



17 October 2022

**BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS COMMENT LETTER TO IPSASB  
CONSULTATION PAPER – NATURAL RESOURCES**

**Introduction**

The Botswana Institute of Chartered Accountants (“BICA”) is a statutory body established by Accountants Act, 2010 for the regulation of the accountancy profession in Botswana. The BICA mission is to protect public interest through promoting the accountancy profession, supporting accountants, facilitating quality professional accountancy services through the monitoring and regulation of professional accountants.

The Institute appreciates the opportunity to contribute towards IPSASB’s Consultation Paper – *Natural Resources*. We provide our comments to each specific question as per the Consultation Paper.

Should you wish to have further engagements please do not hesitate to contact the undersigned.

Yours Faithfully

*Signed electronically*

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## RESPONSES TO SPECIFIC QUESTIONS

### Preliminary View 1 – Chapter 1

The IPSASB's preliminary view is that a natural resource can be generally described as an item which:

- (a) Is a resource as described in the IPSASB's Conceptual Framework;
- (b) Is naturally occurring; and
- (c) Is in its natural state.

Do you agree with the IPSASB's Preliminary View, particularly whether the requirement to be in its natural state should be used to scope what is considered a natural resource?

If not, please provide your reasons.

### Response

We agree with the IPSASB's description of natural resource. Having critically considered the issues in Appendix B, it is important to point out that IPSASB's description is more encompassing. The proposed description essentially captures our core consideration that the item of natural resource must be in its natural state and that this should be used to scope what is considered a natural resource.

From a financial reporting perspective, we see the IPSASB's description as very formal as it draws on definitions of natural resources in more general, technical as well as definitions from non-technical sources. Also, it draws on international statistical standards such as the Government Finance Statistics Manual 2014 (GFSM 2014) and System of National Accounts 2008 (2008 SNA), as well as existing guidance developed by other international and national standards setters.

### Specific Matter for Comment 1—Chapter 1

The IPSASB's preliminary description of natural resources delineates between natural resources and other resources based on whether the item is in its natural state.

Do you foresee any challenges in practice in differentiating between natural resources and other resources subject to human intervention? If so, please provide details of your concerns. How would you envisage overcoming these challenges?

### Response

We do not foresee any challenges in practice in differentiating between natural resources and other resources subject to human intervention. Current suites of IPSAS provide adequate financial reporting guidance relevant for natural resources that have been subject to some form of human activity (such as IPSAS 12, Inventories, IPSAS 17, Property, Plant and Equipment, IPSAS 27, Agriculture). The standards are quite explicit and depth in scope to

avoid any confusion with possible future guidance on natural resources in their original state. Activities that are considered human intervention that modifies the quantity and/or quality of natural resources need to be considered on a case by case basis to assess the extent of modification.

*Specific Matter for Comment 2—Chapter 1*

**The IPSASB noted that the natural resources project and sustainability reporting in the public sector are connected in that this project focuses on the accounting for natural resources while sustainability reporting may include consideration of how natural resources can be used in a sustainable manner.**

**In your view, do you see any other connections between these two projects?**

**Response**

We do agree that the natural resources project and sustainability reporting in the public sector are connected. No further connections have been identified.

*Preliminary View 2—Chapter 2*

**The IPSASB’s preliminary view is that a natural resource should only be recognized in GPFS if it meets the definition of an asset as defined in the IPSASB’s Conceptual Framework and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.**

**Do you agree with the IPSASB’s Preliminary View?**

**If not, please provide your reasons.**

**Response**

We agree that a natural resource should only be recognized in GPFS if it meets the definition of an asset as defined in the IPSASB’s Conceptual Framework and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.

We strongly support the assertion that the measurement of a monetary value attached to a natural resource needs to achieve the qualitative characteristics of information, as clearly spelt out in chapter 3 of the Conceptual Framework: relevance, faithful representation, understandability, timeliness, comparability, and verifiability.

There is also strong support to consider the constraints on information in the GPFRs: materiality, cost-benefit considerations, as well as achieving an appropriate balance between the qualitative characteristics.

