SDGs, whether through collaborations with our partners and industry peers, supplier engagement, or in other places where we have leverage to amplify our positive impacts.

The following table outlines the SDG goals and specific targets to which we most directly contribute, with links to more information. (p. 41)

3. Disclosure of UNCTAD-ISAR Global Core Indicators

The core indicators were selected by UNCTAD based on "key reporting principles, selection criteria, main reporting frameworks and company reporting practices" and are considered "indispensable to assess the economic, environmental, and social and governance impacts of companies' activities…" [47]. This section discusses the extent to which the Dow 30 companies publicly disclose the core indicators in their sustainability reports, 10-Ks, and proxy statements.

Economic Areas (Table 2)

All the Dow 30 companies disclosed Revenue (A1.1) in their 10-K; 16 also reported Revenue in their sustainability report. Only one of the Dow 30 disclosed Value Added (A.1.2), and none disclosed Net Value Added (A.2.2). An additional 23 disclosed sufficient information in their 10-K to calculate Value Added. Twelve disclosed sufficient information in their 10-K to calculate Net Value Added. It is important to note that, in the US, Value Added and Net Value Added are not frequently utilized indicators. In their Income Taxes Footnote (10-K), all the Dow 30 disclosed Taxes and Other Payments to Governments (A.2.1). Only two disclosed this indicator in their sustainability report. As an example of the latter, in its sustainability report, Dow provided a graphic labelled 2018 taxes (payments) to government by geographic regions (i.e., North America, Europe/Middle East/Africa, Latin America, Asia/Pacific).

Table 2
Disclosure of Global Core Indicators by the Dow 30 (Economic Areas)

Core Indicators		Alternative Measurements (if applicable)	Disclosed or Calculable	Percentage Disclosed or Calculable
A.1 Revenue and/or (net) value added	A.1.1 Revenue		30	100%
	A.1.2 Value added		24	80%
	A.1.3 Net value added		12	40%
A.2 Payments to the Government	A.2.1 Taxes and other payments to the Government		30	100%
A.3 New investment/expenditures	A.3.1 Green investment	absolute amount	2	7%
		percentage	2	7%
	A.3.2 Community investment	absolute amount	24	80%
		percentage	24	80%
	A.3.3 Total expenditures on research and development	absolute amount	15	50%
		percentage	15	50%
A.4 Local supplier/purchasing programmes	A.4.1 Percentage of local procurement	absolute amount	1	3%
		percentage	4	13%

[47] UNCTAD. 2019. Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals. Available at: https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=2469, page 8.

Regarding new investment/expenditures, two of the Dow 30 disclosed an absolute measure of Green Investment (A.3.1) in their sustainability report and provided sufficient information in their sustainability report and/or 10-K for the user to calculate percentage amounts. Twenty-four of the Dow 30 disclosed a measure of Community Investment (A.3.2) (as an absolute amount and/or percentage). For example, Exxon Mobil provided a graphic that detailed community investment by geographic region and by focus area. Fifteen of the Dow 30 disclosed Research and Development (A.3.3) as an absolute amount. Of the 15, six also reported Research and Development as a percentage of Sales or Total Assets. For the other nine, the company provided sufficient information to calculate a percentage measure. Research and development costs are a required disclosure for public US companies; thus, absence of this disclosure for any company in our sample implies either none, or an immaterial amount of, these costs. For example, Walgreens specifically stated that research and development is not material.

Four Dow 30 companies disclosed a measure of Local Procurement (A.4.1) in percentage terms, but only Chevron disclosed Local Procurement as an absolute amount. In its sustainability report, Chevron stated:

In 2018 TCO[48] *spent more than $3.5 billion on local goods and services. In addition to spending on local goods and services, TCO also engages our strategic partners…to support local development. In 2018, we supported local manufacturers that produce G-type cement, railcar sulphur covers and industrial chemicals. These local content partnerships not only improved community development and lowered costs, but they enable a more responsive supply chain. (p. 17)*

Environmental Areas (Table 3)

Regarding the Sustainable Use of Water, six of the Dow 30 disclosed a measure of Water Recycling/Reuse (B.1.1) as an absolute amount and/or percentage. Twenty-three disclosed at least one measure of Water Use Efficiency (B.1.2). Of these,

- 21 disclosed the absolute amount of water used during the period
- 22 disclosed the change in water use between reporting periods as an absolute amount and/or percentage
- Thirteen of the Dow 30 disclosed at least one measure of Water Stress (B.1.3). Of these,
- 12 disclosed by source area (e.g., surface, ground, rainwater, wastewater) as an absolute amount and/or percentage
- Seven disclosed by water scarce or water stressed area as an absolute amount and/or percentage in terms of Waste Management

Twenty of the Dow 30 disclosed the Reduction of Waste Generation (B.2.1) as an absolute amount and/or percentage. Twenty-two disclosed Waste Reused/Remanufactured/Recycled (B.2.2) as an absolute amount and/or percentage. Twelve of the Dow 30 disclosed Total Hazardous Waste (B.2.3). Ten disclosed the Proportion of Hazardous Waste Treated as an absolute amount and/or percentage. Regarding Greenhouse Gas Emissions, 26 disclosed both the absolute amount of and percentage change in Scope 1 (B.3.1) and Scope 2 (B.3.2) emissions. Of the remaining companies, two disclosed Scope 1 and Scope 2 emissions combined, and the other two disclosed the percentage change year to year for Scope 1 and Scope 2 emissions combined.[49] Of the Dow 30, seven disclosed Ozone-depleting Substances and Chemicals (B.4).[50]

In terms of Energy Consumption, 18 of the Dow 30 disclosed Renewable Energy Consumption (B.5.1) as a percentage of total energy consumption. Twenty-three disclosed Energy Efficiency (B.5.2) (i.e., total energy consumption).

Social Areas (Table 4)

Regarding Gender Equality, 23 of the Dow 30 disclosed the Proportion of Women in Management Positions (C.1.1). Regarding Human Capital, disclosure was more limited:

[48] Tengizchevroil

[49] Three of these companies participate in the CDP. It is possible that they report Scope 1 and Scope 2 emissions separately in their CDP reports, but the reports are behind a paywall and are thus not accessible by the general public.

[50] The research shows that only a small number of Dow 30 companies explicitly disclosed hazardous waste core indicators. Of those companies that did not disclose, some may not have had hazardous waste; therefore, disclosure would not be applicable. However, it is also noted that some companies discussed hazardous waste in their public reports, implying applicability, though they did not specifically disclose the related core indicator.

Table 3
Disclosure of Global Core Indicators by the Dow 30 (Environmental Areas)

Core Indicators		Alternative Measurements (if applicable)	Disclosed or Calculable	Percentage Disclosed or Calculable
B.1 Sustainable use of water	B.1.1 Water recycling and reuse	absolute amount	4	13%
		percentage	6	20%
	B.1.2 Water use efficiency	current period	21	70%
		period change (absolute amount)	20	67%
		period change (percentage)	22	73%
	B.1.3 Water stress	by source area (absolute amount)	11	37%
		by source area (percentage)	12	40%
		by stressed or scarce area (absolute amount)	4	13%
		by stressed or scarce area (percentage)	7	23%
B.2 Waste management	B.2.1 Reduction of waste generation	absolute amount	18	60%
		percentage	20	67%
	B.2.2 Waste reused, re-manufactured and recycled	absolute amount	20	67%
		percentage change	19	63%
	B.2.3 Hazardous waste	total	12	40%
		proportion treated (absolute amount)	9	30%
		proportion treated (percentage)	8	27%
B.3 Greenhouse gas emissions	B.3.1 Greenhouse gas emissions (scope 1)	absolute amount	26	87%
		percentage change	26	87%
	B.3.2 Greenhouse gas emissions (scope 2)	absolute amount	26	87%
		percentage change	26	87%
B.4 Ozone-depleting substances and chemicals	B.4.1 Ozone-depleting substances and chemicals		7	23%
B.5 Energy consumption	B.5.1 Renewable energy		18	60%
	B.5.2 Energy efficiency		23	77%

- Six disclosed the Average Hours of Training Per Year Per Employee (C.2.1)
- Four disclosed Expenditure on Employee Training Per Year Per Employee (C.2.2)
- None disclosed Employee Wages and Benefits as a Proportion of Revenue (C.2.3) by employment type or by gender

Some companies did disclose employment type and gender related wage and benefit information, though not in the form of a core indicator. For example, Dow explained:

Compensation Equity GRI 405-2 Global pay equity studies have been conducted at Dow over the last 20 years to assess fair treatment and ensure our pay practices are being implemented appropriately. The most recent analysis was conducted for 2018, following our annual global pay planning cycle. The impact of gender on pay decisions is examined globally, and the impact of ethnicity is examined in the United States. Dow's three components of compensation are reviewed (base pay annual performance award and long-term incentives). The study examines impact on pay differences that cannot be explained by legitimate factors (e.g., performance ratings, job level, education,

Table 4
Disclosure of Global Core Indicators by the Dow 30 (Social Areas)

Core Indicators		Alternative Measurements (if applicable)	Disclosed or Calculable	Percentage Disclosed or Calculable
C.1 Gender equality	C.1.1 Proportion of women in managerial positions		23	77%
C.2 Human capital	C.2.1 Average hours of training per year per employee		6	20%
	C.2.2 Expenditure on employee training per year per employee		4	13%
	C.2.3 Employee wages and benefits as a proportion of revenue, with breakdown by employment type and gender	by employment type	0	0%
		by gender	0	0%
C.3 Employee health and safety	C.3.1 Expenditures on employee health and safety as a proportion of revenue		0	0%
	C.3.2 Frequency/incident rates of occupational injuries	new injuries per hour worked	13	43%
		lost days	15	50%
C.4 Coverage by collective agreements	C.4.1 Percentage of employees covered by collective agreements		7	23%

years of service, time since promotion, age, and/or geography).

The 2018 pay equity study found no meaningful difference in base pay, performance award or long-term incentives between genders or between U.S. minorities and non-minorities. Pay differences were attributable to the legitimate factors listed above and were not related to gender or ethnicity. These results demonstrate that pay equity exists across Dow following the 2018 increases and that global pay-planning guidelines are being applied appropriately. (p. 65)

Dow also provided a graphic with the following indicators:

- Global Female Pay as a Percent of Male Pay (base 100.5%, performance award 100%, long-term incentives 100.3%)
- U.S. Minority Pay as a Percent of Non-Minority Pay (base 100.5%, performance award 99.9%, long-term incentives 99.6%)

It is important to note that, given the litigious nature of the US environment, Legal Counsel likely recommends or prohibits companies from publicly disclosing gender equity indicators.

Regarding Employee Health and Safety, none of the Dow 30 disclosed Expenditures on Employee Health and Safety as A Proportion of Revenue (C.3.1). In terms of the Frequency/Incident Rates of Occupational Injuries (C.3.2),

- 13 disclosed the Frequency Rate
- 15 disclosed the Incident Rate

Seven of the Dow 30 disclosed the Percentage of Employees Covered by Collective Agreements (C.4.1).

Institutional Areas (Table 5)

In terms of Corporate Governance, 29 of the Dow 30 reported the Number of Board Meetings (D.1.1). In its proxy statement, the remaining company described that each year the Board has quarterly meetings plus additional special meetings; however, the company did not provide a specific number. Only one of the

29 reported a specific Attendance Rate at Board Meetings (D.1.1). Alternatively, most noted an average attendance rate at board and committee meetings. All the Dow 30 disclosed both the Number and Percentage of Women Board Members (D.1.2). All the Dow 30 disclosed Board Members by Age Range (D.1.3). Twenty-seven disclosed the Number of Audit Committee Meetings, with only two of these disclosing a specific Attendance Rate at Audit Committee Meetings (D1.4). All the Dow 30 disclosed Total Compensation Per Executive Board Member and Total Compensation Per Non-Executive Director (D.1.5). Most of the aforementioned Corporate Governance disclosures appeared in the proxy statement.

Regarding Anti-Corruption Practices, only one of the Dow 30 alluded to Fines Paid or Payable Due to Settlements (D.2.1) by indicating there was zero tolerance and hence no fines paid/payable. For most, this disclosure is likely not applicable or is immaterial,

Table 5
Disclosure of Core SDG Indicators by the Dow 30 (Institutional Areas)

Core Indicators		Alternative Measurements (if applicable)	Disclosed or Calculable	Percentage Disclosed or Calculable
D.1 Corporate governance disclosures	D.1.1 Number of board meetings and attendance rate	number of meetings	29	97%
		attendance rate	1	3%
	D.1.2 Number and percentage of women board members	number	30	100%
		percentage	30	100%
	D.1.3 Board members by age range		30	100%
	D.1.4 Number of meetings of audit committee and attendance rate	number of meetings	27	90%
		attendance rate	2	7%
	D.1.5 Compensation: total compensation per board member (both executive and non-executive directors)	executive directors	30	100%
		non-executive directors	30	100%
D.2 Anti-corruption practices	D.2.1 Amount of fines paid or payable due to settlements		1	3%
	D.2.2 Average number of hours of training on anti-corruption issues, per year per employee		0	0%

as US public companies are prohibited from engaging in foreign bribery and related activities by the Foreign Corrupt Practices Act of 1977, and domestic bribery is a felony in most states. While several companies discussed anti-corruption training, none specifically disclosed the core indicator Average Number of Hours of Training on Anti-Corruption Issues Per Year Per Employee (D.2.2).

4. External Assurance Provided for Sustainability Report

A review of the 2016/17 sustainability reports of private companies and other organizations based in Canada and the US revealed that only 25.7% of those providing sustainability reports also provided an assurance report from an external provider. This represented a decline of 5.4% from a comparable study conducted in 2015.

Our analysis revealed that at least 22 (73%) of the Dow 30 engaged a third party to provide external assurance for certain aspects of their most recent sustainability report (see Table 6). There is evidence that 14 of these companies obtained external assurance for a broad scope of areas (i.e., more than GHG emissions) (see Panel A). Nine of the 14 companies included the full assurance statement in their sustainability report, and one company referred to external assurance in its sustainability report. Four companies included a link in their on-line sustainability report to an external assurance statement. Providers for the 14 companies that obtained broad scope external assurance included two Big 4 firms (EY and Deloitte) and five other providers (Bureau Veritas, LSQR, ERMCUS, WSP, and Fraunhofter). For one company, the reference to external assurance did not disclose the provider.

For the other eight companies that engaged a third-party assurance provider, scope was limited to GHG emission disclosures (see Panel B). Only two of these companies included the full assurance statement in their sustainability report, and another three referred to external assurance in their sustainability report. Two companies provided a link in their on-line sustainability report to an external assurance statement. For the final company, following multiple links from the on-line sustainability report was required to locate the external assurance report. Providers for the eight companies that obtained external assurance only over GHG emission disclosures included one Big 4 firm (PwC) and three other providers (Lucidan, Bureau Veritas, and LSQR). For three of the companies, the references to external assurance did not disclose the external assurance provider. Our analysis revealed no evidence of external assurance for the remaining eight Dow 30 companies (27%) (see Panel C).

