SUSTAINABILITY REPORTING IN THE PUBLIC SECTOR: THE CHALLENGE FOR PRACTICING IN INDONESIA

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ABSTRACT

In the concept of sustainable development, the development process is expected to meet the needs of the present without destroying the needs of future generations to exploit natural resources. Using of resources efficiently and effectively by a company becomes a major concern of stakeholders. Corporate sustainability is becoming a very useful tool to provide comprehensive information on the aspects of financial, economic, social, environment, including corporate governance. The practices of sustainability reporting in the private sector are ahead of the public sector especially in the government sector, both in terms of number of companies and countries that have been set sustainability reporting as well as from the quality of the information presented in it.

This paper is an exploratory study to review the development of the sustainability reporting in the private and public sector in many countries, in particular the application of sustainability reporting in the government sector in Indonesia and its challenges, including the role of accountants in the preparation of it.

Keywords: sustainable development; corporate sustainability; sustainability reporting; public sector; Indonesia; accountant's role.

INTRODUCTION

Annual reports are the media used to link between the big-picture ambitions and the data that shows what action has been taken to achieve those ambitions and what progress is being made. Without it we cannot know what is being done or how close, or how far, we are from where the world needs to be. The demands placed on accountants to prepare them have grown in recognition of significant social and environmental challenges that simultaneously present opportunities. These demands require a rich supply of information that capable for informing people on the impacts of their decisions and enabling them to act. One response to the challenge of supplying such information is the development of new accounting tools and research. Traditional financial disclosures offer little more than a superficial snapshot of a company's present. Sustainability reporting goes much further, providing businesses and investors with a comprehensive three-dimensional picture of how sustainable a company's business model really is. As sustainability reporting becomes ever more integral to global action on environmental and social problems, so do the policies, regulations, standards and other instruments that require or encourage organizations to report.

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Carrots and Sticks (2016), as an association between KPMG, GRI, UNEP, and Centre for Corporate Governance in Africa, has reported the trends in sustainability reporting instruments which stated in Table 1. Their report covered territories in Asia Pacific (including Indonesia), Europe, North America, Latin America and Africa – Middle East.

Table 1. Trends in Sustainability Reporting Instruments

Year		**2006**	**2010**	**2013**	**2016**
Reporting Instruments	Mandatory	35	94	130	248
	Voluntary	25	57	50	135
	Total	**60**	**151**	**180**	**383**
Countries		**19**	**32**	**44**	**71**

Source: Carrots and Sticks Reports, 2016

Table 1 shows that there has been an increasing in the number of reporting instruments identified since the last report in 2013. The 2016 research identified 383 sustainability reporting instruments in 71 countries compared to 180 instruments identified in 44 countries in the 2013 report. The growth of reporting instruments in Europe, Asia Pacific, and Latin America has been particularly strong. Government regulation accounts for the largest proportion of sustainability reporting instruments worldwide. Governments in over 80 percent of the countries studied in this research introducing some form of regulatory sustainability reporting instrument. Mandatory instruments dominate but growth in voluntary instruments is also strong. Around two thirds of the instruments identified are mandatory and around one third voluntary, and one in ten instruments adopts a ‘comply or explain’ approach.

Sustainability reporting activity has grown rapidly in the private sector. The CSR industry is increasingly showing interest in expanding into public sector reporting. In public sector the sustainability challenges are still rare. However, with increasing public awareness of the importance of the environment is maintained, the public began to ask the government to account over the management of environment, not only economic and social issues. Taxpayers and citizens want to know public sector organisations are addressing them.

The scope and focus of sustainability reporting between central governments may differ. Some of the initiatives had undertaken mainly focus on national sustainability development strategy. Some countries provide data on indicators and targets against this strategy, and some countries are also integrating environmental data into the national output. There are some frameworks of sustainability that differ between countries. The adoption of the framework relies heavily on the willingness and ability of national governments to report sustainability issues. Study by Jones (2010, C) revealed general findings on the practices of sustainability reporting in five countries, namely Canada, Mexico, Philippines, Sweden, and the United Kingdom, as follows:

- Most of the five countries had developed an understanding of sustainability based on the Brundtland definition, but it had a different emphasis and changed over time. In Sweden, a very broad approach to sustainability measures has recently become more focused on environmental aspects.
- The countries varied in the strategy. Some countries prefered to integrate their sustainable development into a single mainstream government strategy. On the other hand, the rests choosed to adopt a stand-alone sustainable development strategy.

