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PUBLIC SECTOR ACCOUNTING

2ª EDIÇÃO

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CHAPTER 14
ALTERNATIVE REPORTING AND
NON-FINANCIAL ACCOUNTING FORMATS

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Summary

Alternative and non-financial reporting has gained attention in public sector organizations in the last decades, as a result of the increasing need to provide stakeholders with understandable information on how public resources have been managed and public value has been

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created for the benefit of the whole community. This need springs not only from accountability duties, but also from the recognized role of citizens as co-producers in designing public services and, more broadly, in engaging in public decision-making. In this chapter, after an introduction on the scope of non-financial disclosure, some of the most widespread formats are discussed, including popular reporting, sustainability reporting, the most recent SDGs reporting and integrated reporting, which are finally compared in a synopsis. Some reflections on possible use of the different non-financial reports and technical reporting issues conclude the chapter.

Keywords

Non-financial disclosure, sustainability reporting, popular reporting, integrated reporting, SDGs reporting

1. Introduction

Public sector organizations are expected to engage with their stakeholders in order to actively involve them in the co-creation of public services, contributing in this way to create value for the benefit of the community (public value creation). Under this perspective, accountability is considered as a fundamental prerequisite, to allow all types of stakeholders to better understand strategies, plans, actions already in place, output and outcomes resulting from managing public resources available and, thus, consider how to cooperate in co-designing public services. In this perspective, the adoption of alternative reporting formats may help overcoming technical terms and language barriers generally surrounding financial accounting reports. At the same time, alternative reporting formats to annual General Purpose Financial Reports (GPFR) may be a suitable means to answer the request for more transparency raised by citizens, lenders or governments who wish to have access to

a holistic view of the activities undertaken by each public entity. The chapter aims at discussing the scope and the content of the most common alternative reporting formats for public sector organizations (i.e., popular reporting, sustainability reporting, Sustainable Development Goals (SDGs) reporting and integrated reporting), including not only non-financial reporting but also alternative tools that can offer a more understandable access to financial information. The chapter also offers some reflections on possible evolutions in the development of reports especially designed to meet citizen information needs.

To this end, the chapter is structured as follows: In **Section 2**, the role of non-financial reporting is outlined. **Section 3** describes the aims and the content of the formats most commonly adopted by public sector organizations. **Section 4** provides some reflections on the benefits deriving from the adoption of alternative reporting formats both for managers and politicians, as well as for citizens and other external stakeholders. Finally, **Section 5** concludes the chapter.

2. The role of alternative and non-financial reporting

The quest for accountability and transparency is a never-ending theme while discussing about both the duty of public sector entities and governments in discharging accountability as well as when considering the role of citizens in public decision-making processes and the consequent need to provide information suitable to support a dialogue.¹ **Accountability** means for example that a government (as an agent) explains its actions to citizens (as its principal) inter alia touching on the use of resources and the achievement of objectives.²

¹ Manes-Rossi et al. (2020).

² Figure 9.3 highlights the relationship between transparency, accountability and financial information.

To this end, there is an ongoing global campaign for the implementation and use of accrual-based financial accounting regimes in the public sector, including International Public Sector Accounting Standards (IPSAS).

Although financial information – as provided by annual GPFR – has an important role for accountability purposes, it is not enough considering the type of activities developed by public sector organizations and the way they are financed. Beyond this, it is important that this type of information is communicated in a simplified and more easily understandable manner (e.g. by popular reports) and be complemented with non-financial information (e.g. as for example in sustainability, SDGs or integrated reports). For governments it is of utmost importance to explain how their activities are linked to public services and how they contribute to their objectives which are derived from their pursuit for the common good and public welfare.

Example

A local government could inform on its strategies in fostering and enlarging carbon neutral public transportation to limit climate change risks by touching upon timing and activities (e.g. technology, number and capacity of new buses) as well as the resources invested in the current period and the overall strategy and budget including future periods. Whereas corresponding GPFR provide information on the monetary dimension of fixed assets, which include buses, non-financial reports may usually mention the financial (economic) dimension, but they will focus on ecological and social aspects, too (e.g. expected short-term reduction of greenhouse gas emissions, reduced noise pollution and long-term health effects).³

³ Also, the relevance of non-financial information is derived from their nature as early-warning indicators and thus called 'pre-financials', which is not always accurate (e.g. migration of companies may indicate a lower amount of taxes in the future; but their departure could also be due to the high local tax rates); see Böcking and Althoff (2017).

In contrast to an annual GPFR, a non-financial report in this sense can be categorised under the umbrella term ‘sustainability report’. It offers not only “past, but also future-oriented information in the form of strategy reporting, and cover[s] how the entity interacts with its environment, society and governance ... aims at delivering an overview of an economic, environmental and social performance of an organisation”⁴. Thus, the content of non-financial reports can be characterised by the perspectives or dimensions of the goals depicted in them: ‘ESG’ (environmental, social, governance), ‘social, ecologic, economic’, ‘3 P’s (PPP; people, planet, profit) or 5 P’s (people, planet, prosperity, peace and partnership)⁵. Summarizing, the nature of non-financial information is mainly narrative, but complemented by qualitative and quantitative indicators (incorporating also financial information) explaining strategies, targets and achievements in a progress reporting style.