To illustrate how assurance can be achieved over a broad scope of areas (i.e., more than GHG emissions), examples from Apple, Johnson and Johnson, Dow Chemical, and Walgreens are provided. Apple's sustainability report included five external assurance reports. Bureau Veritas North America provided

Table 6
2018 Sustainability Reports of Dow 30 Providing External Assurance

	Number of Dow 30	Percentage of Dow 30
Panel A: External assurance broad scope	14	47%
Full external assurance statement included in sustainability report	9	30%
External assurance referenced in sustainability report (e.g. brief statement or footnote)	1	3%
Link in sustainability report to full external assurance statement	4	13%
Assurance provider		
Big 4 Firm (i.e., EY, Deloitte)	3	10%
Other (i.e., Bureau Veritas, LSQR, ERMCVS, WSP, FraunhoferIZM)	10	33%
Not disclosed	1	3%
Panel B: External assurance scope limited to GHG emissions	8	27%
Full external assurance statement included in sustainability report	2	7%
External assurance referenced in sustainability report (e.g. brief statement or footnote)	3	10%
Link in sustainability report to full external assurance statement	2	7%
Multiple links or independent search (e.g. for GRI Index) lead to external assurance	1	3%
Assurance provider		
Big 4 Firm (i.e., PwC)	1	3%
Other (i.e., Bureau Veritas, Lucidan, LSQR)	4	13%
Not disclosed	3	10%
Panel C: No reference to external assurance identified	8	27%

independent assurance covering energy, renewable energy, water withdrawal, GHG emissions (Scope 1, 2, and 3), waste quantities and disposition, paper quantities, and appropriateness and robustness of underlying reporting systems and processes used to collect, analyse, and review the environmental information provided. Bureau Veritas's procedures were based on ISAE 3000. Bureau Veritas North America also provided an independent assurance statement addressing Apple's Supplier Clean Energy Program. Bureau Veritas followed procedures based on ISAE 3000. Fraunhofer IZM provided a review statement addressing Apple's corporate fibre footprint data related to fibre usage from products, corporate, and retail operations. Absent a standard method for calculating a product or company fibre footnote, Apple defined a methodology for internal use. Fraunhofer IZM also provided a letter of assurance addressing Apple's Scope 3 (Product) related carbon footprint for Fiscal Year 2018. The life cycles emissions data for products produced by Apple was calculated in accordance with ISO 14040/14044. The verification and sampling plan met the requirements of ISO 14046-3. Finally, Fraunhofer IZM provided a review statement addressing Apple's corporate plastic footprint data related to corporate packaging plastic usage from products and retail operations in fiscal year 2018. Again, absent availability of a standard method, Apple defined a methodology for internal use.

Johnson & Johnson included three assurance statements in its 2018 Health for Humanity Report. ERM CVS provided limited assurance on cumulative progress over 2016-2018 against the Health for Humanity 2020 Goals reported in Johnson & Johnson's sustainability report. In a separate assurance statement, ERM CVS provided limited assurance addressing the company's "UN Sustainable Development Commitment Progress." The review focused on the consolidated 2016 to 2018 progress against Johnson & Johnson's targets related to its SDG 2030 vision and aspirations. In a third statement, ERM CVS provided assurance in relation to GHG emissions (Scopes 1, 2, and 3). For each of the three assessments, ERM CVS followed a methodology based on ISAE 3000.

Consistent with GRI 102-56, Dow engaged ERM CVS to provide limited assurance in relation to the company's 2018 sustainability report. The scope covered whether Dow prepared the report in accordance with the GRI comprehensive option and whether Dow's reported progress against its 2025 Sustainability Goals was fairly presented, in all material respects, in accordance with its internal reporting criteria. ERM CVS's assurance methodology followed ISAE 3000.

Walgreens Boots Alliance provided an assurance report based on a review of numerous indicators presented in the company's 2018 sustainability report. The indicators addressed the following areas:

- Environment (13 indicators)
- Corporate Giving (four indicators)
- Workplace (eight indicators)
- GRI indicators (eight indicators)

Deloitte conducted a review of the above indicators in accordance with attestation standards specified by the American Institute of Certified Public Accountants.

D. CURRENT REGULATORY ENVIRONMENT

Despite calls from investors for new sustainability rules and greater comparability[51], it appears unlikely that the US SEC will issue additional sustainability related disclosures for listed companies in the near future[52]. For example, regarding human capital disclosure requirements, while addressing SEC Investor Advisory Committee members, SEC Chair Clayton[53] stated "I am wary of jumping in with rules or guidance that would mandate rigid standards or metrics for all public companies." Furthermore, when addressing the 18th Annual Institute on Securities Regulation in Europe, SEC Director of Corporation Finance Hinman[54] stated:

We recognize that market participants have raised questions about the sufficiency of sustainability disclosures, and I think this is a complicated issue. While many market participants have expressed a desire for more specific sustainability disclosure requirements, others have concerns that specific sustainability disclosure requirements could result in disclosure that might not be considered material to a reasonable investor. In addition, market participants who do support additional sustainability disclosure requirements do not themselves uniformly recommend additional disclosure on the same sustainability issues. We hear differing views on whether disclosure requirements should be principles-based or prescriptive, and whether they should utilize a specific set of reporting standards to enhance comparability.

So it appears to me that the market is still evaluating what, if any, additional disclosure on these topics would provide consistently material and useful information. The marketplace evolution of sustainability disclosures is ongoing – companies certainly provide more sustainability information than they did ten years ago – and allowing this evolution to continue should provide market participants with a continued opportunity to sort out the types of information they find useful. Had we leapt into action and issued prescriptive sustainability disclosure requirements when people first began calling for them, I believe we would have stymied that evolution and stifled efforts to develop useful disclosure frameworks. Substituting regulatory prescriptions for market-driven solutions, especially while those solutions are evolving, in my view, is something we need to manage with utmost care. In the meantime, we are watching carefully as market-led approaches develop in this area, and we actively compare the information companies voluntarily provide – typically outside of their SEC filings – with the disclosure we see filed with us.

E. CONCLUSION

The companies that comprise the Dow 30 are chosen to be representative of the current state of the US economy. As such, their performance, and relatedly their public disclosures, receive prominent attention from investors, the media, and the public at large. These companies have the potential to be bellwethers of sustainability reporting in the US, yet our analysis reveals they have much work to do. The Dow 30 are largely compliant with disclosing core indicators that align with US capital market reporting expectations,

[51] Bernow, S, Godsall, J., Klempner, B., And Merten, C. 2019. More Than Values: The Value-Based Sustainability Reporting That Investors Want, August, McKinsey & Company, Available at: https://www.mckinsey.com/business-functions/sustainability/our-insights/more-than-values-the-value-based-sustainability-reporting-that-investors-want?cid=eml-web#.

[52] Maiden, B. 2019. SEC Official Cautions on New ESG Disclosure Rules. IR Magazine. March 2019. Available at: https://www.irmagazine.com/reporting/sec-official-cautions-new-esg-disclosure-rules

[53] Clayton, J. Remarks for Telephone Call with SEC Investor Advisory Committee Members, February 6. Available at: https://www.sec.gov/news/public-statement/clayton-remarks-investor-advisory-committee-call-020619.

[54] Hinman, W. 2019. Applying a Principles-Based Approach to Disclosing Complex, Uncertain and Evolving Risks, March 2019. Available at: https://www.sec.gov/news/speech/hinman-applying-principles-based-approach-disclosure-031519.

such as Revenue (A.1.1) and Taxes (A.2.1). They are also largely compliant with disclosing core indicators related to Board characteristics, such as Number of Board Meetings (D.1.1), Number of Audit Committee Meetings (D.1.4), Director Ages (D.1.3), and Director Compensation (D.1.5).

Current events appear to encourage the disclosure of certain core indicators. Gender equality, climate change, and community giving are highly publicized issues in the US, and the Dow 30 largely disclose related core indicators such as Female Board Members (D.1.2), Female Managers (C.1.1), Greenhouse Gases (B.3.1, B.3.2), and Community Investment (A.3.2). However, this disclosure is selective, as few of the Dow 30 companies disclose core indicators such as Wages By Gender (C.2.3), Green Investment (A.3.1), Ozone Depleting Substances (B.4.1), and Local Procurement (A.4.1). It is possible that companies are conservative with such disclosures due to the litigious nature of the US corporate environment or the fear of negative publicity damaging their corporate image.

One major hurdle encountered during this study was the collection of sustainability related information in public disclosures. In a sample of only 30 companies, sustainability information was located in numerous, inconsistent places (e.g., single sustainability report; multiple sustainability reports; annual reports; proxy statements; links within reports/websites to other reports/websites; information behind paywalls) and presented in numerous, inconsistent ways (e.g., raw numbers, ratios, by type, consolidated, various wording/descriptors, absence of acknowledgement). Some companies addressed the UN SDGs with a letter from the CEO in their sustainability report while others did not. Some companies obtained assurance over their sustainability reporting, but even then, it was not always obvious if assurance was obtained, who provided it, or what standards were followed.

Assuming the Dow 30 are representative of the larger collection of US companies, one takeaway from the chapter is that US sustainability reporting has a similar amount of successes and shortfalls in the information made available to the public. A second, and perhaps more important, takeaway is that US companies could use a common set of disclosure rules or principles with respect to not only what should be reported (which the global core indicators serve), but also how to report non-applicability when necessary and where to report to ensure easy access by stakeholders. Given the proper tools, the Dow 30 companies have the opportunity to expand their current practices and become a leading example of sustainability reporting in the US.

CHAPTER II.
REVIEW OF SUSTAINABLE DEVELOPMENT GOALS DISCLOSURES IN EGYPT

A. INTRODUCTION[55]

At the end of the last millennium, member States of the United Nations (UN), adopted a set of goals known as the *Millennium Development Goals* (MDGs) with a view to decreasing the level of poverty, hunger, and spread of diseases. However, after fifteen years, the UN has worked on developing those goals to not only serve human rights, but also to address the recent environmental problems. As discussed in the introduction to this volume, in September 2015, member States of the UN adopted a set of seventeen goals titled the *Sustainable Development Goals*. The Sustainable Development Goals (SDGs) can be divided into two parts. The first part focuses on human rights and development, and the second part focuses on improving the environment, taking into consideration climate change, and pollution. At the beginning of 2016, most countries decided to start implementing the 2030 agenda. According to the findings of this study, most of the enterprises surveyed will achieve a high score of sustainability reporting before the year 2030. This would be a positive indicator of a successful agreement, and a positive step towards an improved business environment.

This chapter examines the reporting practices of enterprises in Egypt on their contributions towards the attainment of the Sustainable Development Goals (SDGs). The study is based on a survey of the thirty listed companies on the Egyptian Stock Exchange. The 2017 annual reports and sustainability reports of the sample companies were examined for this study.

The objectives of this chapter are to:

(a) Shed light on the importance of SDGs;

(b) Observe the level of implementation of the SDGs by corporations in Egypt;

(c) Provide an overview of the 2030 agenda commitment in Egypt;

(d) Examine the Sustainable Development Strategy (SDS) in Egypt; and

(e) identify factors that contribute to success and challenges encountered in reporting on the SDGs.

B. OVERVIEW OF THE RECENT DEVELOPMENTS IN SDGS

This section discusses the implementation process of the SDGs in Egypt, as well as, the laws and regulations governing the process, and Egypt's 2030 vision guidelines and framework.

Egypt started working with the United Nations Development Programme (UNDP), fifteen years ago, to achieve the MDGs. According to their report[56], Egypt's implementation has been successful. During the last five years, the Egyptian President, along with the Government, and the UNDP have been working on implementing the 2030 vision, which moves along with the African Union Agenda 2063, and the SDGs of 2015. The main objectives of the 2030 vision are to have one goal to work towards, to enable Egypt to have a main role in the international sustainable environment, enhance the standard of living of the Egyptian citizens and achieve their targets, and to make a framework for all of the projects and investments in Egypt, for easier governance. The main committee responsible for forming the 2030 vision, has selected a number of young Egyptians from different tiers of the community to assist in setting the foundations and the strategy of the vision to accommodate their needs. The Government promotes awareness of the 2030 vision.

Along the setting of the foundations of the Sustainable Development Strategy (SDS) in 2014, the SDGs have been introduced. In Egypt, the Government has been working long ago to protect environment. According to the Ministry of Environment, it had its

[55] This chapter was prepared with contributions from Dr. Nermeen F. Shehata, Associate Professor of Accounting and Dr. Khaled M. Dahawy, Professor of Accounting, School of Business, the American University in Cairo, Egypt.

[56] Ministry of Communications and Information Technology. (2016). *2030 Egypt Vision.* Retrieved from http://mcit.gov.eg/Publication/Publication_Summary/1020/

own laws and regulations[57] introduced in 1983 and 1984 to reduce pollution and its negative impact on the environment. After having the SDS 2030 vision plan, the Government has started enforcing laws and regulations to guarantee a smooth implementation of the SDS. The responsible committee for forming the SDS and the 2030 vision has established an oversight board to ensure the proper execution of the plan. The Government, business organizations, and civil society organizations provide regular progress reports to the oversight board. A set of tasks have been assigned to the board, which were assigned by the president and the parliament to follow. The tasks are:

a. Ensuring the proper alignment of the SDS with the execution plan
b. Constructing an electronic database
c. Continuous trainings and development sessions
d. Preparing regular statistics to monitor plan execution
e. Preparing regular reports, review, and analyse data gathered

According to the UNDP, Egypt has succeeded in implementing the MDGs, hence the country is ready for the SDGs.

In the *High-Level Political Forum on Sustainable Development* conference in 2016, Egypt presented a report to clarify where the country stood in sustainable development. The most important points mentioned were:

a. The 2030 vision is going in parallel with the proposed SDGs, and Egypt is working towards achieving the goal
b. Egypt has taken serious steps towards sustainability by including a set of laws in its constitution
c. One of the major steps to reach the goal is to have a unique and tailored approach to fit each country's cultures and needs
d. The government is focusing on investing in different governorates, instead of the capital only, to ensure decreasing the unemployment rates
e. Several training and awareness sessions have been held to engage the corporations in the private sector in the 2030 vision plan
f. The challenges that will be faced later when executing the plan could include some corporations not taking part in implementing the plan, and financing problems as the SDGs need to be financed through a percentage of national assets, and there are other critical priorities that require huge financing such as subsidizing essential goods like fuel and food.

The Egyptian constitution amended in 201455 has four articles that mention Sustainable Development Strategy:

a. Article (27) implies that Egypt can have a well-balanced economic system through having a sustainable development approach
b. Article (41) states that investing in human capital and providing an adequate number of houses that would be proportionate to the population rate is a part of the SDS
c. Article (46) enforces a respectable behaviour towards the environment, by following the sustainable development steps of conserving the environment for the future generations
d. Article (79) indicates that every human being must have the right to have clean and enough water and food, which is an aspect of sustainable development.

In order to succeed in the implementation of the SDGs in Egypt, the government believes that there should be investment in education and health care to ensure having good human capital, ensure that the employers are giving equal opportunities to women and citizens with special needs. Also, there should be continuous oversight of the corporations to guarantee follow-up on the SDGs, and the 2030 vision.

Finally, the Egyptian Government is exerting a great effort to enforce its sustainable development strategy along the way to year 2030. Some corporations in the private sector are still not abiding with SDGs, however there is great awareness of the 2030 vision, also there are regular trainings and media announcements to remind and educate all the stakeholders with the goal Egypt has to meet, for a better living for its citizens, a better place in the international community, and a conserved environment for future generations. The indirect supervision of the president and the parliament ensures that all the governmental entities are working to achieve the 2030 vision.

This section provided an overview of the main steps followed by Egypt, along with the UNDP, to implement

[57] Ministry of Environment. (2019). Retrieved from www.eeaa.gov.eg/en-us/laws/envlaw.aspx

the Sustainable Development Goals (SDGs) by the year 2030. Egypt is working towards the Sustainable Development Strategy (SDS) 2030 vision, through forming laws and regulations in the constitution, and establishing an oversight board to govern the execution of the plan.