*Preliminary View 3 —Chapter 3*

**The IPSASB’s preliminary view is that guidance on exploration and evaluation expenditures, as well as development costs, should be provided based on the guidance from IFRS 6, Exploration for and Evaluation of Mineral Resources, and IAS 38, Intangible Assets.**

## **Do you agree with the IPSASB's Preliminary View?**

**If not, please provide your reasons**

### **Response**

We agree with IPSASB's preliminary view that guidance on exploration and evaluation expenditures and development costs should be provided based on the guidance from IFRS 6, Exploration for and Evaluation of Mineral Resources, and IAS 38, Intangible Assets. An entity will typically need to conduct exploration and evaluation activities to determine if a site should be developed.

As it stands now, there is no specific guidance on exploration and evaluation activities in IPSAS hence it is worth pointing that IFRS 6, Exploration for and Evaluation of Mineral Resources will provide public sector entities with an accounting policy choice to either expense exploration and evaluation expenditures or capitalize them as an exploration and evaluation asset. We think this position is in line with IPSASB's due process of developing guidance and standards. It is our candid opinion that guidance which is aligned with IFRS 6 should also result in useful information for preparers and users in the public sector.

### *Preliminary View 4 — Chapter 3*

***The IPSASB's Preliminary View is that IPSAS 12, IPSAS 17, and IPSAS 31 should be supplemented as appropriate with guidance on the accounting for costs of stripping activities based on IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine.***

***Do you agree with the IPSASB's Preliminary View?***

***If not, please provide your reasons.***

### **Response**

We agree with IPSASB's view that IPSAS 12, IPSAS 17, and IPSAS 31 should be supplemented, as appropriate with guidance on the accounting for costs of stripping activities based on IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine.

We believe that there should be adequate guidance on how stripping activity costs should be accounted as IPSAS 12, IPSAS 17, and IPSAS 31 currently do not provide guidance on the treatment of stripping activity costs. Again, unless there is public sector-specific reason to depart from the private sector regarding accounting for these activities, we support placing reliance on IFRIC 20 to achieve similar results.

### *Preliminary View 5 — Chapter 3*

***The IPSASB's preliminary view is that, before consideration of existence uncertainty, an unextracted subsoil resource can meet the definition of an asset because.***

***Do you agree with the IPSASB's Preliminary View?***

***Please provide the reasons supporting your view***

## **Response**

We do not agree with the IPSASB's preliminary view that, before consideration of existence uncertainty, an unextracted subsoil resource can meet the definition of an asset.

Even though, the commentary provided in chapter 2 and the discussion of control in paragraphs 3.16-3.23 in the consultative paper, the exercise of sovereign powers to establish the laws and regulations conferring control of subsoil resources to a public sector entity could result in a past event which results in control over the resources. It is worth pointing that paragraphs 2.16-2.21, of the Conceptual Framework does not have a standardized probability threshold for recognition purposes and the assessment of whether an element exists should take into account all available facts.

It is therefore our candid opinion that for subsoil resources, the issue of existence uncertainty is particularly important because most subsoil resources in their natural state cannot be observed by conventional means.

### *Preliminary View 6 —Chapter 3*

***The IPSASB's preliminary view is that existence uncertainty can prevent the recognition of unextracted subsoil resources.***

***Do you agree with the IPSASB's preliminary view?***

***Please provide the reasons supporting your view.***

## **Response**

We agree with the IPSASB's preliminary view that existence uncertainty can prevent the recognition of unextracted subsoil resource. We believe that existence uncertainty impacts the recognition of subsoil resources as assets in many ways; and until a subsoil resource has been extracted, there is uncertainty over the quantity of subsoil resources in a given location.

Furthermore, uncertainty over the quantities of a resource not only impact existence uncertainty but also measurement uncertainty as articulated in paragraph 3.34 of the consultative paper. The issue of quality also becomes a challenge as there could be uncertainty over factors such as the overall grade of the deposits and whether an entity can feasibly access and extract the subsoil resources.

### *Preliminary View 7 —Chapter 3*

***The IPSASB's preliminary view is that the selection of a measurement basis for subsoil resources that achieves the qualitative characteristics and takes account of constraints on information in the GPFs may not be feasible due to the high level of measurement uncertainty. Based on this view, the recognition of subsoil resources as assets in the GPFs will be challenging.***

***Do you agree with the IPSASB's Preliminary View?***

***If not, please provide the reasons supporting your view.***

## Response

We agree with the IPSASB's preliminary view that the selection of a measurement basis for subsoil resources that achieves the qualitative characteristics and takes account of constraints on information in the GPFs may not be feasible due to the high degree of measurement uncertainty and because of this the recognition of subsoil resources as assets in the GPFs will be a challenge.