The way information is presented may affect the willingness of citizens and other stakeholders to read financial and non-financial information and make informed decisions or actively take part in the political life. Consequently, it is necessary not only to define the content and the focus of reporting, but also the format, the language, the use of visuals (e.g., infographics), the responsiveness to readers’ needs and the technology tools they use (e.g. interactive, clickable reports), because all these elements may influence the engaging power of the report.

Public sector organization might liaise with their stakeholders to define the content, the focus, the definition of material issues to be reported, as well as to test the understandability of the drafted reports to ensure broader dissemination⁶.

⁴ Chapter 1, pp. 34f.

⁵ The latter refers to a special non-financial report type focusing on the SDGs as released by the United Nations (UN) Department of Economic and Social Affairs: Transforming our world: the 2030 Agenda for Sustainable Development; <https://sdgs.un.org/2030agenda>

⁶ Cohen et al. (2022).

Nowadays different types of reports may support public administrations in satisfying their stakeholders' information needs. The choice may depend on several factors including:

- political willingness to focus on specific issues (e.g. environment, social services, sustainable development, gender equality, financial condition, etc.);
- knowledge and ability of managers and civil servants that may contribute to the preparation of the report;
- the availability of information and the easiness in circulating data and creating indicators, based on the information systems in place;
- the perceived benefits (or shortcomings) of the reporting process on the internal processes and procedures by both politicians, managers and civil servants;
- the expected benefits in activating or nourishing stakeholders' dialogue and favoring citizens' engagement in the political life, triggering their participation as co-producers of public services.

To provide a better understanding of the most commonly adopted, or emerging types of reports (i.e. SDGs reporting), the next section offers an overview of popular, sustainability, SDGs and integrated reporting. However, some other types of reports may be preferred by public entities/governments, such as 'environmental reporting' (focusing mainly on the environmental perspective of sustainability and neglecting the (linkage to) the other two, social and economic), 'climate (action) reporting' (focusing on the most pressing environmental aspect) or 'gender reporting' (focusing mainly on strategies and action adopted to contrast or prevent gender inequality), depending on what the public entities consider material for their stakeholders, as well

as on specific requirements imposed by overarching institutions, legislature or fund providers⁷.

3. The main formats of alternative and non-financial reporting

The section presents some alternative reporting formats that public sector organizations around the world are adopting, even with a different degree of intensity. The selected formats serve not always as alternatives to traditional financial reporting. Especially, integrated reporting aims at complementing the GPFR by mixing and linking financial with non-financial information.

When a specific format is selected, some other choices have to be made with regards to how to make the report available to all stakeholders (i.e. reporting technology). Nowadays, each institution has its own website, and in some countries all official documents prepared by public entities have to be published in a specific section in this website to ensure transparency.

However, this form of communication might not be sufficient to get in contact with stakeholders, especially with citizens. Consequently, it is advisable to organize public presentations, events or use mass media to let citizens know about the availability of the reports and summarize the content available in a comprehensive manner. In some countries (e.g. UK) municipalities often send the reports directly by mail to citizens in order to overcome the technological gap still existing for elderly people. Each organization has to consider the most suited strategies to reach out the final recipients of

⁷ For instance, Horizon Europe considers the possession of a Gender Equality Plan as an eligibility criterion for all higher education establishments, research organisations, as well as public bodies from Member States and Associated Countries applying to the programme. This requirement has pushed European universities and research centre to prepare the requested plan and report on gender equality.

the report, which is a prerequisite for an open dialogue. Also, this might lead to an interactive website design and selection criteria, by which a user can design its own report – encompassing only the information he or she is interested in⁸.

3.1. Popular reporting

GPFR can be very extensive in terms of pages and therefore inevitably lead to information overload for ‘normal’ addressees who do not have the necessary expertise. It was against this background that the idea for **popular reports** arose. Born in Anglo-Saxon countries and later spread all over the world, popular reporting is a kind of tool adopted by governments to provide **citizens** with understandable and readable **financial information**, to restore trust and legitimation, but also as a first step to open a dialogue with and actively involve citizens in political life. Through the use of graphs, figures, tables and indicators, governments can create the condition to let citizens understand the financial position of the organization, the cost of public services as well as the value of assets and liabilities belonging to the community. Furthermore, the opportunity to incorporate in one document accessible, engaging and readable non-financial information – creating in this way a **popular integrated report** – is also gaining attention by public sector organizations⁹. To fully exploit the potential of popular financial or popular integrated reporting, citizens might be involved

⁸ In private sector reporting, we can observe an increasing and also mandatory use of XBRL. For example, the European Union aims at implementing an ESAP (European Single Information Access Point) for mandatory financial and also non-financial reports and reporting contents; <https://www.eesc.europa.eu/de/our-work/opinions-information-reports/opinions/european-single-access-point-esap>.

⁹ Cohen et al. (2017).

in designing the content of these reports including a glossary and connect it with other participation tools adopted by the same entity.