C. STATUS OF SUSTAINABLE DEVELOPMENT GOALS DISCLOSURE

1. Research methodology

As discussed above, the purpose of this study is to assess the disclosure level of the SDGs measurement in Egypt, i.e., providing measurement of the extent of disclosure of the SDGs indicators rather than generic policy disclosures by companies. The section examines the reporting practices of Egyptian companies using as a benchmark the *Guidance on core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals* (GCI) issued by UNCTAD's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). The GCI contains 33 indicators on the SDGs in economic, environmental, social and institutional areas.

The environmental indicators are divided into five subcategories, the economic and social areas are each divided into four subcategories, whereas the institutional area has two subcategories.

The sample of companies included in this study includes the top 30 companies in the Egyptian Exchange (EGX) that make up the EGX 30, which is the most commonly used index to measure the performance of the Egyptian capital market. It is a price index that includes the EGX's top 30 companies measured by market capitalization and adjusted by the free float. Constituents of EGX30 in 2017 represented various industries as shown in Table 7 below.

Table 7
EGX30 industrial classification

Sector	Number of companies
Banking	1
Basic resources	2
Chemicals	1
Financial services excluding banks	7
Food and beverage	1
Industrial goods, services and automobiles	2
Oil and gas	1
Personal and household products	3
Real estate	8
Telecommunications	2
Travel and leisure	2
Total	**30**

This study depended mainly on a manual data gathering from published reports and websites of EGX 30 companies. Reports including the annual reports and sustainability reports covered in this study are for year 2017 since it was the most recent year at the time of data collection. The same keywords were used to search for the disclosure of each of the SDGs indicators to ensure consistency and comparability. As mentioned earlier, SDGs disclosure means a monetary value has been provided by the company. In other words, if a company discloses that it has a policy related to energy consumption without providing its measurement as provided in the GCI "Renewable energy consumption as percentage of total energy consumption in the reporting period," then it is given a zero score. The same scoring criteria was followed while scoring all 33 indicators.

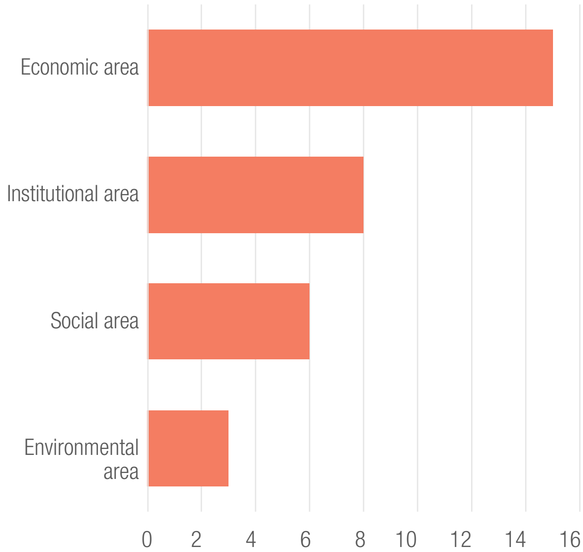
Three basic sources were used in data collection which are the annual report, sustainability report and the company's website. Results are reported by each of the four focus areas of the SDGs and by the frequency of companies' disclosure. Results also highlight the most and least disclosed items/focus areas.

2. Main outcomes of the survey: overview of all disclosure items

Table 8 provides an overview of the disclosure items of the 33 SDGs indicators divided into the four thematic areas as noted above. Next to each indicator is the number of companies found to be disclosing this indicator.

The average number of companies disclosing the indicators of each of the four SDGs areas is provided in Figure 1. Results indicate that the 'Economic area' has got the maximum disclosure scores as shown in Table 8 and thus the highest average number of companies - 15 companies[58], i.e., half the sample size. The second highest SDGs disclosure is reflected in the 'Institutional area' with an average of eight companies disclosing the indicators' measurement. The is followed by the 'Social area' with an average disclosure provided by six companies while the area with the least disclosure is the 'Environmental area' with an average of three companies only disclosing the indicators' measurement.

Figure 1
Disclosure by the average number of companies



Average number of companies[59]

The 'Economic area' has got the maximum disclosure scores as shown in Table 8. Figure 2 below provides a graphical view of the disclosure items in this category. On one hand, the measurement of 'A.2.1. Taxes and other payments to the Government' has got the maximum disclosure since it is disclosed by 26 companies, followed by 'A.1.3. Net value added', 'A.1.2. Value added' and 'A.1.1. Revenue' disclosed by 25, 24 and 23 companies, respectively. On the other hand, 'A.3.3. Total expenditures on research and development' is the least disclosed indicator provided by only one company. The next least disclosed indicators are 'A.3.1 Green investment' and 'A.4.1. Percentage of local procurement' being disclosed by two companies only. Even though 'Economic area' is the category with the highest disclosure levels, it has still got indicators with a very low level of disclosures. To sum up, the 'Economic area', the highest two subcategories disclosed are the 'A.1. Revenue and/or (net) value added' and 'A.2. Payments to the Government' whereas the two subcategories with the least disclosures are the 'A.3.New investment/expenditures' and 'A.4. Local supplier/purchasing programmes.'

[58] The average number of companies is calculated by dividing the total number of disclosures for the Economic area category 117 divided by the number of indicators in the category 8, which is 15 (when rounded off to the next whole number).

[59] Ibid

Table 8
Main findings of survey on EGX30 companies

Area	Indicators	Number of companies disclosing this item
	A. Economic area	
A.1. Revenue and/or (net) value added	A.1.1. Revenue	23
	A.1.2. Value added	24
	A.1.3. Net value added	25
A.2. Payments to the Government	A.2.1. Taxes and other payments to the Government	26
A.3.New investment/ expenditures	A.3.1 Green investment	2
	A.3.2. Community investment	14
	A.3.3. Total expenditures on research and development	1
A.4. Local supplier/purchasing programmes	A.4.1. Percentage of local procurement	2
	B. Environmental area	
B.1. Sustainable use of water	B.1.1. Water recycling and reuse	3
	B.1.2. Water use efficiency	4
	B.1.3. Water stress	0
B.2. Waste management	B. 2.1. Reduction of waste generation	3
	B.2.2. Waste reused, re-manufactured and recycled	3
	B.2.3. Hazardous waste	2
B.3. Greenhouse gas emissions	B.3.1. Greenhouse gas emissions (scope 1)	4
	B.3.2. Greenhouse gas emissions (scopes 2)	0
B.4. Ozone-depleting substances and chemicals	B.4.1. Ozone-depleting substances and chemicals	0
B.5. Energy consumption	B.5.1. Renewable energy	6
	B.5.2. Energy efficiency	6
	C. Social area	
C.1. Gender equality	C.1.1. Proportion of women in managerial positions	11
C.2. Human capital	C.2.1. Average hours of training per year per employee	4
	C.2.2. Expenditure on employee training per year per employee	2
	C.2.3. Employee wages and benefits as a proportion of revenue, with breakdown by employment type and gender	17
C.3. Employee health and safety	C.3.1. Expenditures on employee health and safety as a proportion of revenue	7
	C.3.2. Frequency/incident rates of occupational injuries	0
C.4. Coverage by collective agreements	C.4.1. Percentage of employees covered by collective agreements	1
	D. Institutional area	
D.1. Corporate governance disclosures	D.1.1. Number of board meetings and attendance rate	13
	D.1.2. Number and percentage of female board members	11
	D.1.3. Board members by age range	1
	D.1.4. Number of meetings of audit committee and attendance rate	10
	D.1.5. Compensation: total compensation per board member (both executive and non-executive directors)	11
D.2. Anti-corruption practices	D.2.1. Amount of fines paid or payable due to settlements	6
	D.2.2. Average number of hours of training on anti-corruption issues, per year per employee	1

Figure 2
A. Economic area

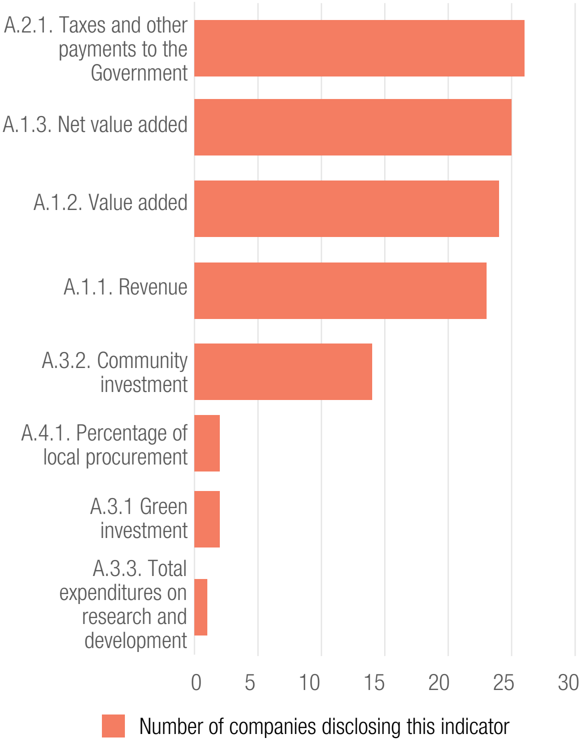
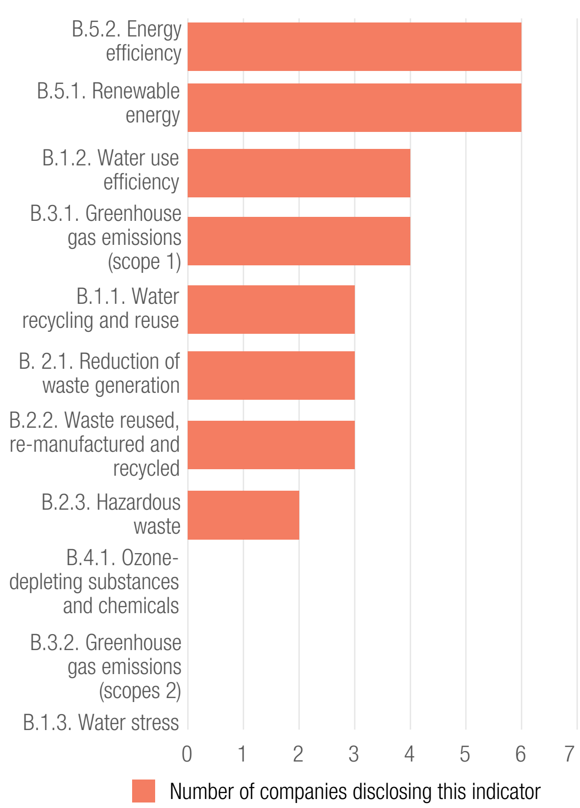


Figure 3
B. Environmental area



As discussed earlier, the 'Environmental area' has got the lowest scores among the four areas. A graphical view of the disclosure items in this category ranked in order of prevalence among EGX30 is provided in Figure 3 below. The highest disclosure provided by only six companies is in the two indicators of the 'Energy consumption' subcategory which are 'B.5.1. Renewable energy' and 'B.5.2. Energy efficiency.' The next highest disclosure is of 'B.1.2. Water use efficiency' and 'B.3.1. Greenhouse gas emissions (scope 1)' indicators provided by four companies from the sample. This is followed by three companies disclosing each of the following indicators: 'B.1.1. Water recycling and reuse', 'B. 2.1. Reduction of waste generation', 'B.2.2. Waste reused, re-manufactured and recycled.' Two companies disclosed the measurement of 'B.2.3. Hazardous waste' while none of the companies disclosed 'B.1.3. Water stress' or 'B.4.1. Ozone-depleting substances and chemicals.' Accordingly, 'B.5. Energy consumption' subcategory has the maximum number of disclosures among the five subcategories, followed by 'B.1. Sustainable use of water' and 'B.2. Waste management', then 'B.3. Greenhouse gas emissions' while 'B.4. Ozone-depleting substances and chemicals' has zero disclosures.

The 'Social area' is ranked third among the four areas in terms of the highest average disclosure provided by companies examined. A graphical view of the disclosure items in this category based on a hierarchical disclosure order is provided in Figure 4 below. The most disclosed indicator is 'C.2.3. Employee wages and benefits as a proportion of revenue, with breakdown by employment type and gender' being disclosed by 17 companies. The next highly disclosed indicator is 'C.1.1. Proportion of women in managerial positions disclosed by 11 companies. This is followed by 'C.3.1. Expenditures on employee health and safety as a proportion of revenue', 'C.2.1. Average hours of training per year per employee', and 'C.2.2. Expenditure on employee training per year per employee' disclosed by seven, four and two companies, respectively. One company only disclosed 'C.4.1. Percentage of employees covered by collective agreements' whereas no company provided 'C.3.2. Frequency/incident rates of occupational injuries. To conclude the 'Social area' with respect to the four main subcategories with the highest to the lowest disclosure, the highest is 'C.1. Gender equality', then 'C.2. Human capital', followed by 'C.3. Employee health and safety' then 'C.4. Coverage by collective agreements`.

Figure 4
C. Social area

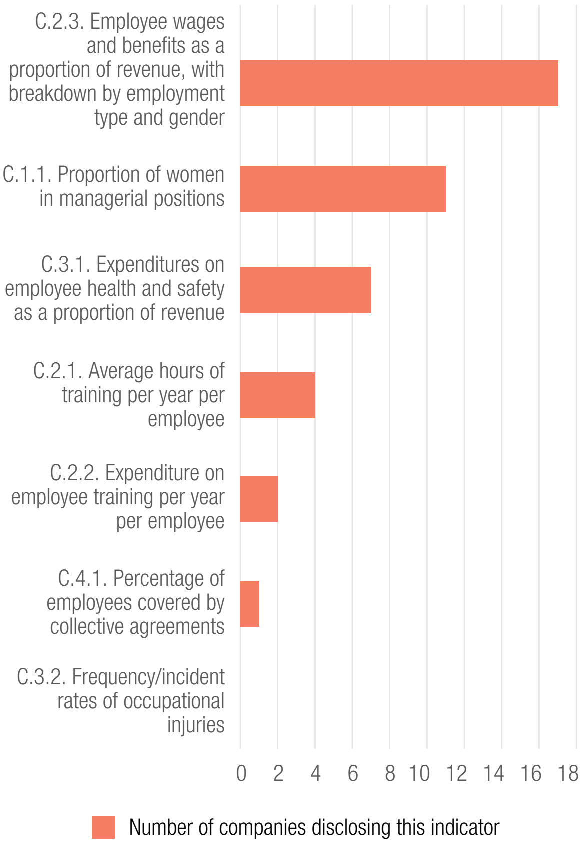
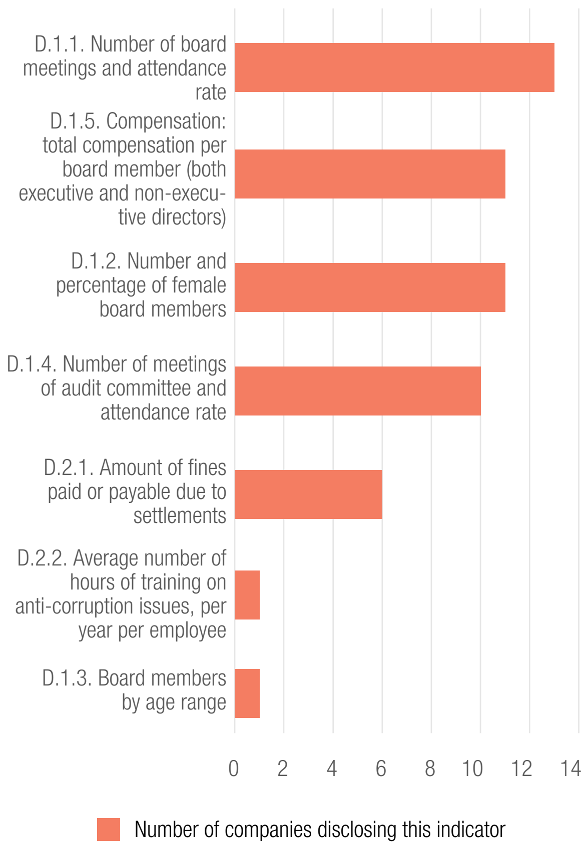