Not to discount geological reports, which we see as very useful, different valuation experts are most likely to give different estimates that cannot be used to support recognition of subsoil resources in the financial statements because it may be difficult for an entity to select a measurement basis which is verifiable. However, we concur with the IPSASB's assertion that it might be possible to disclose information on such assets, including providing estimates in GPFs.

### Preliminary View 8 —Chapter 4

**Based on the discussions in paragraphs 4.11-4.31, the IPSASB's preliminary views are:**

- a) It would be difficult to recognize water in seas, rivers, streams, lakes, or certain groundwater aquifers as an asset in the GPFs because it is unlikely that they will meet the definition of an asset, or it is unlikely that such water could be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the GPFs;**
- b) Water impounded in reservoirs, canals, and certain groundwater aquifers can meet the definition of an asset if the water is controlled by an entity;**
- c) Where water impounded in reservoirs and canals meets the definition of an asset, it may be possible to recognize the water in GPFs if the water can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the GPFs; and**
- d) In situations where the financial capacity or operational capacity of a water resource cannot be reliably measured using currently available technologies and capabilities, the resource cannot be recognized as an asset in the GPFs.**

**Do you agree with the IPSASB's Preliminary View?**

**If not, please provide your reasons supporting your view.**

## Response

- a) We agree with IPSASB view shared under (a) because it is unlikely for an entity to be able to measure reliably the quantity and value of these resources due to the uncertainty from geological estimates. Also, seas, rivers, streams, lakes and certain groundwater aquifers are unlikely to meet the definition of an asset and as such will be impossible to recognize them in the GPFs. Furthermore, the free-flowing nature of water in seas, streams, and lakes indicates that it is unlikely that the access to such water by others can be restricted.

Against these and many other factors such control, it becomes apparent that unless there has been human intervention, it may be difficult for entities to demonstrate that they control water in seas, rivers, streams, lakes, and groundwater aquifers.

- b) We agree with IPSASB that Water impounded in reservoirs, canals, and certain groundwater aquifers can meet the definition of an asset if the water is controlled by an entity. In this regard entities may demonstrate that they control water in reservoirs and canals if volumes are actively managed and if access is restricted.
- c) We share the views expressed by IPSASB (c) where water impounded in reservoirs and canals meets the definition of an asset, it may be possible to recognize the water in GPFS if the water can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the GPFRs.

It worthy to note that an entity may control water impounded in reservoirs and canals when it actively manages the volumes of water in reservoirs and canals to ensure that the resource is used to achieve its objectives and has the ability to restrict the access to the water in reservoirs and canals.

- d) We also agree that in circumstances where the financial capacity or operational capacity of a water resource cannot be reliably measured using currently available technologies and capabilities, the resource cannot be recognized as an asset in the GPFS, However, we are of the opinion that despite not being recognized, if an entity can demonstrate that it controls groundwater which meets the definition of an asset, it is encouraged to disclose it in the GPFRs.

#### Specific Matter for Comment 3—Chapter 5

**Living organisms that are subject to human intervention are not living resources within the scope of this CP. The accounting treatment of those living organisms, and activities relating to them and to living resources, is likely to fall within the scope of existing IPSAS.**

**In your view, is there sufficient guidance in IPSAS 12, IPSAS 17, or IPSAS 27 on how to determine which IPSAS to apply for these items necessary?**

**If not, please explain the reasons for your view.**

#### **Response**

In our view, the guidance in IPSAS 12, IPSAS 17 and IPSAS 27 on how to determine which IPSAS to apply to living organisms that are subject to human intervention is sufficient. However, there is the need to provide more guidance on costs incurred for the conservation or preservation of living organisms which are invariably accounted for as inventory, property, plant, and equipment, or intangible assets.

Again, there should be adequate guidance on distinction between consumable and bearer biological assets (animals that are used repeatedly or continuously, for example for breeding

or milk production and bearer plants). We believe that this distinction is necessary because the Government Finance Statistics (GFS) Manual 2014 (GFSM 2014) classifies consumable assets as inventory, while IPSAS 27 classified them as biological assets.