Information technology has increased the opportunity to develop and update a popular report that can convey financial information avoiding technical terms, in a comprehensible and understandable language, allowing the reader to have an overall view of the financial situation of a public entity.¹⁰

Several standard setters in the **USA and Canada**, starting in early 1990s, have developed guidelines and principles to guide public administration – especially local governments – in preparing popular (annual financial) reports (PAFR). Awards have been created to stimulate the adoption of the PAFR (also called citizen-centric reports) which are actually largely adopted, especially by big cities¹¹. Variations in the content of these reports may also depend as well on the constituencies' awareness and sensitivity towards the information conveyed in this report and more generally by citizens' tendency in participating to the political life as on the local setting (due to different jurisdictions and political systems).

Example

The City of Woodstock (Ontario, Canada) discloses four financial reports on its website: Budgets, Capital Improvement Program, Comprehensive Annual Financial Reports and PAFR.¹² For the fiscal year 2020/2021 – ending at April 30, 2021, the latter consists of eight pages and eleven sections.¹³ The following figure shows the expenditure section of the Government Funds section.

¹⁰ Cohen et al. (2022).

¹¹ Biondi and Bracci (2018).

¹² <https://www.woodstockil.gov/finance/page/popular-annual-financial-reports>

¹³ Letter from the Mayor (p. 1); Governmental Funds (p. 2); Business-Type Activities (p. 3); Component Unit Funds (p. 4); Sales Tax (p. 5); Capital Improvement (p. 5); Dividing Up The Dollar (p. 6); Property Taxes (p. 6); economic development (p. 7); Long-Term Debt Update (p. 8);. City Directory (p. 8).

EXPENDITURES

In FY20/21, Capital Outlay was the most expensive area. This is a direct result of the almost \$10.5 million spent repaving roads. General Government was the second most expensive area of the City. This is a direct result of grants that were given to area businesses along with a sales tax incentive given to the Kunes auto dealership to help fund their major renovation. The third largest expenditure category was Public Safety. This is primarily due to the large number of personnel that are required to provide these services.

After Capital Outlay, which is a result of the enhanced road program, Salaries continue to be the second highest type of expenditures. This is a result of the large portion of programs and services offered by the City, reflecting the high quality of life standards provided by its professional workforce.

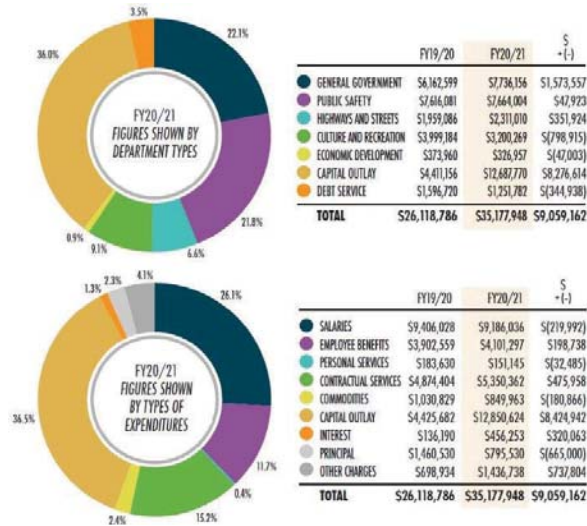


Figure 14.1: Example of expenditures included in a popular report

The example of Woodstock illustrates that PAFR are intended to open an informed discussion, but not to encompass all facets of information presented in annual GPFR. Therefore, the selection process is crucial for the informative value of such reports. As such, the Woodstock's PAFR is an example of an alternative reporting format for a GPFS, but not a non-financial reporting format.

3.2. Sustainability reporting

In the last decades, public sector entities started to be engaged in the preparation of sustainability reports, in order to address environmental, social and governance concerns. Despite its voluntary nature, there are rare cases where their preparation has been mandated or strongly recommended in some countries or for specific organizations. In any case, sustainability reporting is undoubtedly, the most adopted alternative reporting format to complement financial

information provided through the annual GPFR.¹⁴ The widespread adoption of sustainability reporting derives from the recognition that sustainability-related issues are at the core of public sector entities' mission and, consequently a broad disclosure should be provided to meet stakeholders' information needs.

Broadly speaking, a sustainability report should offer an overview of the organization, its history, mission and values, how the entity is organized (often including an organizational chart) and the main strategies pursued. Then the main financial data may be reported, generally summarized into broad areas to permit the reader to easily identify resources invested in service creation. A further section may disclose how the organization interacts with the main stakeholders, also providing direction on future plans and actions. In order to summarize the ability of the organizations to achieve the proposed targets, qualitative and quantitative indicators are included. Thus, a sustainability report should be designed as a progress report disclosing sustainability performance, progress and remaining gaps. To ensure trust, data disclosed in the report should be consistent with data provided in other financial or non-financial reports.

These ideas are common to all sustainability reports. Nevertheless, there is a broad diversity in practice with respect to the understanding of sustainability and its facets or focus to be included, the structure and the metrics (e.g. the set of qualitative and quantitative indicators) depending on the frameworks used for sustainability accounting and reporting. Explicit standard setting for sustainability reporting for public sector entities is rare (with the exception of SGDs). Often, governments and other public entities compile their reports based on at least one sustainability framework primarily designed for private sector entities.