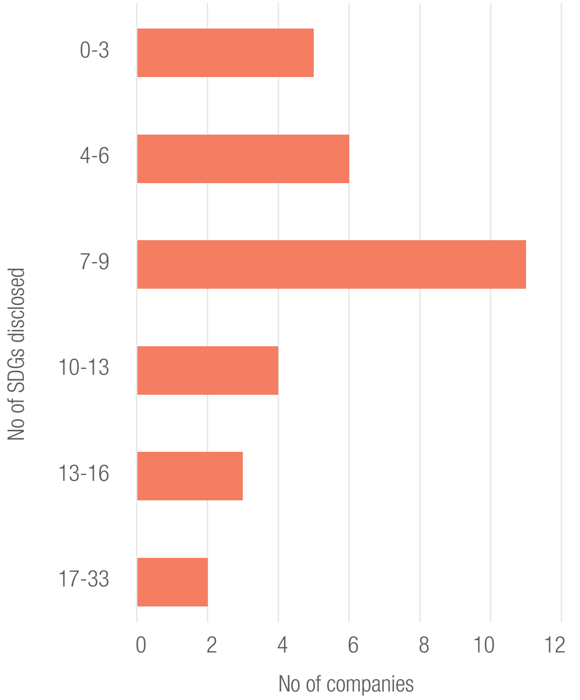
Figure 5
D. Institutional area



The 'Institutional area' is the second most disclosed area among the four SDGs areas. Figure 5 below provides a graphical illustration of the disclosure items in this category ranked in order of prevalence among the EGX30 companies that were assessed. The first indicator 'D.1.1. Number of board meetings and attendance rate' has got the maximum number of disclosure as it is provided by 13 companies, followed by 'D.1.2. Number and percentage of female board members' and 'D.1.5. Compensation: total compensation per board member (both executive and non-executive directors)' provided by 11 companies. Ten companies disclosed 'D.1.4. Number of meetings of audit committee and attendance rate' while six companies disclosed 'D.2.1. Amount of fines paid or payable due to settlements'. However, only one company disclosed 'D.1.3. Board members by age range' and 'D.2.2. Average number of hours of training on anti-corruption issues, per year per employee.' Accordingly, 'D.1. Corporate governance disclosures' subcategory scored a higher average compared to 'D.2. Anti-corruption practices'.

The aforementioned analysis focused on reporting disclosure per each SDGs indicator. Figure 6 below reports the total number of SDGs indicators disclosed by the companies in this study. This is provided for various ranges of companies. Firstly, 50% and more (17-33) of the 33 SDGs indicators are disclosed by two companies only representing 7% of the sample size, between 40% and less than 50% (13-16) of the indicators are disclosed by three companies (10% of the sample size), 4 companies disclosed between 30% and 40% (10-13) of the SDGs indicators, while the majority of the companies, 11 companies (37% of EGX30), disclosed between 20% and 30% (7-9). Twenty per cent of the sample, i.e., six companies reported between 10% and 20% (4-6) of the indicators while 5 companies (17% of the companies) disclosed less than 10% (0-3) of the SDGs indicators.

Figure 6
Reporting by company frequencies



The SDGs indicators are the Commercial International Bank (CIB) and Egyptian Financial Group-Hermes Holding Company (EFG Hermes) where each of them disclosed 19 items of the SDGs. The two companies prepare a sustainability report and clearly disclose their commitment to implementing the SDGs. The next top company that disclosed 16 indicators is Juhayna Food Industries which also clearly stated the relationship between its activities and the SDGs.

The framework used by CIB relied on the Global Reporting Initiative (GRI) Standards Core option to prepare its sustainability report. CIB ranked first in Sustainability Index of the Egyptian Stock Exchange 'S&P/EGX ESG'[60] in 2017 for the fourth year in a row since 2014[61]. CIB was the only bank in the MENA region to participate in the assessment exercise of the Dow Jones Sustainability Index 2017 where its ranking was in the 40th percentile among financial institutions[62]. CIB was recognized as a constituent in the FTSE4 Good Sustainability Index sponsored by the Financial Times[6].

An independent assurance engagement on CIB's 2017 Sustainability reporting process was performed:

" … in order to advance the implementation of GRI reporting principles and disclosures for fulfilling the GRI Standards Core option; particularly the materiality, stakeholder inclusiveness, and sustainability context reporting principles. Reasonable assurance was obtained with regard to the disclosures covering stakeholder engagement exercises, materiality assessment, and activities under ecological responsibility (energy, emissions, and waste). A limited assurance level was obtained for disclosures on social investments, procurement practices, and employee well-being. We advise stakeholders to review the annual report for assurance on financial performance and other standards of practice.[63]"

EFG Hermes was "the first financial services corporation in Egypt to sign the United Nations Principles for Responsible Investment (PRI)."[64]

CIB, EFG Hermes and Juhayna Food Industries were the only three companies that prepared sustainability reports among the EGX30 companies. They stated in their reports that their sustainability activities are aligned with the United Nations Global Compact (UNGC) and SDGs. They also clarified in their reports which SDG reflects their activities and projects.

D. CONCLUSION AND THE WAY FORWARD

This chapter presents first study that examines the process of implementation of the Sustainable Development Goals (SDGs) in Egypt, and the level of commitment to the SDGs by the corporations in Egypt. The ISAR GCI benchmark sets 33 indicators of the SDGs. The study examined the thirty listed companies from the EGX30 list of the Egyptian Stock Exchange, which is the leading index of publicly listed companies, through their disclosures in their 2017 annual reports, sustainability reports and websites. The study aimed

60 The EGX launched the sustainability index in cooperation with Standard and Poor's (S&P) and the Egyptian Institute of Directors (EIoD) in March 2010

61 CIB 2017 annual report, page 9

62 CIB 2017 annual report, page 39

63 CIB 2017 Sustainability report, page 48

64 EFG Hermes 2017 Sustainability report, page 10

to provide a picture of what the disclosure level is of the SDGs in the sample companies studied, focusing on the general level of disclosure of SDGs and the detailed level of disclosure of the subcategories.

The first section of this chapter provided an introduction to SDGs and an overview of implementing the SDGs in Egypt. The main results shown in section 2 indicated a relatively low level of the disclosures related to the SDGs by EGX30, top Egyptian companies. The economic area is the most disclosed (average disclosure 15 companies; 50%). Four of the eight subcategories of the economic area (taxes and other payments to the government, value added, net value added, and revenue) are disclosed higher than the area average. These subcategories are required by accounting and tax laws.

The second area of disclosure is the institutional area (average disclosure 8 companies; 27%). Four of the seven subcategories of the institutional area (number of board meetings and attendance rate, compensation of board members, number and percentage of female board members, number of meetings and attendance of audit committee) are disclosed higher than the area average. These subcategories are required by the corporate governance,[65] which is included in the listing rules of EGX and relate to the focus of the Egyptian government on the role of women in business.

The third area of disclosure is the social area (average disclosure 6 companies 20%). Three of seven subcategories in the social area (employee's wages and benefits, proportion of women in managerial positions, and expenditure on employee's health and benefits) are disclosed higher than the area average. These subcategories relate mainly to financial information required by the accounting and tax authorities and relate to the focus of the Egyptian government on the role of women in business.

The last and lowest disclosed area is the environmental area (average disclosure 3 companies; 10%). Four out of eleven subcategories in the environmental area (energy efficiency, renewable energy, greenhouse gas emission, and water use efficiency) are disclosed higher than the average of the area. These subcategories mirror the government interest in energy, renewable energy, and water after the discovered deficiencies in electricity levels and problems over the water of the Nile river. This is clearly reflected in the focus on these topics in Egypt Vision 2030, where energy is reported as one of the pillars and water is included in many of the programs and projects planned for economic development until 2030[66]. The low disclosure level can also be a result that this type of disclosure is still new to the Egyptian business environment.

SDGs disclosure is a novel idea in the Egyptian context. It might be more appropriate at this time to focus on the rate of change of SDGs disclosure level instead of the absolute level of SDGs disclosure. It is recommended that this study be repeated in the future to measure the degree of change in the level of SDGs disclosure over time. The above-mentioned results do not mean that the officials of the companies are defying the needed SDGs disclosure requirements. However, the low level of SDGs disclosure should be understood and expected, as many of the officials in the companies are unaware of the disclosure requirements. This indicates an urgent need for education and training to show the need and importance of the required SDGs disclosures and how they benefit the companies. It might be appropriate to focus in the next period on training and education to explain to all the stakeholders the means and benefits of SDGs in general and specifically on SDGs disclosure.

[65] The first Egyptian Code of Corporate governance (CG) for companies was first released in 2005 followed by Code of Corporate governance for SOEs in 2006. The CG code for companies was reviewed in 2011 to reach best practices at the international level in terms of the roles of the board of directors. The most recent code of CG was issued in 2016, consolidating all previous codes into one, and focusing, among other things on, placing greater emphasis on the role of the Board of Directors. The BOD is seen as a key element in managing and directing the company, in addition to its main responsibility for the application of governance principles. The Code also deals with the optimal composition of Board of Directors, in terms of diversity and responsibility. https://ecgi.global/code/egyptian-code-corporate-governance

[66] Ministry of Communications and Information Technology. (2016). *2030 Egypt Vision.* Retrieved from http://mcit.gov.eg/Publication/Publication_Summary/1020/

CHAPTER III. REVIEW OF RECENT DEVELOPMENTS IN INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING IN THE PUBLIC AND PRIVATE SECTORS

A. INTRODUCTION[67]

Over the past several decades, globalisation of financial markets and the expansion of investment and financing activities across borders have increased the importance of international accounting and financial reporting in the private sector[68]. The first step towards the establishment of international accounting standards was the formation of the then International Accounting Standards Committee (IASC)[69]. In 2001 following a major restructuring, the International Accounting Standards Board (IASB) replaced the IASC. The IASB issues International Financial Reporting Standards (IFRS)[70]. Since 2000, there has been a widespread adoption of IFRS in over 100 countries.

Convergence and harmonisation of accounting practices and systems across borders should establish a largely homogenous basis for underlying assumptions for accounting and financial reporting. In her 2012 report, Tarca concluded that research utilising various techniques provides evidence that IFRS has improved efficiency of capital market operations and promoted cross border investment[71]. This was also echoed in the recent 'Fitness Check' on public reporting by companies, published in 2018, by the European Commission[72]. From another perspective a study was published in 2019 on the effects of IFRS in the Republic of Korea, highlighting the enhanced financial statement comparability of their IFRS adoption[73]. It should also be acknowledged that a number of studies point to the significant role of the infrastructure that surrounds the implementation of IFRS. The United Nations (UN) has, for more than three decades, contributed to global efforts to promote comparable corporate reports.

The work towards international accounting standards for the public sector was initiated approximately a decade after that of the private sector. More specifically, it was in 1986 that the International Federation of Accountants (IFAC) appointed a committee dedicated to accountancy issues in the public sector, namely the Public Sector Committee. This committee was the predecessor of the International Public Sector Accounting Standards Board[74] (IPSASB), which develops and issues International Public Sector Accounting Standards (IPSAS). During the last two decades, the IPSASB and the IPSAS that it establishes have increasingly become a point for international standardisation and reference for public sector accounting. The adoption of IPSAS or convergence towards IPSAS, currently drives much of the international harmonisation and convergence of public sector accounting.

UNCTAD's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), conducts work in the area of both private and public sector accounting and financial reporting. ISAR closely aligns its work with the IASB, IFAC (including the standard setting

[67] This chapter was prepared with contributions from Professor Caroline Aggestam, Copenhagen Business School.

[68] Ball, R. (2016). IFRS – 10 years later, Accounting and Business Research, 46:5, p. 545-571.

[69] Formed in 1973.

[70] Formerly International Accounting Standards (IAS).

[71] Tarca, A. (2012). *The Case for Global Accounting Standards: Arguments and Evidence*. [https://www.ifrs.org/-/media/feature/around-the-world/adoption/2012-research-on-global-accounting-standards.pdf?la=en, last accessed 5 June, 2019].

[72] European Commission (2018). Summary Report of the Public Consultation on the Fitness Check on the EU framework for public reporting by companies 21 March 2018 - 31 July 2018. [Available here; https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2018-companies-public-reporting-feedback-statement_en.pdf, last accessed 1 July, 2019].

[73] Lee, W. J. (2019). Toward Sustainable Accounting Information: Evidence from IFRS Adoption in Korea. [Available here; file:///C:/Users/cap.acc/Downloads/sustainability-11-01154-v2%20(1).pdf, last accessed 1 July, 2019].

[74] The IPSASB is, today, an independent standard-setting board.

bodies it hosts including the IPSASB), through for example, participation in events and standing committees. In addition to supporting developments in the harmonisation of accounting and financial reporting practices in both the private sector and the public sector, ISAR provides continuous support for advancement in the area of non-financial reporting, and more specifically sustainability reporting.

This chapter presents a review of developments within both private and public sector financial reporting. In addition, this chapter provides a brief review of developments in non-financial reporting, such as reporting on environmental, social and governance reporting (ESG)[75] in the context of alignment with financial reporting.

B. B. REVIEW OF THE LATEST DEVELOPMENTS IN INTERNATIONAL FINANCIAL REPORTING STANDARDS

This section provides an overview of current developments within the IASB and IFRS. At the end of section B, linkages between financial reporting and non-financial reporting are addressed as well as linkages between financial reporting in the private sector (IFRS/IAS) and the public sector (IPSAS).

1. Current institutional developments at the IASB

An important development for the International Accounting Standards Board in 2018 was the publication of the revised Conceptual Framework (CF) for Financial Reporting[76]. The purpose of the Conceptual Framework is threefold: (1) to assist the IASB in developing IFRS based on consistent concepts, resulting in financial information that is useful to investors, lenders and other creditors; (2) to assist preparers of financial reports in developing consistent accounting policies for transactions or other events when no IFRS applies or an IFRS allows a choice of accounting policies and; (3) to assist all parties in understanding and interpreting IFRS/IAS. The IASB released the revised Conceptual Framework in March 2018. It became effective immediately for the IASB and the IFRS Interpretations Committee. For other parties and preparers who develop an accounting policy based on the *Conceptual Framework*, the revised *Conceptual Framework* is effective for periods beginning on or after 1 January 2020[77].

In March 2019, the IFRS Foundation published the '*IFRS Taxonomy 2019*'. It incorporates changes resulting from a common practice update and an overall improvement update to the IFRS Taxonomy of 2018. The IFRS Taxonomy facilitates electronic reporting of financial information prepared in accordance with IFRS Standards. Preparers can use the IFRS Taxonomy to tag disclosures, making them more easily accessible to investors who prefer to receive their financial information electronically. The annual IFRS Taxonomy comes with additional resources, such as documentation labels and implementation notes in excel. Illustrative examples are also included[78].

2. Updates on the practical implementation of recently issued International Financial Reporting Standards

This section presents updates on practical implementation of recently issued IFRS such as: IFRS 9 on financial instruments, IFRS 16 on leases and IFRS 15 on revenue from contracts with customers.

In the context of practical implementation of recently issued IFRSs, European enforcers examined the financial statements of about 950 issuers with securities listed on regulated markets. The findings resulted in 251 actions taken to address material

[75] London Stock Exchange Group (2018). Revealing the full picture- Your guide to ESG reporting.[https://www.lseg.com/sites/default/files/content/images/Green_Finance/ESG/2018/February/LSEG_ESG_report_January_2018.pdf, last accessed 8 June, 2019].

