

Date: October 16, 2022

Mr Edwin Ng
Principal
International Public Sector Accounting Standards Board
International Federation of Accountants
529 5th Avenue
New York, New York 10017

RE: Comments on Consultation Paper, *Natural Resources*

Dear Mr Ng,

We welcome the opportunity to comment on the Consultation Paper titled “*Natural Resources*”.
Our responses to the questions raised in the Consultation Paper are set out in Appendix 1.

Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Mr. Abdullah Alhomaida via email at:

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Yours sincerely,

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Appendix 1 - Comments on CP, *Natural Resources*

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.

[Our Comments] We agree with the IPSASB's Preliminary View. We also agree with the requirement that it should be in its natural state and therefore not been subject to human intervention.

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?

[Our Comments] We think there will be challenges in practice in differentiating between natural resources and other resources subject to human intervention. However, we believe that the general guidance provided in chapter 1, as well as the specific guidance provided in chapters 3-5 for the natural resources within the scope of the CP, should help in this regard.

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?

[Our Comments] With RPG 1 and RPG3 already in place, IPSAS guidance being developed on natural resources, and the IPSASB now considering stepping into public sector sustainability reporting, the idea of integrated reporting is becoming increasingly relevant in the public sector.

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.

[Our Comments] We agree with the IPSASB's preliminary view. Any constraint on the information in the GPFRs should be considered in light of materiality, cost benefit consideration and achieving 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 IFRS6, *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.

[Our Comments] We agree with the IPSASB's preliminary view.

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.

[Our Comments] We agree with the IPSASB's preliminary view.

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.

Do you agree with the IPSASB's Preliminary View?

Please provide the reasons supporting your view.

[Our Comments] For subsoil resources the issue of existence uncertainty is particularly important because most of the subsoil resources in their natural state cannot be observed by conventional means. A "resource" is part of the definition of an "asset". Paragraph 5.7 of the Conceptual Framework defines a resource as "an item with service potential or the ability to generate economic benefits." By definition, physical form, which denotes physical existence, is a condition of a subsoil resource. As noted in paragraph 3.33 of the CP, the ability to generate economic benefits typically arises directly from the subsoil resource itself (by converting this physical resource into cash through its disposal). As such, existence in the case of subsoil resources is a condition of economic benefits and consequently a condition of a "resource" and an "asset".

Should the qualitative characteristics of information included in GPFS also underpin the application of the definitions of elements in GPFS, similar to measurement, existence uncertainty would also affect the characteristics of faithful representation and verifiability in terms of whether a subsoil resource meets the definition of an asset.

From an audit perspective, existence uncertainty would impact the financial statement assertions of existence, valuation and accuracy.

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.

[Our Comments] We agree with the IPSASB's preliminary view. Until a subsoil resource has been extracted, there is uncertainty over the grade and quantity which not only impacts existence but also measurement.

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 GPFRs 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.

[Our Comments] We agree with the IPSASB's preliminary view.

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 GPFRs;
- (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 GPFRs; 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.

[Our Comments] We agree with the IPSASB's preliminary view.

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 the guidance in IPSAS 12, IPSAS 17, or IPSAS 27 on how to determine which IPSAS to apply for these sufficient?

If not, please explain the reasons for your view.

[Our Comments] We think there is sufficient guidance in IPSAS 12, IPSAS 17, and IPSAS 27 on how to determine which IPSAS to apply for living organisms that are subject to human intervention.

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 GPFs, and thus meet the criteria to be recognized as an asset in GPFS;
- (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 GPFs, and so meet the criteria to be recognized as an asset in the GPFS; 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 GPFs using currently available technologies and capabilities, the living 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.

[Our Comments] We agree with the IPSASB's preliminary view.

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.

[Our Comments] We agree with the IPSASB's preliminary view.

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.

[Our Comments] We agree with the IPSASB's preliminary view.

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.

[Our Comments] We believe the provision of the natural resources-related information proposed in Preliminary View 11 should be optional. This is because the information necessary to prepare these reports will be challenging to obtain as noted in Chapter 6 of the CP.