In several countries, national standard setters have prepared guidelines in the aim of supporting organizations in the preparation

¹⁴ Manes-Rossi et al. (2020).

of these reports, sometimes labeled ‘Intellectual Capital Statement’¹⁵. An example of a public sector specific sustainability guideline can be found in Baden-Württemberg/Germany¹⁶: Such municipal sustainability reports shall disclose three municipal fields of action as follows:

A: Ecological sustainability

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

B: Economy and Social Affairs: Good life in municipalities

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

C: Framework conditions for sustainable municipal development

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

Examples for corresponding key performance indicators in the field of action of C: Framework conditions for sustainable municipal development are:

Field of action: municipal sustainability management

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

Field of action: Fiscal sustainability

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

Field of action: Citizen participation

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

Field of action: Civic engagement

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

¹⁵ E.g. Intellectual Capital Statement – Made in Europe (<http://akwissensbilanz.org/en/incas-en/>).

¹⁶ LUBW-Leitfaden: N!-Berichte für Kommunen. Leitfaden zur Erstellung von kommunalen Nachhaltigkeitsberichten, 2. Ed., 2015 https://www.statistik-bw.de/Umwelt/Kommunale_Nachhaltigkeit/LUBW_Leitfaden.pdf.

At international level, the Global Reporting Initiative (GRI) is often considered a ‘de facto standard setter’ (in the private sector) because it seems to hold firmly the supremacy in defining principles and criteria to follow while preparing a sustainability report¹⁷. Former versions addressed the public sector, but not current standards and work-program¹⁸. Therefore, it is all but rare to see a fragmented application of GRI guidelines, with public sector entities cherry-pick elements of different standards to apply. The large variety of indicators provided by the GRI, for instance, can be a useful point of reference for organizations operating in different fields.

However, some other standards may coexist with GRI when drafting a sustainability report. For instance, and without attempting to be exhaustive, ISO 14001 standards are designed to support entities in implementing and control environmental management systems. Also, in 2021, GRI provided some guidelines in a joint effort with the Sustainability Accounting Standards Board (SASB) to link sustainability issues to long term financial performance.¹⁹

From a global perspective, sustainability reporting by public sector entities/governments could be facilitated in the future. In May 2022, the IPSASB launched a consultation paper aimed at establishing global sustainability guidelines specific to the public sector.²⁰

¹⁷ The GRI offers a reporting framework and 34 topic-specific standards. The modular structure allows organizations to compose their report in accordance with their features and their business model. Also, in future, GRI will develop standards for 40 sectors; <https://www.globalreporting.org/standards/sector-program/> The public sector is not addressed in the revised list, but Non-profit organizations (Non-governmental organizations, foundations, professional and civic associations, charities) are; <https://www.globalreporting.org/media/mqznr5mz/gri-sector-program-list-of-prioritized-sectors.pdf>

¹⁸ Dumay et al. (2010).

¹⁹ <https://www.globalreporting.org/media/mlkjpnl1/gri-sasb-joint-publication-april-2021.pdf>. SASB’s Industry Classification System is designed for companies and distinguishes 77 industries (across 11 sectors) without an explicit reference to the public sector.

²⁰ IPSASB (2022) proposes to “Serve as the standard setter for global public sector specific sustainability guidance, ... Develop initial guidance focused on general disclosure requirements for sustainability-related information and climate-

In the following section, we continue to discuss sustainability reporting, but with a focus on SDGs.

3.3. SDGs Reporting

Public sector organizations are institutionally inclined to public welfare, i.e. to work towards sustainable development, e.g. to promote social, environmental and economic development that meets the needs of the society without compromising the opportunities of next generations.

In 2015, the United Nations have released the Agenda 2030 and the related 17 goals, well known as (UN-)SDGs, that are also summarized as 5 P's (**people, planet, prosperity, peace and partnership**)²¹ and disclosed in Figure 14.2.



Figure 14.2: UN-SDGs

-related disclosures. Approach guidance development at an accelerated pace, with a potential for releasing initial guidance by the end of 2023”; <https://www.ipsasb.org/publications/consultation-paper-advancing-public-sector-sustainability-reporting>

²¹ United Nations (UN) Department of Economic and Social Affairs: Transforming our world: the 2030 Agenda for Sustainable Development; <https://sdgs.un.org/2030agenda>

Addressees are international organizations, the business sector, other non-state actors, individuals and especially all levels of governments all over the world. Since the introduction of SDGs, the need to measure and report on efforts dedicated and results obtained for their achievement has emerged²². Sustainability strategies adopted by public sector organizations are progressively getting connected with the SDGs and the adoption of monetary and non-monetary measures can help in disclosing resources invested towards the goals sought as well as the output and the outcome achieved. Sometimes, entities publish information about SDGs in their websites, but do not prepare a specific report. In this respect, it has been already proposed to include SDG information and data in the **integrated report** (and maybe in a popular integrated report).

Furthermore, the option of creating a “live document”, a kind of web reporting continuously updated when resources are directed towards the achievement of specific goals could be considered as a future reporting means.

In most of the cases, a set of indicators selected from those included in the Global Indicator framework for the Sustainable Development Goals and the targets for the 2030 Agenda for Sustainable Development stated by the United Nations is the solution to concisely represent results obtained.