[76] The Conceptual Framework is primarily a tool to help the IASB develop IFRS based on consistent concepts, it is also a useful document for companies, investors and others involved in financial reporting [https://www.ifrs.org/-/media/project/conceptual-framework/fact-sheet-project-summary-and-feedback-statement/conceptual-framework-project-summary.pdf, last accessed 12 June, 2019].

[77] IASB (2018). Conceptual Framework for Financial Reporting, Project summary, [Available here; https://www.ifrs.org/-/media/project/conceptual-framework/fact-sheet-project-summary-and-feedback-statement/conceptual-framework-project-summary.pdf, last accessed 10 May, 2019].

[78] To access the Taxonomy of IFRS including illustrative examples and excel notes, visit https://www.ifrs.org/issued-standards/ifrs-taxonomy/ifrs-taxonomy-2019/ [last accessed 5 May 2019]. The IFRS Taxonomy is available in several languages.

departures from IFRS. Of these, 155 of the departures related only to disclosures while the remaining 96 related to recognition and measurement issues[79].

IFRS 9 Financial Instruments

The IASB issued IFRS 9, *Financial Instruments*, in July 2014. The standard has been effective since 1 January 2018. For equity instruments, other than those held for trading and contingent consideration recognised in a business combination, the IASB has introduced an irrevocable option at inception on an instrument-by-instrument basis. Studies have addressed the effect of IFRS 9. One example is the European Commission's request to the European Financial Reporting Advisory Group (EFRAG) to investigate the potential effects on long-term investments in equity instruments of the requirements of IFRS 9 *Financial Instruments*[80].

In November 2017 three United Kingdom regulators including the Financial Reporting Council (FRC), jointly established a taskforce on disclosures about expected credit losses. Modelled after the Enhanced Disclosure Task Force (EDTF) of the Financial Stability Board (FSB), the UK taskforce was set up to promote high-quality disclosures about expected credit losses and to encourage greater consistency between and comparability of those disclosures. The report, released in November 2018[81], sets out the disclosure principles used in developing its recommendations, as well as considerations applicable to all the recommended disclosures in respect of scope, timing, frequency, location and granularity. The report also summarises what the taskforce views as the most important considerations regarding expected credit losses and explains the related disclosures, why the disclosures matter to users and sets out a series of specific disclosure recommendations.

The IASB developed the report recommendations primarily for use by the preparer firms represented on the taskforce. However, the recommendations may be relevant to other banks and similar financial institutions as a guide to best practice. The FRC's *IFRS 9 Thematic Review: Review of Interim Disclosures in the First Year of Application* identifies banking as the sector most significantly affected by IFRS 9, principally owing to the introduction of the expected credit loss model. Outside the banking sector, IFRS 9 has generally not had a material effect. The FRC report cites useful examples on, for example, disclosures following implementation of IFRS 9[82].

IFRS 15 Revenue from contracts with customers

IFRS 15 specifies how and when a company reporting under IFRS will recognise revenue from contacts with customers and the associated disclosures. The standard provides a single, principles based a five-step model for the recognition of all contracts with customers. The IASB issued IFRS 15 in May 2014. The standard applies to reporting periods beginning on or after 1 January 2018. In April 2016, the IASB issued clarifying amendments with the same effective date as the standard itself.

The UK Financial Reporting Council (FRC) has published a thematic review to help companies improve the quality of their corporate reporting in relation to IFRS 15 (and IFRS 9 Financial Instruments)[83]. Examples of the findings of the FRC's thematic review of IFRS 15 include the impact of IFRS 15 on accounting policies. The report, among other things, highlights that poor descriptions were provided of when revenue is recognised including reliance on vague language, for example, regarding when control is transferred from the seller to the buyer.[84]

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79 ESMA (2018). Enforcement and Regulatory Activities of European Accounting Enforcers in 2018 [https://www.esma.europa.eu/sites/default/files/library/esma32-63-672_report_on_enforcement_activities_2018.pdf, last accessed 12, June, 2019].

80 The reference materials and reports on this by EFRAG can be located here; https://www.efrag.org/Activities/1606201553344223/EFRAG-Research-Project-Equity-Instruments---Impairment-and-Recycling?AspxAutoDetectCookieSupport=1# [last accessed 9 May, 2019].

81 The taskforce has now published its first report, which can be accessed here; https://www.frc.org.uk/getattachment/dbd534bb-a25e-43f5-9c76-4319cf624c83/DECL-Report-November-2018.pdf.

82 FRC (2018). IFRS 9 Thematic Review: Review of Interim Disclosures in the First Year of Application. [https://www.frc.org.uk/getattachment/36a9673b-a16a-49d8-85d8-750c5f45bcd1/IFRS-9-thematic-review-of-interims.pdf, last accessed 8 June, 2019].

83 See https://www.frc.org.uk/news/november-2018/frc-publishes-thematic-review-findings-of-ifrs-9-a [last accessed 7 June, 2019].

84 See FRC (2018). IFRS 15 Thematic Review: Review of Interim Disclosures in the First Year of Application. [https://www.frc.org.uk/getattachment/1d8558b8-73bf-4a13-bec7-9c350bfcc1ba/IFRS-15-thematic-report-2-November-2018-v2.pdf, last accessed 10 June, 2019].

IFRS 16 Leases

IFRS 16 is effective for periods beginning on or after 1 January 2019. Adoption of IFRS 16 will result in the recognition of substantially more lease obligations on the balance sheet. With the new requirements, in many cases, the lessee will recognise equal amounts of leased assets (also called 'right of use' (RoU) assets) and lease liabilities upon initial recognition of the lease. The lease liability represents the present value (PV) of the future lease payments discounted using an appropriate rate. This calculation resembles that for finance leases as previously required by the superseded IAS 17 Leases.

Volkswagen Financial Services issued a guide to IFRS 16 at the end of 2018[85]. The guide states the following:

"*Changes to your balance sheet:* In bringing leased assets onto the balance sheet, a company is likely to appear more asset-rich but with greater liabilities. However, there are also changes in accounting over the life of the lease, where companies will see a front-loaded pattern of expense even when they pay annual rentals.

Gathering information: In terms of information gathering, any company with leased assets will need to find out and report a number of new metrics, including the total value of the leased assets, as well as the interest and depreciation charges over the period of accounting.

Have a clearer view: As well as remaining compliant with the new standard, having a database of your leased assets, along with their value, interest and depreciation charges, will give your company a better view of cash flow and performance.

Following IFRS 16: Finally, since all companies (reporting under IFRS) will be required to follow the new IFRS 16 standard, it will allow analysts to get a clearer view of the financial statements of different companies and gain a better comparison."

The IFRS foundation has also issued guidance materials with illustrative examples on the application of IFRS 16[86].

When IFRS 16 went into effect, a new leasing standard also went into effect in the United States of America as part of Generally Accepted Accounting Principles (US GAAP) in the country. However, despite working for years to achieve converged leasing standards, the IASB and US Financial Accounting Standards Board, FASB) have decided on different accounting solutions and transition methods. The CFA Institute issued a paper in 2019 that reviews recent lease disclosures of selected companies (including companies that follow either IFRS or US GAAP) to highlight what investors should focus on. Disclosures will be critical to understanding the key assumptions underlying the calculation of the lease obligation, such as the discount rate used[87]. The IFRS Foundation has released an effect analysis on leases that also addresses the differences between US GAAP and IFRS 16[88].

In February 2018, the IASB published a case study on the application of IFRS 16[89]. The case study attends to leasing versus outright purchase of assets and explores approaches to calculate or adjust reported free cash flow (FCF) measures of lessees.

IFRS 13 Fair value measurement

At the end of 2018, the IASB published 'Post-implementation review of IFRS 13 *Fair Value*

85 See https://www.vwfs.ie/content/dam/bluelabel/valid/www-vwfs-ie/documents/business_customers/VWFS%20Fleet%20 IFRS_16%20NEW%2013112018.pdf [last accessed 10 June, 2019].

86 See http://efrag-website.azurewebsites.net/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F1605130941352768%2FIFRS%2016%20Presentation.pdf&AspxAutoDetectCookieSupport=1 [last accessed 5 June, 2019].

87 The CFA Institute report usefully highlights the main difference between US Generally Accepted Accounting Principles (US GAAP) and IFRS 16 in their treatment of lessee accounting. US GAAP Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), permits two different lease treatments: finance leases and operating leases. International Financial Reporting Standards (IFRS) IFRS 16, Leases, requires lessees to recognise all leases as finance leases (p.5). CFA Institute (2019). Leases: what investors need to know about the new standard. [Available here; https://www.cfainstitute.org/-/media/documents/article/position-paper/cfa-leasing-paper.ashx, last accessed 3 May, 2019].

88 See https://www.ifrs.org/-/media/project/leases/ifrs/published-documents/ifrs16-effects-analysis.pdf [last accessed 10 June, 2019].

89 IASB (2019). The Essentials, issue no. 5. [Available here; https://www.ifrs.org/-/media/feature/resources-for/investors/the-essentials/the-essentials-feb-2019.pdf, last accessed 5 May, 2019].

Measurement'[90]. The project report concludes that IFRS 13 is working as intended. In particular: (1) the information required by IFRS 13 is useful to users of financial statements and (2) some areas of IFRS 13 present implementation challenges, largely in areas requiring judgement.

The report acknowledges that the Accounting Standards Advisory Forum (ASAF)[91] and many other stakeholders have recommended that the IASB work on clarifying the issue of interaction between the unit of account and Level 1 inputs in IFRS 13. However, the IASB has decided not to address this concern because the Board believes the costs of the related work would exceed the benefits. In addition, the IASB has acknowledged that many stakeholders requested application guidance or education materials on application of judgements, in particular relating to the assessment of whether a market is active. The IASB decided not to develop such guidance taking the view that the Board would likely not be able to develop further useful and principle-based guidance.

3. IFRS with a future effective date

IFRS 17 Insurance Contracts

IFRS 17 *Insurance Contracts* is effective for periods beginning on or after 1 January 2021 with earlier application permitted as long as IFRS 9 and IFRS 15 are also applied.

Insurance contracts combine features of both a financial instrument and a service contract. Also, many insurance contracts generate cash flows with substantial variability over a long period. IFRS 17 thus:

- combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract;
- presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
- requires an entity to make an accounting policy choice of whether to recognise all insurance finance income or expenses in profit or loss or to recognise some of that income or expenses in other comprehensive income.

The IASB is presently proposing targeted amendments to IFRS 17 to respond to concerns and challenges raised by stakeholders. The Exposure Draft (ED) of the proposed amendments to IFRS 17 was published in June 2019[92].

IFRS 3 Business Combinations

The principal premises in IFRS 3 *Business Combinations* are that an acquirer measures the cost of the acquisition at the fair value of the consideration paid; allocates that cost to the acquired identifiable assets and liabilities on the basis of their fair values; allocates the rest of the cost to goodwill; and recognises any excess of acquired assets and liabilities over the consideration paid (a 'bargain purchase') in profit or loss immediately. The acquirer discloses information that enables users to evaluate the nature and financial effects of the acquisition.

Furthermore, the IASB has issued *Definition of a Business* (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 January 2020[93].

Interest Rate Benchmark Reform

In response to requests from the G20, regulators are preparing to replace the widely used interbank offered rate (IBOR)[94]. This action prompted an IASB research project in 2018 to look at possible effects of IBOR reform on financial reporting.

[90] The full report can be accessed here https://www.ifrs.org/-/media/project/pir-ifrs-13/published-documents/pir-ifrs-13-feedback-statement-dec-2018.pdf [last accessed 3 May, 2019].

[91] See https://www.ifrs.org/groups/accounting-standards-advisory-forum/ [last accessed 5 June, 2019].

[92] https://www.ifrs.org/-/media/project/amendments-to-ifrs-17/ed-amendments-to-ifrs-17.pdf?la=en

[93] To access the related documents, please visit https://www.ifrs.org/issued-standards/list-of-standards/ifrs-3-business-combinations/ [last accessed 9 May, 2019].

[94] Deloitte describes that "IBORs are interest reference rates, such as LIBOR, EURIBOR and TIBOR that represent the cost of obtaining unsecured funding, in a particular combination of currency and maturity, and in a particular interbank term lending market". In June 2018 the IASB decided to add to its active research agenda a research project to assess the effects on financial reporting of a potential discontinuation of IBORs.

In May 2019, the IASB released ED/2019/1 Interest Rate Benchmark Reform, embedding proposed amendments to IFRS 9 and IAS 39[95]. The ED proposes to modify specific hedge accounting requirements so that companies would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered because of interest rate benchmark reform. In addition, the ED proposes to require specific disclosures about the extent to which the entities' hedging relationships are affected by the proposed amendments.

The proposed amendments would be mandatory. The IASB also proposes to amend the hedge accounting requirements only as specified in the ED. The proposals are not intended to provide relief from any other consequences arising from interest rate benchmark reform. The ED notes that if a hedging relationship no longer meets the requirements for hedge accounting, for reasons other than those specified in the ED, then discontinuation of hedge accounting is required. The amendments proposed deal more specifically with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate. In addition, it considers the implications for specific hedge accounting requirements in IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement,* which require forward-looking analysis. The ED proposes that the amendments would be effective for periods beginning on or after 1 January 2020 and applied retrospectively. The proposal allows for early application.

Cost of fulfilling a contract

ED/2018/2 *Onerous Contracts — Cost of Fulfilling a Contract,* proposes to amend IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*[96]. The amendments specify the costs an entity includes in determining the 'cost of fulfilling' a contract for the purpose of assessing whether a contract is onerous. There are however no new requirements for companies to disclose information about onerous contracts.

Financial Instruments with Characteristics of Equity

In June 2018, IASB published a discussion paper that considered improvements in classifying financial instruments as liabilities or equity[97]. The paper more specifically addressed how companies issuing financial instruments should classify them in their financial statements.

Currently IAS 32 *Financial Instruments*: Presentation sets out how a company that issues financial instruments should distinguish financial liabilities from equity instruments. The distinction is important because the classification of the instruments affects how a company's financial position and performance are depicted[98]. IASB explains that IAS 32 works well for most financial instruments. However, continuing financial innovation means that some companies find it challenging to classify some complex financial instruments that combine some features of debt; liabilities and ordinary shares; equity instruments. IASB brings forth that challenges in classifying these instruments can result in diverse accounting in practice, which in turn makes it difficult for investors to assess and compare companies' financial position and performance. In addition, investors are calling for better information, particularly about equity instruments.

With this Discussion Paper, the IASB has responded to feedback from investors and others and considered previous work on the topic to propose an approach that would: 1) provide a clear rationale for why a financial instrument would be classified as either a liability or equity without fundamentally changing the existing classification outcomes of IAS 32 and 2) and enhance the information provided through presentation and disclosure. The IASB is currently analysing the comment letters received, to determine the next steps for the project.

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95 IASB (2019). Interest rate benchmark reform; proposed amendments to IFRS9 and IAS39. [Available here; https://www.ifrs.org/-/media/project/ibor-reform/ed-ibor-reform-may-19.pdf, last accessed 15 May, 2019.

96 IASB (2018). ED/2018/2 *Onerous Contracts — Cost of Fulfilling a Contract* [available here; https://www.ifrs.org/-/media/project/onerous-contracts-cost-of-fulfilling-a-contract-amendments-to-ias-37/ed-onerous-contracts-december-2018.pdf, last accessed 4 May, 2019].

97 To access the Discussion Paper and the comment letters received visit ; https://www.ifrs.org/projects/work-plan/financial-instruments-with-characteristics-of-equity/comment-letters-projects/dp-fice/ [last accessed 3 May, 2019].