- National sustainable development strategies were enforced and promoted in different ways. Some through requiring lower levels of government to develop strategies and actions flowing from the national level, reporting on indicators and measurement throughout the public sector. Some through legislation to require sustainability reporting from state-owned companies. Two countries, Mexico and Sweden, emphasised the international dimensions, interdependencies and effects of sustainable development as well as developing national frameworks.

SUSTAINABLE DEVELOPMENT AND SUSTAINABILITY REPORTING

Brundland (1987) defined sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. This definition contains two main interrelated concepts namely the concept of poor people need and the concept of limitation imposed by the state of technology on the environment's ability to meet present and future needs. Along the time after that, there were many attempts to define sustainable development, but it can be said that commonly sustainability development is considered to have three elements; environmental, social, and economic sustainability. These elements are interconnected and have to be presented in a certain way in the sustainability reporting that can highlight the interdependence of them.

The definition also has a moral obligation for sustainability reporting to capture the impact of development on the poor people. INTOSAI (2013) proposed that Sustainability Reporting must present the data of sustainability in a systematic manner in order to enable readers in comparing the past data of selected targets and its progress up to the reporting date. It means that the sustainability reporting has to focus on certain sustainable indicators and its target. This will reduce the possibility that sustainability reporting is so broad and vague. The Global Reporting Initiative (GRI) defines sustainability reporting as a practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development (GRI, 2010). However, while most definitions of sustainability include social and economic elements, in many cases sustainability reporting practices have focused largely on environmental issues (ACCA, 2007). Beside that, Ioannou dan Serafeim (2014) find a significant heterogeneity in corporate disclosure on sustainability reporting across four countries.

The motivation for sustainability reporting in the public sector differs from those in the private sector. INTOSAI (2013) divided the motivation for sustainability reporting into internal motivations and external motivations. In the private sector, usually the development of reporting sustainability has been driven internally by the need of improving the performance of organization. The quality of information will be improved by reporting process that provides additional information of economic, social, and environmental issues and by improving the quality of existing data. It can also promote the innovation environment, open new market, and keep sustainable growth in the long run. The external motivations in the private sector come from the need to improve the quality of stakeholders' communication in term of providing transparency on risks, opportunities, and performances. If this can be managed well by management, the trust of stakeholders will increase accordingly. To some extent, the motivation for sustainability reporting also drove primary by legal requirement and industry standards.

In the public sector, the motivation for sustainability reporting is closely related to public trust in government institutions. It can support the public sector to achieve the goal of good government governance especially in the accountability and transparency of using resources. The other motivation for public sector in sustainability reporting is to improve performance in managing public resources and in assessing sustainability-related risks. In this case, sustainability reporting can be used as a tool for improving transparency in managing public funds and assets, as well as identifying the state's liabilities.

SUSTAINABILITY REPORTING IN INDONESIA

In private sector, PwC Indonesia (2016) reported that the number of companies publishing sustainability reports in Indonesia has increased exponentially, from 6 reports in 2009 to 37 in 2014 - with more than half adopting the GRI framework (see Table 2). This signals that companies in Indonesia are becoming increasingly aware of the importance and usefulness of sustainability reporting, as well as the integration of sustainability into their strategy. A sustainability report is rapidly going from being a "nice-to-have" – to a must-have.

Table 2. Number of Sustainability Reports in Indonesia

Year	Number of Reports
2009	6
2010	8
2011	12
2012	23
2013	39
2014	37

Source: PwC Indonesia, 2016

In order to assure the compliance for sustainability reporting, there are main regulatory drivers in Indonesia:

- Regulation Number: KEP-431/BL/2012 on Annual Reporting for Publicly Listed Companies to disclose CSR including policies, types of programs, and expenditure on environmental performance, labor practices, social and community empowerment, and product responsibility.
- Government Regulation Number 47 Year 2012 stating that companies' annual reports should contain social and environmental responsibilities.