Some examples of voluntary SDGs annual reports have been published on the UN’s website. However, the limited number of reports available is possibly an indicator of the fact that public sector organizations prefer to include information about their action towards SDGs in other reports, such as sustainability reports or other alternative formats.

Also, the European Commission (EC) integrates the SDGs in its policies and strategies²³ as illustrated in Figure 14.3. The EC uses

²² Sobkowiak et al. (2020).

²³ https://ec.europa.eu/info/strategy/international-strategies/sustainable-development-goals_en

its own EU SDGs indicator set – selected both for their EU policy relevance and their statistical quality. Eurostat reports on the SDGs progress in an EU context overall and per member state.²⁴



Figure 14.3: European Commissions SDGs priorities²⁵

Furthermore, national governments and standard setters propose indicators that might better represent the national context. For instance, in 2018, a common SDG indicator set was selected for Federal Government (central level) and Länder (state level) in Germany (see Figure 14.4), whereas local authorities (municipal and county level) are supported in making their own choice due to diversity of local strategies, individual conditions and constraints.²⁶

²⁴ https://ec.europa.eu/info/strategy/international-strategies/sustainable-development-goals/monitoring-and-reporting-sdgs-eu-context_en

²⁵ https://ec.europa.eu/info/strategy/international-strategies/sustainable-development-goals/eu-holistic-approach-sustainable-development_en

²⁶ German Sustainable Development Strategy 2021 (short form); <https://www.bundesregierung.de/resource/blob/997534/1941044/81190075aa2808adaeb73fa08b6e9bea/2021-07-09-kurzpapier-n-englisch-data.pdf?download=1>




No.	Indicator field <i>Sustainability postulate</i>	Indicators	Targets	Status
SDG 1. End poverty in all its forms everywhere				
1.1.a	Poverty <i>Limiting poverty</i>	Material deprivation	Keep the proportion of persons who are materially deprived considerably below the EU-28 level by 2030	
1.1.b		Severe material deprivation	Keep the proportion of persons who are severely materially deprived considerably below the EU-28 level by 2030	
SDG 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture				
2.1.a	Farming <i>Environmentally sound production in our cultivated landscapes</i>	Nitrogen surplus in agriculture	Reduction of the nitrogen surpluses of the overall balance for Germany to 70 kilograms per hectare of utilised agricultural area on an annual average between 2028 and 2032	
2.1.b		Organic farming	Increase the proportion of organically farmed agricultural land to 20% by 2030	
2.2	Food security <i>Realising the right to food world-wide</i>	Support for good governance in attaining appropriate nutrition worldwide	Funds disbursed for the application of the guidelines and recommendations of the UN Committee on World Food Security (CFS) to be increased appropriately as a percentage of total spending on food security by 2030	-

Figure 14.4: German SDG indicator set for Federal Government and Länder (excerpt)²⁷

3.4. Integrated Reporting

As already mentioned, there can be at least two large separate reports (a financial (e.g. annual GPFR) and a non-financial (e.g. sustainability or SDGs report)), each of which draws a different picture of the reporting entity. This situation challenges the users in their effort to have a holistic view of the public sector entity. As in practice, the number of different reports is much higher, the need for **one**, concise and effective **report** able to convey to the readers all relevant perspectives by means of both financial and non-financial information, thus drawing a holistic picture, has been particularly intense in corporations. This is a common theme of academics promoting “One Report”²⁸, of FEE/ACE²⁹

²⁷ Ibid.

²⁸ Eccles and Krzus (2010).

²⁹ Since 2016, FEE (Fédération des Experts Comptables Européens) has become ACE (Accountancy Europe).

pleading for “Core & More”³⁰ as well as the International Integrated Reporting Council’s (IIRC) ‘Integrated Reporting’ (IR) concept to which we turn in the text that follows as IR in the narrow sense.

The IIRC, created in 2009 by actors with a strong regulatory power in the private sector accounting domain, issued in 2013 a framework primarily addressing private sector entities, which was revised in 2021.³¹ Nonetheless, also public sector entities may be interested in creating a report through which they could demonstrate their value creation process by explaining their own ‘business model’ and making use of the ‘**integrated thinking**’ (i.e. considering the interrelatedness of actors, processes and capitals). Value creation in this sense means enhancing the six resources (capitals) put in place in this ‘production’ (e.g. service delivery) process:

- financial (i.e. pool of funds),
- manufactured (i.e. physical objects as buildings for use e.g. for providing services),
- intellectual (i.e., knowledge-based intangibles as licenses or tacit knowledge),
- human (i.e. people’s competencies and experience),
- social and relationship (i.e. ability to share information within and between communities to enhance individual or collective well-being including common values, reputation and social license to operate) and

³⁰ FEE (2015), The Future of Corporate Reporting – creating the dynamics for change, https://www.accountancyeurope.eu/wp-content/uploads/FEECogitoPaper_-_TheFutureofCorporateReporting.pdf; ACE (2017): Core & More. An opportunity for smarter corporate reporting; <https://www.accountancyeurope.eu/wp-content/uploads/170918-Publication-Core-More-1.pdf>

³¹ <https://www.integratedreporting.org/wp-content/uploads/2021/01/InternationalIntegratedReportingFramework.pdf>

- natural capital (i.e. all environmental resources and processes supporting the past, current and future prosperity as air, water and bio-diversity) – see Figure 14.5.³²

Consequently, in 2016, the IIRC and the Chartered Institute of Public Finance and Accountancy (CIPFA) published an introductory Guide to IR in the public sector. The main aim of this document is “to explain to public sector leaders and their teams how integrated thinking and reporting can help the sector consider how to make the most of resources, encourage the right behaviours and demonstrate to stakeholders how they are achieving the strategy and creating value over the short and longer term”³³ – “for the organization itself ... and others (e.g. shareholders and society at large”³⁴.