98 See https://www.ifrs.org/news-and-events/2018/06/iasb-consults-on-the-accounting-for-financial-instruments-with-characteristics-of-equity/ [last accessed 10 June, 2019].

Disclosure Initiative — Principles of Disclosure

In March 2019 IFRS Foundation published a document summarising work by the IASB on the *Disclosure Initiative—Principles of Disclosure* research project[99]. The foundations of the paper can be traced back to March 2017, when the IASB issued a discussion paper (DP) on possible approaches to address disclosure issues, such as the lack of relevant information, too much irrelevant information, and ineffective communication of the information provided. Feedback for the DP revealed "improving the way disclosure requirements are developed and drafted in IFRS is the most effective way' the IASB can help to address the disclosure problem. In response, the IASB prioritised its project on a targeted IFRS-level review of disclosure. The IASB also addressed other findings during its research related to accounting policy disclosures, the implications of technology on financial reporting, and use of performance measures in financial statements. The IASB has completed four projects as part of the Disclosure Initiative.

- Amendments to IAS 1: In December 2014, the Board published amendments to IAS 1 *Presentation of Financial Statements* to remove barriers to the exercise of judgement. The amendments clarify some IAS 1 requirements relating to materiality, order of the notes, subtotals, accounting policies and disaggregation. These amendments became effective for annual periods beginning on or after 1 January 2016[100].
- Amendments to IAS 7: In January 2016, the Board published amendments to IAS 7 *Statement of Cash Flows* to improve disclosure of changes in liabilities from financing activities. These amendments became effective for annual periods beginning on or after 1 January 2017.
- Materiality Practice Statement: The Board published IFRS Practice Statement 2— *Making Materiality Judgements* in September 2017. The Materiality Practice Statement contains non-mandatory guidance to help entities make materiality judgements when preparing IFRS general purpose financial statements.
  - Definition of Material (amendments to IAS 1 and IAS 8): The Board published these amendments in October 2018. The amendments refine the definition of material and clarify its application. The amendments define material as: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments will become effective for annual periods beginning on or after 1 January 2020.

Previously (in October 2017), the IFRS Foundation published *Better Communication in Financial Reporting-Making disclosures more meaningful*'[101]. The report provides case studies to illustrate how some companies have already improved communication in their financial statements.

4. Other projects

International Financial Reporting Standards for small and medium-sized enterprises

The IFRS for small and medium-sized enterprises is a standard tailored for small companies. It focuses on the information needs of lenders, creditors and other users of small and medium-sized enterprise financial statements who are interested primarily in information about cash flows, liquidity and solvency.[102] The IFRS for small and medium-sized enterprises standard is aimed at companies that are not listed on a stock exchange.

The *IFRS for Small and Medium-sized Entities* standard was initially published in July 2009. The IASB completed a first comprehensive review of the IFRS for small and medium-sized enterprises standard in 2015. Since then, a number of IFRSs have been

[99] IASB (2018). Disclosure Initiative—Principles of Disclosure. [Available here; https://www.ifrs.org/-/media/project/disclosure-initative/disclosure-initiative-principles-of-disclosure/project-summary/di-principles-of-disclosure-project-summary.pdf?la=en, last accessed 4 May, 2019].

[100] See https://www.ifrs.org/projects/2014/disclosure-initiative-amendments-to-ias-1/ [last accessed 10 June, 2019].

[101] Assessable at https://www.ifrs.org/-/media/project/disclosure-initative/better-communication-making-disclosures-more-meaningful.pdf [last accessed 5 June, 2019].

[102] The standard is approximately 250 pages long; available at https://www.ifrs.org/issued-standards/ifrs-for-smes/ (accessed 10 July 2019).

issued, including IFRS 9, financial instruments; IFRS 13, fair value measurement; IFRS 15, revenue from contracts with customers; and IFRS 16, leases. IASB is in the process of developing a request for information focused on obtaining views on whether and, if so, how to update the IFRS for small and medium-sized enterprises standard and amendments not currently incorporated into the IFRS for small and medium-sized enterprises standard.

Two other important consultation documents the IASB plans to publish, respectively, in 2020 are: on goodwill and impairment; and on rate-regulated activities.[103]

Financial reporting and sustainability reporting

Over the past three years, the UNCTAD Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting has been engaged in promoting further harmonization of sustainability reporting including with a view to supporting the Sustainable Development Goal monitoring and review mechanism. In particular, Sustainable Development Goal 12, sustainable consumption and production in its target 12.6 encourages companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycles. Sustainable Development Goal indicator 12.6.1 requires data on the number of companies publishing sustainability reports. To facilitate implementation of these activities, UNCTAD recently published Guidance on Core Indicators for Entity Reporting towards Implementation of the Sustainable Development Goals (see Introduction).[104]

The 2030 Agenda and Sustainable Development Goal reporting increasingly impacts on developments in financial reporting. For example, in April 2019, at the Climate-Related Financial Reporting Conference in Cambridge, the United Kingdom, in a speech titled "What sustainability reporting can and cannot achieve," the Chair of IASB brought forward the importance of sustainability reporting and addressed how it relates to financial reporting.[105]

The IASB Chair noted that IASB was working to improve broader financial reporting through, for example, its management commentary project. The Practice Statement (management commentary) is being updated and will focus more on intangibles and include requirements for companies to report on sustainability issues, including climate change, if those issues impact their businesses in a material way.[106]

In July 2017, the Task Force on Climate-related Financial Disclosures of the Financial Stability Board issued a report on climate-related financial risk disclosure, which indicates climate-related risk as a non-diversifiable risk that affects nearly all industries. The report also provides a framework on how entities can conduct materiality assessments for the disclosure of sustainability information in their financial reports.[107]

A related initiative is the Corporate Reporting Dialogue,[108] a platform convened by the International Integrated Reporting Council[109] to promote greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements. In a paper, released in March 2019 through the Corporate Reporting Dialogue platform, the Sustainable Development Goals and the future of corporate reporting are addressed.[110] How corporate reporting can illustrate which Sustainable Development

[103] See https://www.ifrs.org/projects/work-plan/goodwill-and-impairment/ and https://www.ifrs.org/projects/work-plan/rate-regulated-activities/ (accessed 10 July 2019).

[104] UNCTAD, 2019 (United Nations publication, Sales No. E.19.II.D.11, Geneva).

[105] Available at https://www.ifrs.org/news-and-events/2019/04/speech-iasb-chair-on-sustainability-reporting/ (accessed 10 July 2019).

[106] As an example, Directive 2014/95/EU of the European Union lays down the rules on disclosure of non-financial and diversity information by large companies. The directive amends accounting directive 2013/34/EU. Companies are required to include non-financial statements in their annual reports from 2018 onwards (see https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en; accessed 10 July 2019).

[107] Available at https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf.

[108] See https://corporatereportingdialogue.com/publication/sdgs-and-the-future-of-corporate-reporting/ (accessed 10 July 2019). Participants in the Corporate Reporting Dialogue include the Carbon Disclosure Project, Climate Disclosure Standards Board, Global Reporting Initiative, International Accounting Standards Board, International Integrated Reporting Council, International Organization for Standardization and Sustainability Accounting Standards Board.

[109] See https://integratedreporting.org/corporate-reporting-dialogue/ (accessed 10 July 2019).

[110] International Integrated Reporting Council, 2019, The Sustainable Development Goals and the future of corporate reporting, available at http://integratedreporting.org/wp-content/uploads/2019/02/The-Sustainable-Development-Goals-and-the-future-of-corporate-reporting-1.pdf.

Goals are relevant to a company's business model is identified, enabling both companies and investors to focus on the Sustainable Development Goals most likely to impact financial performance. The importance of driving integration of financial and nonfinancial information is also articulated in the paper. In July 2019, the Corporate Reporting Dialogue published another paper in which the importance of transparency and accountability in the frameworks of participants of the dialogue is highlighted. In the report, it is noted that transparency and accountability form a common foundation and facilitate bigger-picture effects, such as enhanced decision-making by capital markets and others.[111]

C. REVIEW OF CURRENT DEVELOPMENTS ON INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

In public sector accounting research, 'adoption' has been described as a process that incorporates requirements of international standards (such as IPSAS) in local regulation[112]. It can entail the coexistence of different sets of standards, for example local regulation can embed IPSAS requirements. Over time, a convergence process would see accounting requirements 'converging' towards the same principles. The process of convergence can be carried out by a step-by-step implementation of changes of international standards into a local context. Convergence can take place between IPSAS and local accounting and financial reporting requirements within the public sector. Convergence can also take place within a country context, between various levels of reporting (for example central government versus municipalities). As a general principle, the World Bank encourages borrowers to prepare their public sector financial reports in accordance with IPSAS[113].

The World Bank's Director of Governance of Global Practice has expressed that "accrual accounting can provide information for better management of government resources, with the potential to transform public sector financial management practices". A balance sheet should include clear liabilities, what a government owes and its commitments such as pensions, and assets. These will present a more comprehensive picture of public finances. Using this information to make fiscal policies can help governments strengthen their public finances, the seminar heard[114].

1. Current Institutional Developments at the IPSASB

The IPSASB strategy and work plan 2019-2023 sets out the Board's work and priorities through this five-year period[115].

2. Updates on recently issued International Public Sector Accounting Standards

The International Public Sector Accounting Standards Board (IPSASB) released an updated IPSAS-IFRS alignment dashboard as of June 2019[116]. This dashboard indicates the extent of alignment between individual IPSAS and the corresponding IFRSs. The IPSASB updated the alignment dashboard in January 2019 to include IPSAS 42 *Social Benefit*[117].

[111] Corporate Reporting Dialogue, 2019, Understanding the value of transparency and accountability, available at https://corporatereportingdialogue.com/wp-content/uploads/2019/07/Understanding-the-value-of-transparency-and-accountability-paper-1.pdf.

[112] See for example; Pacter P (2005) What exactly is convergence? International Journal of Accounting, Auditing and Performance Evaluation 2: 67–83. [Available here; https://www.iasplus.com/en/binary/resource/2005ijaape.pdf, last accessed 10 June 2018] and Brusca, I. and Martínez, J. C. (2015) "Adopting International Public Sector Accounting Standards: a challenge for modernizing and harmonizing public sector accounting", *International Review of Administrative Sciences,* 82(4):724–744.

[113] See http://siteresources.worldbank.org/EXTFINANCIALMGMT/Resources/313217-1194983035386/FM-Note-2004-02-Operationalizing-IPSAS.pdf?resourceurlname=FM-Note-2004-02-Operationalizing-IPSAS.pdf [last accessed 5 June, 2019].

[114] See https://www.publicfinanceinternational.org/news/2019/03/clearer-and-better-informed-balance-sheets-no-brainer [last accessed 5 May, 2019].

[115] For details please see http://www.ifac.org/system/files/publications/files/IPSASB-Strategy-Work-Plan-Consultation-Summary2_0.pdf (last accessed 1 July, 2019).

[116] See http://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.5%20IPSAS%20IFRS%20Alignment%20Dashboard_June%202019.pdf (last accessed 1 July, 2019).

[117] Access the dashboard please at; http://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.7%20IPSAS%20IFRS%20Alignment%20Dashboard_March%202019%20-%20revised.pdf [last accessed 5 May, 2019].

IPSAS 41 Financial Instruments

IPSAS 41 *Financial Instruments* is aimed at improving the relevance of information for financial assets and financial liabilities. It will replace IPSAS 29, *Financial Instruments: Recognition and Measurement.* IPSAS 41 introduces the following:

- Simplified classification and measurement requirements for financial assets;
- A forward-looking impairment model; and
- A flexible hedge accounting model.

IPSAS 41 simplifies the classification and measurement of financial instruments. It has an effective date of 1 January 2022 but may be adopted early. The report by OECD on accrual accounting in Ireland[118] suggests that it may be worthwhile considering early adoption of IPSAS 41 rather than implementing the existing IPSAS standards on financial instruments. The report includes a useful gap analysis that assesses the standards on financial instruments and has a summary of the main requirements arising from IPSAS 41. Key gaps relate to the measurement basis used and the disclosures required in relation to risks attaching to financial instruments (particularly quantitative measures of those risks).

IPSAS 42 Social Benefits

The IPSASB has released IPSAS 42 Social Benefits[119] with an effective date of 1 January 2022. In combination with releasing IPSAS 42, the IPSASB also released a related ED 67 Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19) to address a wide range of significant government expenditures. This means that IPSAS 42 is one of several related initiatives dealing with liabilities and expenses that arise from non-exchange transactions as well as the counter side of such transactions, namely, revenue from exchange and non-exchange transactions[120].

IPSAS 42 stipulates how to handle cash transfers provided by states to specific individuals or households who meet eligibility criteria and, which, also mitigate the effect of social risk and address the needs of society. More specifically, IPSAS 42 provides guidance on accounting for social benefits expenditure. It defines social benefits as cash transfers paid to specific individuals and/or households to mitigate the effect of social risk. Specific examples include state retirement benefits, disability benefits, income support and unemployment benefits. The new standard requires an entity to recognise an expense and a liability for the next social benefit payment. IPSAS 42 establishes principles and requirements for: recognising expenses and liabilities for social benefits; measuring expenses and liabilities for social benefits; presenting information about social benefits in the financial statements; and determining what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the social benefits provided by the reporting entity.

3. Current development process of International Public Sector Accounting Standards

Collective and Individual Services

ED 67 *Collective and Individual Services and Emergency Relief* (amendments to IPSAS 19), addresses transactions for collective and individual services and emergency relief[121]. ED 67 forms part of the IPSASB's broader non-exchange expenses project, proposing requirements for collective and individual services and emergency relief. The purpose of the IPSASB's project on non-exchange expenses is to develop new or amended standards that provide recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits. It should be noted that the first step in the development of accounting requirements for non-exchange expenses was the publication of the Consultation Paper on Accounting for Revenue and Non-Exchange Expenses, which was issued in August 2017.

[118] OECD (2019) Financial reporting in Ireland, Draft Report 19th OECD Senior Financial Management and Reporting Officials Symposium. [Available here; http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=GOV/PGC/SBO(2019)2/DRAFT&docLanguage=En, last accessed 12 June, 2019].

[119] Access IPSAS 42, *Social Benefits* at http://www.ifac.org/publications-resources/ipsas-42-social-benefits [last accessed 9 May, 2019].

[120] The IPSASB has issued a CP on accounting for revenue and non-exchange expenses discusses two potential approaches for recognition of revenue for transactions that have performance obligations or stipulations. This CP embeds a suggested alignment with IFRS 15.

[121] IPSASB (2018). Collective and individual services and emergency relief, [Available here; http://www.ifac.org/publications-resources/exposure-draft-67-collective-and-individual-services-and-emergency-relief, last accessed 9 may, 2019].

Measurement

In April 2019, the IPSASB released a Consultation Paper (CP) on 'Measurement' that addresses how measurement bases are determined in the public sector[122].

The IPSASB describes that after completing the Conceptual Framework, the IPSASB recognised a need to better align IPSAS measurement requirements and guidance with the principles in the Framework. Therefore, with the rationale that measurement requirements in IPSAS should be amended to better align them with the Conceptual Framework's measurement concepts, the IPSASB's Measurement Project began back in 2017.

The CP of 2019 identifies the most commonly used measurement bases for measuring assets and liabilities for public sector entities. It proposes the development of a single standard which will provide definitions and guidance on the main measurement bases, while other IPSAS will continue to provide guidance on which a particular measurement basis is to be used.