Indonesia has an independent organization for the purpose of assisting, developing, measuring, and reporting of the implementation of Corporate Sustainability and Corporate Social Responsibility, which called "National Center for Sustainability Reporting (NCSR)". NCSR declared on June 23, 2005 by 5 major independent organizations which are the Indonesian Management Accountants Institute (IAMI / previously known as IAI-KAM), the Indonesian-Netherlands Association (INA), National Committee on Governance (KNKG), Forum for Corporate Governance in Indonesia (FCGI) and the Public Listed Companies Association (AEI). The member comprises of corporations, organizations and professional individuals which have the vision and commitment in implementing and developing Sustainable Development in Indonesia.

NCSR intends to gather the potential of companies, organizations and professionals in Indonesia to become the locomotive of Sustainable Development which is based upon the three main principles “Economy, Social and Environment”. NCSR objective is to develop and use the potential of its members and organizations involved in Sustainable Development through the forming of Indonesian professionals to the need of the Nation and the World. NCSR functions to develope standards and increase the quality of sustainability reporting, implementation of Good Corporate Governance, and encouraging stakeholder trust. It also as a catalyst for communication, consultation, coordination and other initiatives that is needed in Sustainability Management, as well as the purpose of having a healthy, high competing and sustainable business community in Indonesia.

In public sector, the Indonesian government, the largest public sectors in Indonesia, seems still do few things on sustainability reporting in the government sector. Currently, the mandatory reporting to be prepared by central and local government institutions are Financial Statements and Performance Reports. Standards for Government Accounting are prepared by the Government Accounting Standards Body while standard for reporting on performance based on regulation of the Ministry of State Apparatus Empowerment and Bureaucracy Reform. Since 2015, Indonesia has been adopting accrual basis for government accounting, but has not been mentioned at all on sustainability issues.

If we traced the journey of financial accountability and performance reporting in the Indonesian government, it was found that there has been a significant development in financial reporting. Prior to 2014 (the year that is recognized as a milestone of state financial management reform), the accounting of government in Indonesia is still cash-basis with single entry method. Post-2014, Indonesia implemented a system of double entry accounting on cash basis to the accrual method. Then in 2015, Indonesia started adopting a fully accrual-based accounting method.

Despite of government financial reporting currently seem to be a comprehensive report, but not one that leads to reporting on sustainability. Performance Accountability Report compiled by Government Agencies also heavily emphasis on performance indicator. The focus of the performance report is on the performance, in term of input, output, and outcome of governments on the use of funds allocated to them.

Challenges to incorporate sustainability reporting on financial statements or performance starts from the understanding on the urgency of sustainability reporting. This means that sustainability issues should be recognized as a national concern and embodied in government policy. Then the further step is to understand the concept of sustainability reporting and to identify the problems on sustainability reporting. This is important because it will most likely take place a wedge between the governments reporting on sustainability with sustainability reporting by corporation located in the territory of the government. For example, Asia Pulp and Paper (APP) have a factory in the province of Riau, Jambi, East Java, and Banten. APP sustainability reporting will inform the overall aspect of sustainability. On the other hand sustainability reporting of Riau Provincial Government will cover the same thing with sustainability reporting made by APP for its branch located in Riau.

The other challenge is distinguishing between the districts reporting with the provinces. The provincial sustainability reporting is not merely a compilation report of all districts and cities in the territory of the province. The human resources, also become a big challenge for government to develop sutainability report, both in quantity and quality, especially in local governments. In addition, management and accounting information systems in local government need to be improved to fully support the development of sustainability reporting.

Different motivation, practices, and priorities is also challenging factor in developing sustainability reporting in Indonesia. This is likely to be caused by the physical environment or the socio-structural factors in local government. For example, congestion may become a sustainability issue sustainability in London and Jakarta, but do not or less in Canberra. There is likely a difference pressure between the types of public sector organizations. For example, the local government to produce a report on the area of the State, that perhaps this is not relevant to a school. Therefore, sustainability reporting framework should conform to local government conditions

GUIDANCE FOR SUSTAINABILITY REPORTING IN THE PUBLIC SECTOR

The development of public sector sustainability reporting in Indonesia needs to adapt the international guidance published by organizations that have expertise and long experiences in this area. The Global Reporting Initiative (GRI) has developed a leading sustainability reporting framework for the private sector (GRI, 2010). In 2005, the GRI added the Sector Supplement for Public Agencies (GRI, 2005) to its reporting framework . In the UK, the Chartered Institute of Public Finance and Accountancy (CIPFA) developed guidance on sustainability reporting for the public sector, with the sustainable development organisation Forum for the Future (CIPFA and Forum for the Future 2006). This guidance used a relatively wide view of sustainability including social aspects, but it was solely UK-focused.