Example (continued from Section 2)

A local government prepares an integrated report to inform on its strategies in fostering and enlarging carbon neutral local public transportation (here acquisition of new buses). This relates to the following capitals: financial (decreases by the acquisition, training and infrastructure amendment cost), manufactured (increases by the acquisition cost), intellectual (may raise as new processes have to be designed), human (raises because bus drivers and maintenance personal gain new skills), social and relationship (may increase as new supplier relationships are to be established and – at least in the long run – positive outcomes on citizens’ health are expected), natural (may increase due to a decrease in air pollution).

³² Guthrie et al (2017).

³³ IIRC/CIPFA (2016).

³⁴ IIRC (2021), Rz. 2.4, p. 16.

As such, one of the distinctive features of the integrated report is that it provides to the reader not only information on results achieved, but also it has a **future orientation** (i.e., long-term effects). For the selection of the information to be conveyed, each organization/government has to engage with its stakeholders and identify what is material to be communicated. The disclosure should cover all capitals involved in the value creation process as well as the risks and opportunities, especially those known or potentially affecting financial, environmental, social or governance performance. Basically, the holistic content embedded in the integrated report may provide a deep understanding of processes and results, bringing together a multi-faceted ensemble of information.

Among the guiding principles (e.g. ‘materiality’, ‘conciseness’, ‘reliability and completeness’, ‘consistency and comparability’) the ‘strategic focus and future orientation’ and especially ‘**connectivity** of information’ (bold letters added) stand out: “An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization’s ability to create value over time”³⁵. The capacity to those combinations as well as the knowledge about interrelatedness and dependencies are the core of integrated thinking and the prerequisite and enabler to **integrated decision-making** in which all relevant perspectives are taken into account. Although the IIRC Framework explains principals and content elements, there is room left for including specific sets of standards for sustainability reporting (e.g. GRI).³⁶ Thus,

³⁵ IIRC (2021), Rz. 3.6, p. 26.

³⁶ GRI (2017): Forging a path to integrated reporting. Insights from the GRI corporate leadership group on integrated reporting; <https://www.globalreporting.org/umbraco/Surface/ResourceCentre/PopupResource?id=8959>

integrated reports are to be designed individually based on the (entity-specific) management approach taken.

State-owned enterprises (SOE) have experimented with IR mainly because they have to confront their peers in the market. Nonetheless, both universities and local governments seem interested in adopting this tool. One of the main advantages of IR is the adoption of integrated thinking in defining strategies and actions. Integrated thinking could be a catalyst in breaking down the traditional borders between the different organization's units (e.g. departments) to achieve a common view on how to manage resources and develop future activities.³⁷ Furthermore, engaging stakeholders in identifying material issues to be included in the integrated report, may enhance their relation ties with the organization.

The IR Framework was recently revised, in January 2021, after a consultation process to update its content and principles on the basis of past experiences. In the same year, the IIRC merged with the Sustainability Accounting Standards Board (SASB) to create the Value Reporting Foundation. Later at the same year, it was announced that the new foundation together with the Climate Disclosure Standards Board (CDSB) are to be consolidated into the IFRS Foundation's International Sustainability Standards Board (ISSB). The consolidation process has been concluded in August 2022. This process testifies an increased attention in the private sector towards the publication of integrated reports and this process is expected to reverberate (or it has already reverberated) to public sector entities, starting with SOE. More generally, for example, the European Confederation of Institutes of Internal

³⁷ For the distinction between integrated and integrative thinking refer to McGuigan et al. (2020).

Auditing (ECIIA) engaged in promoting IR in the public sector.³⁸ Furthermore, International Accounting Standards Board (IASB) and International Sustainability Standards Board (ISSB)³⁹ announced to rely and to build in future on the principles of IR. As such, the IPSASB will most likely follow, when updating its standards based on International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS).

However, despite conciseness is one of the principles governing the preparation of the integrated reports and the fact that IR reports are mainly narrative, in any cases IR is characterized by technical terms and specific jargon (as capitals) that might create some barriers for their understanding in full by ordinary citizens. Moreover, the management approach inherent in IR hampers the comparability of these reports.