Article 16 Paragraph 3 of Council Directive 2011/85/EU on 8 November 2011 on requirements for budgetary frameworks of the Member States tasked the European Commission (EC) to assess the suitability of the IPSAS for the Member States of the European Union by 31 December 2012. One of the main recommendations of the European Commission's Report was the implementation of a single set of harmonised accrual-based accounting standards, consistent with the European System of Accounts (ESA)[123], at all levels of government throughout the EU.

To address this, Eurostat launched a public consultation on the suitability of IPSAS for EU member states in February 2012. This consultation on the suitability of IPSAS and harmonised accruals-based EU public sector accounting standards was considered an important component of building trust across the public sector[124]. The overall conclusion from the public consultation was that EU member states[125] did not think it is appropriate for the EU to adopt IPSAS, but instead should develop European Public Sector Accounting Standards (EPSAS). Nevertheless, the report considered and concluded, that IPSAS serves an 'indisputable reference for potential EU harmonised accounts'.

While no decisions have yet been taken at EU level regarding harmonised accounting standards, an EU-wide accounting framework could be implemented according to the following indicative timeframe: Phase 1: Increasing fiscal transparency in the Member States in the short to medium term by promoting accruals accounting, e.g. IPSAS, in the period from 2016 to 2020, and in parallel developing the EPSAS framework (i.e. EPSAS governance, accounting principles and standards); Phase 2: Addressing comparability within and between the Member States in the medium to longer term, by implementing EPSAS by 2025.

An online course on European Public Sector Accounting (PSA) has been developed and is available free of charge. Students and professionals get to know different approaches and traditions of PSA in selected EU countries. In addition, the educational modules include lectures on IPSAS[126].

Ireland[127]

OECD published a report on financial reporting in Ireland in 2019. The OECD Review of Financial Reporting in Ireland assesses opportunities and challenges associated with adopting accruals in Ireland for government accounting and more generally provides recommendations for the modernisation of

[122] Access the Consultation paper in full at http://www.ifac.org/news-events/2019-04/ipsasb-seeks-comments-measurement-proposals [last accessed 9 May, 2019].

[123] Current ESA 2010 is the standard under which Government Finance Statistics within the European Union are reported: https://ec.europa.eu/eurostat/web/esa-2010 [las accessed 9 May, 2019].

[124] Aggestam-Pontoppidan, C. and Brusca, I. (2016). The first steps towards harmonizing public sector accounting for European Union member states: strategies and perspectives, Public Money and Management, April, 2016, p. 1-8.

[125] European Commission (2013). Public Consultation: Assessment of the Suitability of the IPSAS for the Member States, p. 8. [Available here; http://ec.europa.eu/eurostat/about/opportunities/consultations/ipsas, last accessed 2 June 2018].

[126] To access this free material, http://offene.uni-rostock.de/online-course-european-public-sector-accounting/, last accessed 2 July, 2019.

[127] The country example of Ireland is based on OECD (2019) Financial reporting in Ireland, Draft Report 19th OECD Senior Financial Management and Reporting Officials Symposium. [Available here; http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=GOV/PGC/SBO(2019)2/DRAFT&docLanguage=En, last accessed 12 June, 2019].

its financial reporting system. The survey shows that only two OECD countries (Australia and the UK) use IFRS as a basis for the development of their public sector accounting standards, while an increasing number of countries are using IPSAS[128].

The report notes that Ireland should also consider the European Union's project to develop its own set of accounting standards (EPSAS) for the public sector. EPSAS use IPSAS as a 'reference source'. Beyond the adoption of accrual accounting, the OECD report proposes that the Irish Government considers modernising its financial reporting framework by preparing integrated reports for departments and offices and consolidated financial statements. Integrated accounts for departments and offices would provide an overview of each department's resources and spending alongside information on their strategy and performance.

In setting a legal or informal requirement to use IPSAS or other international standards as a reference, governments often make use of a number of options. The first one is to 'adopt' an international standard when it covers financial operations that are relevant to the country. The second is to 'adapt' the standard when specific national circumstances or constraints need to be accommodated. The last is to 'develop' a new standard for transactions that are not yet covered by existing IPSAS standards.

The OECD report reports that in practice, such adaptations of international standards seem to have focused on a limited number of areas. These include for example, limiting the quantity of disclosures (e.g., Sweden), defining boundaries for the financial statements that are aligned with the ones used in the budget and the fiscal statistics (e.g., United Kingdom, Australia, or New Zealand), or reflecting the specificities of the national legal frameworks and public policies (France, for example, with regard to the accounting treatment for the public service pension system).

D. CONSOLIDATION OF FINANCIAL STATEMENTS IN THE PUBLIC SECTOR[129]

In many cases, several entities work together for a common purpose, under one organisation (the economic entity). Consolidation is the process of presenting financial statements of all entities that make up the reporting entity on a consolidated basis. As described in the ACCA report of 2017 on 'Whole of government accounts[130]: who is using them?[131], a central idea behind the introduction of consolidated accounts across the entire spectrum of government is to encourage greater accountability through greater transparency of links between government bodies and the amalgamation of financial obligations across the various bodies into one single figure.

Consolidation of financial statements in the public sector can provide useful financial information and delivers benefits both for accountability and decision-making purposes. As described in the report issued by Eurostat in 2018, the consolidated information at the level of a central government can provide useful information on the execution of the policies by that government while financial information related to one ministry reflects the contribution of that ministry in the whole central government policy[132]. Information

[128] OECD (2017). Accrual practices and reform experiences in OECD countries. See https://www.oecd.org/publications/accrual-practices-and-reform-experiences-in-oecd-countries-9789264270572-en.htm [last accessed 10 June, 2019].

[129] This section is based on information compiled from a number of key reports; Eurostat (2018). EPSAS issue paper on consolidation of financial statements [https://circabc.europa.eu/sd/a/76234623-73ae-4765-9345-193d38d00ad2/Issue%20paper%20on%20consolidation%20of%20financial%20statements.pdf, last accessed 12 June, 2019; Eurostat (2017). EPSAS issue paper on the national approaches to harmonisation of chart of accounts. [https://circabc.europa.eu/sd/a/54519783-fa35-41f6-b60f-dd0d9510faa9/Issue%20paper%20on%20chart%20of%20accounts.pdf, last accessed 12 June, 2019] and Chow, D. et al. (2019). Usefulness of Consolidated government accounts. A comparative study. *Public Money and Management*, 39(3), p. 175-185. In addition, two ACCA reports published in 2018 '*Consolidated government accounts: How are they used*?' [https://www.accaglobal.com/content/dam/ACCA_Global/Technical/pubsect/ea-consolidated-government-accounts-v4.pdf, last accessed 12 June, 2019] and 'Whole of government accounts: who is using them?' [https://www.accaglobal.com/content/dam/acca/global/PDF-technical/public-sector/tech-tp-woga-whole-of-government.pdf, last accessed 12 June, 2019]

[130] The term WGA is used differently in different jurisdictions. In the UK WGA accounts refers to the consolidation of all levels of government (i.e. national, regional, local). In federal republics, such as Australia, states are always sovereign and therefore WGA never refers to the consolidation of different levels of government

[131] See https://www.accaglobal.com/content/dam/acca/global/PDF-technical/public-sector/tech-tp-woga-whole-of-government.pdf [last accessed 12 June, 2019].

[132] See https://circabc.europa.eu/sd/a/76234623-73ae-4765-9345-193d38d00ad2/Issue%20paper%20on%20consolidation%20of%20financial%20statements.pdf [last accessed 12 June, 2019].

prepared at the consolidated level may therefore serve the needs of users who are different from the users of information prepared at the individual entity level. Political and managerial responsibilities at the two levels are different and financial statements that reflect the impact of the decisions taken for each level are useful for accountability and decision making. One can divide the main issues that seem to emerge when considering the preparation of consolidated financial statements, into the below three areas (cf. Eurostat, 2018):

- Determination of the level at which consolidated financial statements should be prepared.
- Determination of the scope of consolidation. The first two topics are of a conceptual nature and are key aspects in serving accountability and decision-making needs.
- The cost and complexity linked to the preparation of consolidated financial statements, which is more of an organisational nature.

Consolidation only makes sense once high quality financial statements in public sectors are available. Consolidation will thus often be the last phase of an accounting reform in the public sector.

To carry out a consolidation following IPSAS, the concept of reporting entity is defined in the IPSASB Conceptual framework. Then the following IPSAS explain the rules included in the various standards dealing with consolidation:

- IPSAS 35 Consolidated financial statements;
- IPSAS 36 Investments in associates and joint ventures;
- IPSAS 37 Joint arrangements; and
- IPSAS 38 Disclosures in other entities.

Under standards such as IPSAS (as well as IFRS), determining which accounts are included in the consolidated financial statements is based on the concept of 'control'. Under IPSAS, the notion of control is thus crucial for the preparation of consolidated financial statements as it determines the scope of consolidation, which includes the controlling entity and all entities that it controls. The table below on important definitions for determining the consolidation scope includes that of control.

1. Determining the consolidation scope

Determining which entities are included in the consolidation scope is based on the concept of control. Consolidated financial statements should include the accounts of the controlling entity and those of all controlled entities.

Important definitions are the following:

Control	an entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature and amounts of those benefits through its power over the other entity.
Controlling entity	an entity that has one or more controlled entities.
Controlled entity	an entity, including an unincorporated entity such as a partnership, that is under the control of another entity. Economic entity: a group of entities comprising the controlling entity and any controlled entities. Other terms sometimes used for 'economic entity' include 'administrative entity', 'financial entity', 'consolidated entity' or 'group'.

As an example, within the EPSAS projects considerations are made to contrast, the ESA[133] 2010[134] and the requirements of IPSAS. The contrast is that ESA reporting is based on the economic characteristics of entities and includes the accounts of all entities included in the general government sector (GGS), which consists of all government units (at whatever level) and all non-market producers and NPIs[135] controlled by government units.

[133] Objectives of ESA 2010 reporting is that of statistical reporting and thus aims to provide information suitable for analysing and evaluating fiscal policy options and outcomes at macro-economic level and make national and international comparisons. In order to meet this objective, ESA 2010 reporting divides the public sector into the general government sector (GGS) and public corporations. The primary focus is on a group of institutional units (consolidated sector or subsector). The scope of ESA 2010 reporting thus only includes those public sector entities that constitute the GGS and do not primarily carry out market activities. ESA 2010 reporting does therefore not have as primary objective to provide information that is useful for accountability and decision-making purposes at entity level.

[134] See https://ec.europa.eu/eurostat/documents/3859598/5925693/KS-02-13-269-EN.PDF/44cd9d01-bc64-40e5-bd40-d17d-f0c69334 [last accessed 12 June, 2019].

[135] ESA's Networking/Partnering Initiative (NPI) supports work carried out by universities and research institutes on advanced technologies with potential space applications, with the aim of fostering increased interaction between ESA, European universities, research institutes and industry.

2. 2. The role of the chart of accounts for consolidation

Using a harmonised chart of accounts is also helpful to streamline and make the consolidation process more efficient[136]. Harmonisation of the chart of accounts is therefore often recommended for all government entities within the country, if they seek to prepare consolidated financial reports in the future. The harmonisation of the chart of accounts facilitates both the consolidation at a specified government level (central, state and local) and consolidation at the national level. Examples of countries that have adopted a harmonised chart of accounts include, Brazil, Estonia and Portugal, were the accounting reform has been organised as such process. Belgium as an example, is a federal country and different legislations apply[137]. Accounting reforms are conducted independently by the various governments but the laws that have been passed implementing the chart of accounts at the central level, at the state/regional level and at the local level foresee similar minimum requirements in respect of the structure and contents of the chart of accounts.

The organisation of the consolidation process implies the setting up of standard chart of accounts, and procedures such as the elimination of intra-government transactions and balances. Below are examples regarding accrual accounting reforms, were the development of a harmonised chart of accounts have been an integral part of enabling consolidated financial statements. The examples are lifted from recent studies and Eurostat (2017) and (2018)[138].

Belgium

The central government entities (CGEs), under the authority of the Federal Public Services (FPSs), can opt to apply the harmonised Belgian chart of accounts for private corporations or the harmonised Belgian chart of accounts for non-profit organisations. This is because some of the CGEs, other than FPSs, PPSs and social security funds, already had, at the time of the roll out of the ERP system to the FPSs and PPSs, their local systems for financial accounting and statistical reporting in place and running. Consequently, interfaces were created with the ERP system allowing these CGEs to communicate their data for consolidation and statistical reporting purposes.

If a CGE chooses to keep their chart of accounts for private corporations or for non-profit organisations, they must communicate their data by means of a mapping table linked to the harmonised chart of accounts applicable to public sector entities.

In Belgium, a harmonised chart of accounts has been adopted with a view to improving comparability and increasing possibilities for sharing best practices among consolidated entities. It allows for better consistency of accounting practices. In addition, it facilitates the consolidation process.

Brazil

Until 2014, each Brazilian federal entity (central Government, States and municipalities) had its own CoA. This meant that the accountant of the public entities had freedom to change, exclude or include accounts in that list. With the process of convergence of Brazilian public accounting to IPSAS, a new CoA structure was established, entitled ‘Plan of Accounts Applied to the Public Sector (PCASP)’. Certain accounts in the new CoA are restricted, if they are relevant accounts for consolidation purposes[139].

[136] EPSAS issue paper ‘Member States approaches to harmonising charts of accounts for national purposes with a view to financial reporting requirements under the future European Public Sector Accounting Standards (EPSAS), March 2018, [Available here https://circabc.europa.eu/sd/a/54519783-fa35-41f6-b60f-dd0d9510faa9/Issue%20paper%20on%20chart%20of%20accounts.pdf, last accessed 12 June,2019].

[137] See Eurostat (2017). EPSAS issue paper on the national approaches to harmonisation of chart of accounts. [https://circabc.europa.eu/sd/a/54519783-fa35-41f6-b60f-dd0d9510faa9/Issue%20paper%20on%20chart%20of%20accounts.pdf, last accessed June 12, 2019].

[138] EPSAS issue paper ‘Member States approaches to harmonising charts of accounts for national purposes with a view to financial reporting requirements under the future European Public Sector Accounting Standards (EPSAS), March 2018, [Available here https://circabc.europa.eu/sd/a/54519783-fa35-41f6-b60f-dd0d9510faa9/Issue%20paper%20on%20chart%20of%20accounts.pdf, last accessed 12 June,2019]. EPSAS issue paper on consolidation of financial statements [https://circabc.europa.eu/sd/a/76234623-73ae-4765-9345-193d38d00ad2/Issue%20paper%20on%20consolidation%20of%20financial%20statements.pdf, last accessed 12 June, 2019].

[139] Jorge, S., vaz de Lima, D., Pontoppidan, C. and Dabbicco, G. (2019). The role of the charts of accounts in public sector accounting. Working paper (draft) [available here; https://openarchive.cbs.dk/xmlui/bitstream/handle/10398/9723/Jorge_VazdeLima_AggestamPontoppidan_Dabbicco.pdf?sequence=1, last accessed 2 July, 2019].

Portugal

In 2013 the Ministry of Finance (MoF) appointed the National Accounting Standards Commission (CNC) in order to adopt IPSAS-based financial accounting standards in the Portuguese public sector. Since then, Portugal has also adopted a harmonised chart of accounts as part of its accrual accounting reform.

Together with the Conceptual Framework and the Multidimensional Accounting Plan (PCM), the NCP's standards form the basis for preparing public sector entities' financial reporting, which is expected to include four main financial statements in addition to the notes: Balance Sheet, Operating Statement (by nature), Cash Flow Statement, and Statement of Changes in Equity. SNC-AP considers each public entity as a reporting entity; however, it foresees a simplified regime for smaller and less risky ones. The SNC-AP comprises 3 accounting sub-systems: budgetary, financial and management accounting subsystems. The objective is to fully implement the accrual basis of accounting to the general government, linking it with the current modified cash basis used in the budget sub-system.