Preliminary View 9 — Chapter 5

**Based on the discussions in paragraphs 5.18-5.41, the IPSASB's preliminary views are:**

- a) It is possible for a living resource held for financial capacity to meet the definition of an asset, be measurable in a way that achieves the qualitative characteristics and takes account of the constraints on information in the GFRs, and thus meet the criteria to be recognized as an asset in GFRs;**
- b) If a living resource with operational capacity meets the definition of an asset, an entity will need to exercise judgment to determine if it is feasible to measure the living resource in a way which achieves the qualitative characteristics and takes account of the constraints on information in the GFRs, and so meet the criteria to be recognized as an asset in the GFRs; and**
- c) In situations where the financial capacity or operational capacity of a living resource cannot be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the GFRs using currently available technologies and capabilities, the living resource cannot be recognized as an asset in the GFRs.**

**Do you agree with the IPSASB's Preliminary View?**

**If not, please provide your reasons.**

**Response**

We agree with the IPSASB's view that (a) It is possible for a living resource held for financial capacity to meet the definition of an asset, be measurable in a way that achieves the qualitative characteristics and takes account of the constraints on information in GFRs, and thus meet the criteria to be recognized as an asset in GFRs.

However, (b) the measurement of living resources which have operational capacity may be more difficult or not feasible. We therefore support the assertion that, rather than coming to a categorical conclusion on whether all living resources are measurable, an entity will need to analyse the specific facts and circumstance for each living resource that is being considered for recognition.

Moreover, (c) in situations where an entity cannot measure the financial capacity or operational capacity of a living resource in a way that achieves the qualitative characteristics and takes account of constraints on information in the GFRs using currently available technologies and capabilities, those living resource cannot be recognized as an asset in the GFRs.



Preliminary View 10 —Chapter 6

**Based on the discussion in paragraphs 6.7-6.15, the IPSASB’s preliminary view is that certain information conventionally disclosed in GPFS should be presented in relation to natural resources.**

**Do you agree with the IPSASB’s Preliminary View?**

**If not, please provide your reasons.**

**Response**

We agree with the IPSASB’s view that as per the discussions contained in paragraphs 6.7-6.15, certain information conventionally disclosed in GPFS should be presented in relation to natural resources. This will help explain how note disclosures relate to items recognized in the GPFS and shed more light on the information disclosed in the notes to the financial statements as well as entity-related factors that could influence judgments about reported information.

Preliminary View 11 —Chapter 6

**Based on the discussion in paragraphs 6.16-6.20, the IPSASB’s preliminary view is that certain information conventionally found in broader GPFRs should be presented in relation to recognized or unrecognized natural resources that are relevant to an entity’s long-term financial sustainability, financial statement discussion and analysis, and service performance reporting.**

**Do you agree with the IPSASB’s Preliminary View?**

**If not, please provide your reasons.**

**Response**

We agree with the IPSASB’s view that based on the discussion as contained in paragraphs 6.16-6.20, certain information conventionally found in the broader GPFRs should be presented in relation to recognized or unrecognized natural resources that are relevant to an entity’s long-term financial sustainability, financial statement discussion and analysis, and service performance reporting. For example RPG 3, Reporting Service Performance Information, provides guidance on reporting on services that an entity provides, its service performance objectives, and the extent of its achievement of these objectives. We therefore believe that such information could focus more on operational aspects such as the objectives and performance indicators of resource exploitation, conservation, or preservation programs regardless of whether the underlying natural resource is recognized in the GPFS.

Specific Matter for Comment 4 —Chapter 6

**The proposals in paragraphs 6.16-6.20 (Preliminary View 11) are largely based on the IPSASB’s RPGs. While these proposals are expected to be helpful to users of the broader GPFRs, the information necessary to prepare these reports may be more challenging to**

**obtain compared to the information required for traditional GPFS disclosures. As noted in paragraph 6.17, the application of the RPGs is currently optional.**

**In your view, should the provision of the natural resources-related information proposed in Preliminary View 11 be mandatory? Such a requirement would only be specifically applicable to information related to natural resources.**

**Please provide the reasoning behind your view.**

**Response**

In our view, optional application of the guidance will result in incomparability among reporting entities on the same matter and will support mandatory application of the provision of the natural resources-related information proposed in the Preliminary View 11.

Also, it is our position that the IPSASB's existing RPGs provide guidance on good practice in the preparation of broader GPFRs and will be relevant to natural resources. Hence we will advocate for mandatory application of the provisions of the natural resources-related information proposed in Preliminary View 11.