Besides IR in the narrow sense (based on the IIRC framework), there are also other versions of IR and integrated reports. On the one hand, the IIRC concept could be used as a basis for creating an individual integrated report, e.g. by linking capitals to the SDGs (see Figure 14.5)⁴⁰ or for deriving a (simplified) **Integrated Popular Report** with a focus on the information needs and interests of citizens. On the other hand, IR could be understood as a generic term for reports in which non-financial information is presented on a voluntary basis together with mandatory General Purpose Financial Statements (GPFS) or GPFR.⁴¹

³⁸ ECIIA (2021). Integrated Reporting in the European Public Sector: It's time to act! <https://www.eciia.eu/wp-content/uploads/2021/07/IR-in-the-PS-Final-version.pdf>

³⁹ <https://www.ifrs.org/news-and-events/news/2022/05/integrated-reporting-articulating-a-future-path/>

⁴⁰ Adams (2017).

⁴¹ In some legislations, an assurance topic arises from the voluntary integration of non-financial information in (e.g. management reports accompanying) GPFR. When reporting entities combine these two types of information, the reporting entity must make clear (by icons or use of different colors or similar), which information has been subject to assurance and which not. This may raise further understandability problems.

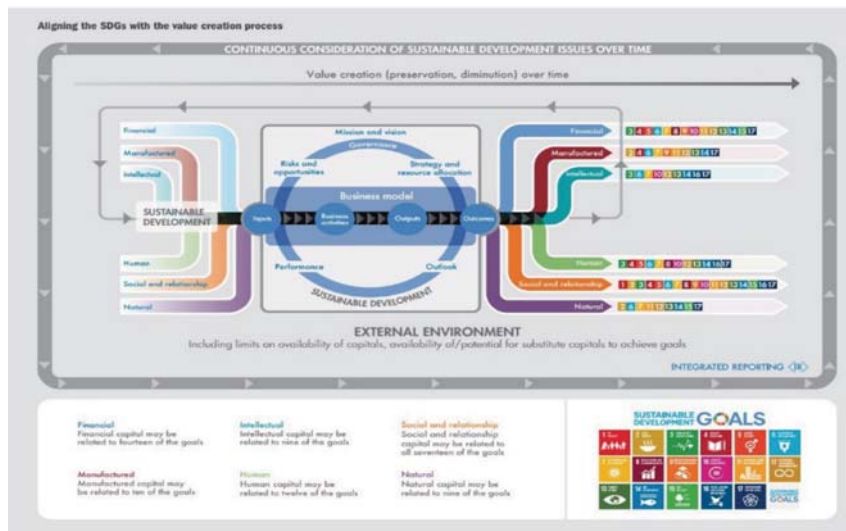


Figure 14.5: Integrated thinking, integrated reporting and SDGs.
Source: Adams (2017), p.14

4. Evaluation of alternative and non-financial reporting formats

The brief analysis conducted above about the content of the most widespread (and emerging) alternative and non-financial reporting formats adopted by public sector organizations allows us to gain a general understanding of the range of opportunities available to entities in their endeavor to present a specific or even a holistic view of their financial and non-financial (sustainability) results and, above all, of the related outcomes obtained.

Different stakeholders may have different benefits from the information disclosed – also in terms of expected impacts – depending on the focus areas that each organization decides to concentrate on while reporting its past, present and future performance. Table 14.1. shows the expected impact on stakeholders across all reporting formats.

Stakeholder Group	Expected impact
Preparers (Reporting entity)	Increase in qualifications and skills Use of language and communication tools attuned to increase understandability and readability Engage stakeholders in defining relevant information and open dialogue with citizens
Internal users	Better understanding of output and outcome produced by the different organization units Ability to manage information for decision-making and performance evaluation
External users	Transparent, understandable and comprehensive information on financial and non-financial performance Opportunity to better understand strategies, plans and actions (intended and/or already in place) Ability to make informed decisions and participate in public management life

Table 14.1: Summary of expected impact of alternative and non-financial reporting (Source: Own elaboration)

Table 14.2 summarises the differences among the alternative and non-financial reporting formats discussed in the chapter. However, it is important to underline that there is no one best solution. Rather, each organization has to identify the most convenient format to open a sincere dialogue with the citizens and other stakeholders. A reference to SDGs remains in this moment an obligation (until 2030), because of the role that public administrations have to play in the path towards a sustainable development. However, SDGs can be integrated in each of the previous formats discussed.

Generally speaking, a main difference between standardised GPR and the at least less standardised alternative reporting formats is that the latter are mainly characterised by a management approach. Thus, reports are more or less entity specific which hampers inter-reporting-entity comparability. The management approach allows for reports to explain what is relevant and important to know from the perspective of the persons and institutions responsible for decision-making, but allows also for 'misleading' information or for the inclusion of 'distraction manoeuvres'.

In the previous text we argued inter alia for standard setters to engage in designing integrated popular reports together with

users/addressees (e.g. citizens). Figure 14.6 illustrates this vision or proposal in relation to the IPSASB - as a global standard setter in the area of public sector reporting from a financial and, in the future, perhaps also from a non-financial perspective. From a bird's eye view, this can be seen as an application of the concept of hierarchical information communication, bridging from the most relevant (condensed) information to the underlying details. This approach will lead to offer a full overview of financial performance in the GPFS, but also to add further information (e.g. related to financial-sustainability, service performance, KPIs, etc.) through the management commentary. Popular Integrated Reporting can condense both financial and non-financial information considered of major interest for citizens and make it available in a simplified language and with the support of graphs and figures. "As such, Citizens could take a top-down approach, while the IPSASB and the preparing public bodies face the challenge of developing policies for selecting and condensing the information to be included in the popular (integrated) reports in a form with a drill down option.