The harmonised chart of accounts applies to all levels of government. All entities included in the whole-of government accounts should use the standard chart of accounts. Local entities can adapt their local chart of account, but it should be mapped to the harmonised central chart of accounts for consolidation purposes.

The harmonised chart of accounts which was adopted is described as multidimensional. It is considered as an instrument to address different information needs and contributes to the efficient generation of budgetary, financial, fiscal and management information for a variety of purposes. Therefore, the chart of accounts includes codes for the budgetary process, along with budget classifications (these may include economic, functional, administrative, programme and regional classifications), for financial reporting (assets, liabilities, net worth, revenues and expenses) and for management reporting (cost centres, types of costs, projects and outputs), although codes are optional for reporting entities when it comes to management accounting.

The multidimensional chart of accounts (PCM) is an essential instrument for public accounting and for the new Accounting Standards System for Public Administrations (SNC-AP) because it can address different information needs, namely the classification, recording and reporting of transactions and events in a standardised, systematic and consistent way. It provides budgetary, financial and management accounting information.

More specifically, the PCM comprises the following[140]:

- A summary table of accounts of classes 1 to 8 intended to record transactions and events in financial accounting;
- A coded list of accounts (chart of accounts) of classes 1 to 8;
- A correlation table between the chart of accounts and the main accounts of the ESA;
- An entity classifier;
- A classifier for the purpose of the inventory and useful lifetime period from tangible and intangible assets and investment assets.

In the case of Portugal, the main objective of PCM is to help support the classification, registration and presentation of comparable, reliable and relevant data for the following purposes:

- Elaboration of general purpose financial statements, through the subsystem of financial accounting;
- Elaboration of the inventory of assets and rights of public administrations and calculation of the corresponding depreciation and amortisation;
- Support for the preparation of the management report accompanying the individual and consolidated accounts; and
- Support for the preparation of ESA national accounts (statistical aggregates).

The case of Portugal shows that the harmonised chart of accounts is to support consolidation and a number of other reporting objectives.

3. Modalities of consolidation

This section moves from the consideration of the role of a harmonised chart of accounts for the process of enabling the making of consolidated financial

[140] To see the full level of detail please see Eurostat (2017). EPSAS issue paper on the national approaches to harmonisation of chart of accounts. [https://circabc.europa.eu/sd/a/54519783-fa35-41f6-b60f-dd0d9510faa9/Issue%20paper%20on%20chart%20of%20accounts.pdf, last accessed 12 June 2019].

statements in the public sector, to a focus on the processes to prepare such consolidation. Studies have shown that consolidation boundaries differ from country to country depending on various factors. This will be illustrated by below country examples.

Australia

Consolidated financial statements with a wider institutional coverage, are published. In Australia, consolidated financial statements including government-controlled public corporations are published within 5 months after the end of the financial year.

Estonia

A standard chart of accounts is used by all public sector entities, including 240 different accounts for assets, 340 for revenues and 450 for expenses. The State Shared Service Centre is in charge of the management of the consolidation software, which allows to get the financial reports within a very limited timeframe. All public sector entities must input their financial information into the consolidation system during 30 days after the end of the month. The summarised whole-of government accounts (with limited notes) are prepared on a quarterly basis, and the annual whole-of government financial statements prepared by 30 April. Thereafter, they are audited by the State Audit Office and presented to Parliament by 30 August.

Consolidated financial statements in Estonia are prepared at different levels[141]:

At the central government level, including the state and entities controlled by the state consolidated
At the local government level, including all local government units and their controlled entities consolidated
At the general government sector (GGS) level, including all entities belonging to the GGS consolidated, without public corporations controlled by the central or local governments
At the whole-of-government level, including all entities belonging respectively to the public sector consolidated (GGS plus public corporations controlled by the central or local governments).

Preparation of whole-of-government accounts (WGA) is required by accounting law in Estonia. The country has defined the objective of producing WGA, to give (1) an overview of the country's financial position, financial performance and cash flows and (2) the information required to complete the international financial reporting obligations.

At each government level (central and local), the consolidation scope includes all entities over which the controlling entity has control, in line with international accounting standards such as IPSAS. Every local government entity has its own reports, information of all local government units is consolidated within the annual statements of the state. WGA are prepared and are composed of the accounts of the central government (this includes all entities it controls) and the accounts of the local government sector (this includes all local governments and the entities they control). They provide disaggregated information about the GGS (split between central government and local government) and public corporations following IPSAS 22 requirements. No scope exclusions are granted for smaller or less risky entities.

Italy

A research study published in 2019 focuses on understanding of consolidations in local governments in Italy[142]. The study looked at local governments who joined a testing period and implemented Consolidated Financial Statements on a voluntary basis.

The findings in the study show that both technical and political reasons influenced the decision of the local politicians (supported by managers) to participate in the testing period; moreover, the findings show the relevance of other variables such as the local government's size and level of debt.

A valuable finding from the study is the potentially important role of a testing period, which, in this case allowed local governments to gain greater knowledge of the accounting standards and the structure of CFS, while improving, for example their employees' skills.

The results of the study highlight the relevance of both technical and political reasons for local governments

[141] Consolidated financial statements are published in Estonian on the following website; https://www.rahandusministeerium.ee/et/riigi-raamatupidamine [last accessed 10 May, 2019].

[142] Santis, S, Grossi, G. and Bisogno, M. (2019). *Drivers For The Voluntary Adoption of Consolidated Financial Statements in Local Governments*, May 2019, Public Money & Management.

implementing CFS on a voluntary basis. In order to facilitate the implementation of CFS, the study recommends that central governments encourage local governments to be 'legitimate', i.e. to improve citizens' perception of their performance. As well, a central government should provide technical assistance through ad hoc training courses or by publishing manuals. Finally, feedback from the testing period could support the revision of laws and regulations and public sector accounting standards concerning CFS.

The study suggests that additional research could further develop this analysis by investigating the use of CFS after implementation. It would also be interesting to compare countries where CFS has been adopted only recently (for example Italy) with countries where CFS has been in use for many years (for example Sweden), in order to evaluate the usefulness of CFS in supporting the decision-making processes of politicians and managers

United Kingdom

The UK government prepares whole-of government reporting (WGA) covering central and local governments, and public corporations (including the central bank). At central government level, government departments prepare consolidated financial statements including their agencies, arm's length bodies and subsidiaries. Devolved administrations, i.e. Scotland, Wales and Northern Ireland, also prepare consolidated accounts at their level. Local government entities prepare consolidated accounts for their own groups (i.e. including subsidiaries).

Consolidated financial statements are also prepared by National Health Service trusts, state-owned enterprises and academy schools. The whole-of-Government Accounts (WGA) are financial statements prepared in accordance with IFRS (as adapted for the public sector). They are presented to the House of Commons (Parliament) following the Government Resource and Accounts Act 2000.

The United Kingdom therefore produces consolidated financial statements for the whole of the public sector[143]. They are published within 12 to 14 months after the end of the fiscal year.

The production of WGA in the UK is described in some research studies carried out through the ACCA[144]. WGA which consolidates the individual accounts of approximately 5,000 entities is carried out by a 7-member team over a 3-month period; the accounts are then audited over a 4-month period. Key challenges for the production of WGA involve first getting the data from the various departments and entities and, second, dealing with the tens of thousands of inter-entity transactions that must be eliminated in the consolidated accounts. Secondary legislation for the year specifies which bodies fall within the scope of consolidation and, thus, are required to submit data for this purpose. When the consolidated accounts are prepared, only transaction streams and balances between WGA entities above £1 million are eliminated. WGA entities are required to report transaction streams and balances that are above £1 million with any counterparty within the WGA boundary. The £1 million threshold applies to the aggregate for each type of balance or transaction stream with a counterparty. For example, if an entity has a number of debtor balances with a counterparty which are each below £1 million but when aggregated exceed £1 million, then the aggregate balance must be reported. HM Treasury reviews the £1 million threshold annually. Agreements are in place with the departments such that inter-entity transactions are confirmed between the departments before submission to HM Treasury, thereby reducing the number of mismatches that require investigation during the consolidation process.

Producing Whole-of-Government Accounts (WGA) based on IFRS as adapted for the public sector has provided a comprehensive view of government's financial position and performance. While liabilities such as public sector pensions were first recognised in the stand-alone accounts of individual entities following the initial introduction of accrual accounting; WGA has served to aggregate this information and provide a more complete view of the public accounts.

[143] The UK government published its 8th WGA. WGA can be accessed at; https://www.gov.uk/government/publications/whole-of-government-accounts-2016-to-2017 [last accessed 10 May, 2019].

[144] Chow, D. et al. (2019). Usefulness of Consolidated government accounts. A comparative study. *Public Money and Management*, 39(3), p. 175-185. In addition two ACCA reports published in 2018 'Consolidated government accounts: How are they used?' [https://www.accaglobal.com/content/dam/ACCA_Global/Technical/pubsect/ea-consolidated-government-accounts-v4.pdf, last accessed 12 June, 2019].

These documents are aimed at stakeholders that want to understand the whole of government finances. In addition, the UK also produces a Consolidated Fund report which shows receipts and payments on the Consolidated Fund as well as some accrual information to assist with the whole of government consolidation.

Challenges with whole-of-government accounts

The usefulness of consolidated government accounts for policymaking could benefit from more detailed studies. New Zealand, also a country producing consolidated financial statements in the public sector does consider it useful; in Canada, discussion of benefits focuses on a greater awareness of government operating costs; while, for Australia and Sweden, such information is not used for policy[145].

The Eurostat EPSAS issue paper on consolidation highlights three main types of issues in connection with the preparation of consolidated financial statements:

- Determination of the level at which consolidated financial statements should be prepared.
- Determination of the consolidation scope.
- Cost and complexity linked to the preparation of consolidated financial statements.

The reporting entity may indeed be defined at different levels: at the central government level, at the local government level and even at lower level (e.g. at the department level), each level including in its scope the entities that are (deemed to be) part of that level. In addition to this, the appropriateness of preparing whole-of-government accounts, i.e. presenting the accounts of all public sector entities within one country, should be analysed. The level at which consolidated financial statements should be prepared is often determined by national, state or local law or regulation.

Deciding the approach for determining the consolidation scope is 'the most cited technical/conceptual' challenge[146]. The key conceptual question is whether consolidated accounts should be prepared solely based on the notion of control or based on both the notion of control and the nature of the activities of the entities. International accounting frameworks such as IPSAS and IFRS require the inclusion of all entities under the control of the controlling entity (including public corporations that carry out market or commercial activities) in the consolidation scope.

The Eurostat report of 2018[147] on consolidation highlights that in a European context, questions, such as; should the ESA scope of reporting be followed, the accounting treatment of investments in public corporations (which would then not be eliminated in consolidation) would need to be determined: possible accounting treatments include reporting the investments using the equity method, measuring them at cost or at fair value.

Technical and/or practical difficulties may arise in the application of consolidation rules under international accounting frameworks. These can happen in relation to the:

- Consolidation scope determination, including applying judgement in determining whether control exists and whether and to what extent materiality thresholds can be used in deciding which entities may be left out of the consolidation scope.
- Consolidation process, including gathering of information from all entities in scope, intragroup eliminations, harmonisation of accounting policies (including for public corporations that carry out commercial activities).

Balances and transactions between entities within the economic entity should be eliminated in full, including revenues and expenses. Internal gains and losses on intra-government transactions, which have been included in assets or liabilities (e.g. in inventory or in fixed assets) should also be eliminated in full. Practical challenges of gathering information across a series of entities with different financial systems should not be underestimated.

[145] Chow, D. et al. (2019). Usefulness of Consolidated government accounts. A comparative study. Public Money and Management, 39(3), p. 175-185. In addition two ACCA reports published in 2018 'Consolidated government accounts: How are they used?' [https://www.accaglobal.com/content/dam/ACCA_Global/Technical/pubsect/ea-consolidated-government-accounts-v4.pdf, last accessed 12 June, 2019].

[146] See for example ACCA (2018). IPSAS implementation: current status and challenges. https://www.accaglobal.com/content/dam/ACCA_Global/Technical/pubsect/pi-IPSAS-implementation-current-status-and-challenges.pdf [last accessed 12 June, 2019].

[147] Eurostat (2018). EPSAS issue paper on consolidation of financial statements [https://circabc.europa.eu/sd/a/76234623-73ae-4765-9345-193d38d00ad2/Issue%20paper%20on%20consolidation%20of%20financial%20statements.pdf, last accessed 12 June, 2019].

Benefits of whole-of-government-accounts

The main benefits reported by, for example, the UK government in relation to the production and publication of consolidated financial statements are:

- WGA are used to support government response of independent review of fiscal risks, and reviewed by parliamentary committee.
- Central government consolidated accounts provide opportunities for scrutiny by Parliamentary select committees and trend data.
- Local government consolidated accounts provide useful opportunity for scrutiny by local taxpayers.

Governments included in the study by Eurostat (2018), which looked at Estonia, Slovakia and the UK for consolidation practices, identified benefits linked to the preparation of WGA[148].

These benefits include:

- Increased transparency and comprehensive reporting of public sector assets and liabilities of the country, allowing balance sheet scrutiny.
- Better use of assets and better management of liabilities (what gets shown gets managed), and consequently better financial discipline in the whole public sector.
- Better management of risks (thanks for example to the reporting of contingent liabilities).
- Providing the foundation for (a) defining KPIs for better public financial management and (b) wider management reforms (cost effectiveness, results-based management).
- Providing useful source information for fiscal sustainability reports and statistical reports.
- Increased credibility towards fund providers and other interested stakeholders.

Some questions discussed within the EPSAS project, in regard to consolidation, include:

- At which level should EPSAS consolidated financial statements be prepared to meet (some of) the above objectives?
- At the level of each sub-sector of general government (central government, state government if applicable, local government, social security)?
- And/or at a lower level?
- And/or at the whole-of-government level (i.e. at the level of the country as a whole)?
- In making this assessment, will EU Member States need to consider the needs of the potential users of these consolidated financial statements?

E. CONCLUSIONS

This chapter has outlined the recent activities and projects of both the IASB and the IPSASB, and it has included reference to practical issues arising in the implementation of, in particular new IFRS. The chapter has also highlighted the importance of reporting on sustainability issues, including climate change, as well as the IASB's efforts to address how those issues impact businesses in a material way. ESG reporting needs to be addressed not only in the private sector but also in the public.

This chapter has discussed forthcoming IPSASs. Practical challenges, in particular those associated with consolidation in the public sector, has been a primary focus. During the coming decades, standard setters and regulators should increase their focus on country-specific issues. Consolidation (or whole-of government accounting) is an example were country specific differences have caused divergence in the emerging practices between countries.

The level at which consolidated financial statements should be prepared within one country is often determined by national, state or local law or regulation. The requirements in this respect are justified by the local appreciation of the usefulness of consolidated financial statements with regard to the accountability and decision-making objectives of these financial statements. The political landscape, including the government structure, organisation of areas of responsibilities and decision-making powers between the various government levels and/or government bodies, and so forth strongly influence the requirements.

In the future, public sector accounting should include a focus on the education and training of government accountants. Governments continue to work towards the adoption of accrual accounting and the convergence with IPSASs, which are becoming a reality in the public sector globally.

[148] Eurostat (2018). EPSAS issue paper on consolidation of financial statements [https://circabc.europa.eu/sd/a/76234623-73ae-4765-9345-193d38d00ad2/Issue%20paper%20on%20consolidation%20of%20financial%20statements.pdf, last accessed 12 June, 2019].