The GRI sustainability reporting framework consists of two parts, that are Defining Report Content, Quality and Boundary, and Standard Disclosure. The first part describes guidance and principles for defining report content, principle for defining report quality and guidance for report boundary setting. The second part of standard disclosure describes strategy and profile (Strategy and Analysis, Organizational Profile, Report Parameters, Governance, Commitments and Engagement, Management Approach and Performance Indicators) and standard disclosure for Economic, Environmental, and Social aspects. Concerning the sustainability reporting in public sectors, Ball and Bebbington (2008) proposes that sustainability can be reported in the public sector through the reporting arrangements and cannot be used as a single reporting.

The other point is the purposes of sustainability reporting. The reporting purpose of public sector in general is fixing something, rarely aimed at enhancing shareholder value. This is understandable because the government shareholders are the people that do not directly control the government, but they must go through parliament. However, the challenge in Indonesia today is how the government can do working for providing the people welfare. Thus, the sustainability reporting should also be directed to measure the achievement of the people's welfare. If not, then the sustainability reporting will be less meaningful and will get less support from the community or parliament.

THE ROLE OF THE ACCOUNTANT

Accountants have a significant role in preparing sustainability reporting. They are expected to support the development of reporting on sustainability issues faced by government. Accountants have enormous core skills that are essential in developing a more robust, consistent, effective, and beneficial, sustainability reporting both at the level of national and local governments. Accountants have sufficient competence in understanding of the regulatory environment, governance, risk management, and the development of a framework for measuring information that can be monetised in terms of money.

However, challenge for accountants in sustainability reporting, specifically related to professional development, including in-depth understanding of the interrelationships of social issues, the environment, and the economy, accounting practice in long-term focus and the future, and cooperation with other professions. Beyond sustainability, there are some elements of the public sector and government activities that involve accountants and will give impact to sustainability. The elements include budget and strategy development, audit, procurement, performance measurement, monitoring and evaluation, management accountability and governance, and standards setting.

The development of sustainability indicator and monitoring framework by the central government are generally led by statisticians and economists. However, accountants have their own skills that can be used in the preparation of standards and monitor sustainability. Standardization of measurement indicators within and between organizational unit, organization, or region, is an area where accountants can lead in the development. Accountants can also add value in the area of risk management, methodology of value for money, and to balance governance and ethical standards in the political governance. Likewise, if the government wants to pursue a monetary strategy as part of a sustainability reporting framework, the auditor will have ample opportunity to apply skills in finance and budgeting.

CONCLUSION

The issues related to the implementation of sustainability reporting, especially in the public sector (government) in Indonesia is challenging. This is due to the significant role of natural resources as engines of national economy growth and to the growing concern of public on the sustainability of them. Putting the sustainability reporting as a National Issue is the first step to encourage government of Indonesian to formulate a policy on sustainability reporting in the public sector. All elements of society must support these policies.

There are undoubtedly a number of challenges to sustainability reporting, including difficulties of estimation and projections, understanding links between actions and impact, establishing robust indicators, the challenge of applying the traditionally standards of accounting to sustainable development issues, reporting framework at various levels of government and design of measurement to reflects the public priorities. However, the accountancy profession should not hide from the challenges, as it also provides opportunities to develop the profession capabilities in the matter of sustainability.

The Central Government, agencies responsible for developing frameworks and guidelines, Indonesian Accountant Association, Universities, and Supreme Audit Institution should continue to discuss sustainability in order to draw up appropriate reporting approach for central governments, local governments and other public organizations. The government must understand that the actions taken today will have impact the future. Therefore, government need to develop integrated sustainability reporting as well as new indicators on three aspect of sustainability. Besides that, sustainability reporting essentially needs to be embedded within the strategic objectives of an publict sector organization.

The accountancy profession should continuously improve its training support and programs to accommodate the future needs of sustainability reporting. The experiences of public sector accountants in reporting on financial indicators can be leveraged to sustainability reporting. Future training and development should focus on linking financial and non-financial indicators, improving accountants' understanding of how social, environmental and sustainable development issues interconnect, and developing a long-term future focus. Also, accountants should be encouraged to work in collaboration with economists, social scientists, and environmental scientists on new forms of integrated reporting.

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