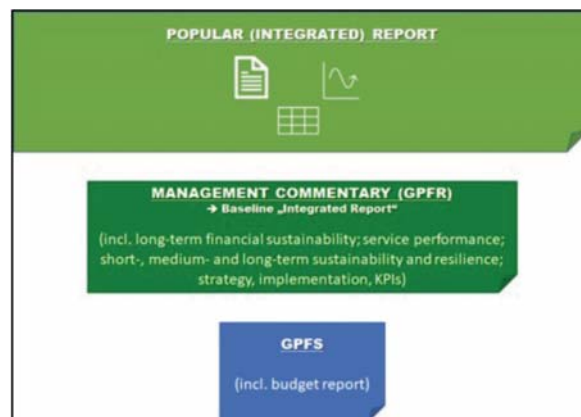


Figure 14.6: Proposed information transfer to addressees/users (e.g. citizens)⁴²

⁴² Lorson and Haustein (2022).

	Popular Reporting	Sustainability reporting	SDGs Reporting	Integrated Reporting (IR)
Most commonly name used	Popular Report, Popular Annual Financial Report (PAFR), Citizen-centric report, Value-for-money report	Sustainability report, ESG report, Environmental report, Social report	Voluntary national (or local) review; SDGs reporting	Integrated Report
Purpose of the report	To inform <i>citizens</i> on the financial performance of the (local) entity with a concise and easy-to-read report	To inform <i>all stakeholders</i> about environmental, social, economic and governance performance	To inform <i>all stakeholders</i> on progress made towards SDGs	To provide <i>all stakeholders</i> with integrated information on financial and non-financial performance, with an outlook on future trends
Content of the report	Features of the entity Basic financial information It can include also some non-financial information (e.g. Integrated Popular Reporting)	Overview of the entity Summary of financial information Stakeholders' relationships and indicators to show the non-financial performance	Narrative disclosure and quantitative indicators on each relevant SDG	Organizational overview and external environment Capitals Governance Business model Risks and opportunities Strategy Performance Outlook

Table 14.2: Comparison of selected alternative and non-financial reporting formats

5. Conclusion

Non-financial information and alternative reporting formats have consistently evolved in the last decades in an effort of public sector entities not only to discharge accountability duties but also to engage citizens and other stakeholders in decision-making and support their involvement as public services' co-producer.

The analysis conducted in this chapter regarding the most widespread reporting formats underlines that the situation is still evolving. It is possible that standard setters and governments will be involved in the near future in actions to set up a set of standards and guidelines specifically designed for public sector entities, to ensure understandable information that can provide all interested parties with a holistic picture of both financial and non-financial (sustainability) performance of public sector entities, creating the ground for conscious participation in designing their future strategies and actions.

We already acknowledge the efforts of several standard setters in this direction, especially the ones by the IPSASB within the project on Advancing Public Sector Sustainability Reporting⁴³.

We trust, however, that apart from the support that standards and guidelines can undoubtedly provide, institutional pressures could also give a necessary extra push. Institutional pressures could guide and facilitate public sector organizations to find their way in preparing their comprehensive reports by engaging citizens in the process. They could contribute in the design of the reports' content and outlay with multiple expected benefits in democratic governance.

It remains to be seen how citizens and other stakeholders will respond to a pervasive (if ever) adoption of these alternative reporting formats by public sector organizations, especially because is it difficult to foresee if and to what extent they intend to exercise

⁴³ IPSASB (2022a and b).

their role as co-producers and responsible receivers of services and consumers of resources.

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- UNITED NATIONS <https://sdgs.un.org/topics/voluntary-local-reviews>

Further public sector related EXAMPLES OF POPULAR AND ALTERNATIVE REPORTS can be found here,

- For a PFR see https://apps.pittsburghpa.gov/redtail/images/18548_2021.PAFR_Report.6.29.22.Final_Single.Pages_with_Final.Edit.4.30pm.pdf (it is interesting also because it makes large use of infographics and the city has a long experience with popular report)
- For a SDGs Report see <https://www.iges.or.jp/en/pub/shimokawa-town-sustainable-development-goals/en>
- For an Integrated Report see <https://arge.com/wp-content/uploads/2020/12/Kadikoy-Municipality-First-Integrated-Report.pdf>
- The IPSASB and pressing primary, but not only financial, challenges. Critical reflections on IPSASB's statements and guidelines in the context of fundamental challenges such as sustainability, climate change and the COVID 19 pandemic

Discussion topics

- Does non-financial information disclosure enhance the dialogue between citizens and public sector organizations?
- Which is the main content of sustainability reporting in public sector organizations?
- How can the IIRC Framework be a point of reference for public sector organization in preparing their integrated reporting?
- How can overall value creation be measured when applying the IIRC Framework?
- How can a public sector organization identify the most suitable content to be disclosed in its popular report?
- Does SDG reporting stimulate citizens, companies and NGOs to create partnerships with public sector organizations?
- Critically discuss IPSASB's sustainability reporting policy (<https://www.ipsasb.org/focus-areas/sustainability-reporting>).