



IPSASB Consultation Paper: Natural Resources

**Response from the Public Accountants
and Auditors Board (PAAB), Zimbabwe**

17 October 2022

The Public Accountants and Auditors Board (PAAB), Zimbabwe, was established by section 4 of the Public Accountants and Auditors Act, 1995 (as amended) (the Act). Public accountants (public auditors) are defined in the Act as any person registered by the PAAB to provide public accountancy services (public audit services) to any person, including a public company or statutory body. PAAB is the National Standards Setter in Zimbabwe responsible for endorsing and adopting international accounting standards, international standards on auditing and international public sector accounting standards when they meet certain criteria for prescription by statutory regulation by PAAB in accordance with section 44(2)(a) of the Act. PAAB is responsible for defining and enforcing ethical practice and discipline among registered public accountants and public auditors and setting Ethics standards (section 5(1)(d) of the Act); and representing the views of the accountancy profession on national, regional and international issues (section 5(1)(g) of the Act). PAAB also plays a role in accountancy-specific education (section 5(1)(h) of the Act).

Further information about PAAB can be obtained at www.paab.org.zw

Any questions arising from this submission should be directed to:

Admire Ndurunduru

Secretary

Public Accountants and Auditors Board

72 Harare Drive

Mount Pleasant

Harare

Zimbabwe

Elles Mukunyadze

Standards and Research

Public Accountants and Auditors Board

72 Harare Drive

Mount Pleasant

Harare

Zimbabwe

Tel: + 263 4 301 063, + 263 4 301 096

Mobile: + 263 772 833 555

Email: secretary@paab.org.zw

Tel: + 263 4 301 063, +263 4 301 095, + 263 8644 106

548

Mobile: +263 773 488 754

Email: standards@paab.org.zw

Our ref: PAAB/NR/1

CP: NATURAL RESOURCES

PAAB is pleased to present its comments on this Exposure Draft, which have been reviewed by PAAB's Public Sector Accounting Standards Committee (PSASC).

There is growing demand for accountability in the management of natural resources and we applaud the IPSASB for prioritizing this project. Our general view is that it is important that GPFR reflect natural resources whether as amounts in financial statements or as disclosures. Our general view is that :

- a. Subsoil resources – there is huge existence and measurement uncertainty that will affect the recognition of such resources. Entities may find themselves having to disclose these based on available information.
- b. Water and Living Resources – demonstration of control is extremely difficult without human intervention. Entities may find themselves having to disclose these based on available information.

Response to Specific Matters for Comment

Detailed comments on the Specific Matters for Comment are provided in the attached Annex.

We hope this is a helpful contribution to IPSASB's work in this area.

George Mahembe
Chairman, PSASC

Admire Ndurunduru
Secretary, PAAB

Elles Mukunyadze
Standards and Research, PAAB

Natural Resources Consultation Paper

There is growing demand for accountability in the management of natural resources and we applaud the IPSASB for prioritizing this project. Our general view is that it is important that GPFR reflect natural resources whether as amounts in financial statements or as disclosures. Our general view is that :

- c. Subsoil resources – there is huge existence and measurement uncertainty that will affect the recognition of such resources. Entities may find themselves having to disclose these based on available information.
- d. Water and Living Resources – demonstration of control is extremely difficult without human intervention. Entities may find themselves having to disclose these based on available information.

Preliminary View 1 Chapter 1

The IPSASB's preliminary view is 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.

We agree with proposal in the IPSAS's Preliminary view 1. a). We believe the resource must have service potential or the ability to generate economic benefits and should still meet the definitions of asset in the conceptual framework. We also agree with (b) as a distinguishing factor between natural resources and other resources which are man made.. (c) We partially agree with c. The test for natural state is a difficult one and more guidance should be provided to help user apply judgement in the preparation of financial statements. What constitutes human intervention varies from one situation to the next and in some instances, natural resources are not deliberately modified for example pollution, poaching could be considered human intervention but this is not deliberate effort to modify the natural resource.

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. (Paragraph 1.8).

Do you foresee any challenges in practise 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?

We foresee problems in differentiating between natural and other resources as explained in the response for Preliminary View 1. An entity may be able to demonstrate control and future service potential as well ability to measure the resource but there will be issues in classifying the underlying asset as either natural or any other resource. The effect is that entities will end up holding resources that can generate economic benefits and/ service potential but failing to account for them using the current guidance in IPSAS or under natural resources. We propose that the scope of the natural resources project be extended a bit to accommodate such resources that may have been modified but currently out of scope for existing standards. Another way could be to consider the time period after human intervention and whether such human intervention is deliberate or not for example human intervention from pollution or poaching.

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?

The PAAB sees a strong connection between the two projects. Most natural resources may fail to meet the recognition criterial under the standard on natural resources and thus reporting on sustainability with regards such natural resources becomes very important.

Preliminary View 2 Chapter 2

The IPSASB preliminary view is that a natural resource should only be recognised 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 GPFRSs.

Do you agree with the IPSASB's preliminary view?
If not, please provide your reasons.

PAAB agrees to the proposal as this is constituent with recognition for all other assets.

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 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.

PAAB agrees with the proposal. IFRS however provides entities with an accounting policy to chose whether to expense or capitalize such expenditure. We believe that entities should be provided with guidance on the extend to which they can expense these costs. This will avoid situation where an entity will provide misleading financial performance especially when an entity ends up reporting a deficit due to recognizing these expenses. We believe that the public could be issued with a guidance that stipulates thresholds which will see certain levels of such expenditure being automatically capitalized.

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 Cost in the Production Phase of a Surface Mine*.

Do you agree with the IPSASB's preliminary view?
If not, please provide your reasons.

PAAB agrees with the proposal.

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?
If not, please provide your reasons.

PAAB agrees as long as control can be demonstrated. Most public sector entities can demonstrate control as result of legislation and other such pronouncement thus in such cases it would meet the definition of an asset.

Preliminary View 6 Chapter 3

The IPSASB's Preliminary View is that, existence uncertainty can prevent unextracted subsoil resources.

Do you agree with the IPSASB's preliminary view?

If not, please provide your reasons.

PAAB agrees with the proposal. It is in some instances difficult to measure with a degree of reliability the amount and quality of subsoil resources and this gives rise to existence uncertainty. In practice, different techniques and experts will come with significantly different estimations based on their models proving that there is significant existence uncertainty.

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 GPFRSs may not be feasible due to 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 your reasons.

PAAB agrees with the preliminary view. We are of the view as stated above the estimation approaches normally results in too much variability to support recognition in financials statement. There is a lost of uncertainty on the price that such assets could be sold at and much more uncertainty on the costs to bring them to be ready to be sold

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, 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 into account of constraints on information in the GPFSs;
- b) Water in reservoirs, canals, and certain groundwater aquifers can meet the definition of an asset if water is controlled by an entity;

- c) Where water impounded in reservoir and canals meets the definition of an assets, 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 into account the 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.

PAAB agrees with the proposal. Whereas it is true that the water described in a) will be difficult to recognize due to difficulties in managing and monitoring such water, a detailed disclosure may be necessary just to demonstrate that any entity has a resource which they control and owns but were unable to measure it reliably. This is because this water can later be impounded into reservoirs e.t.c where it will then be managed and monitored.

Preliminary View 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.

PAAB agrees with this view. However we foresee a gap where certain assets are scoped out of this project but still not covered under the existing IPSAS. An example the government may put boundaries for the purpose of controlling poaching of wild animals. This could be regarded as human intervention and therefore scoped out. Such animals may fail to meet scoping within the existing IPSAS. Another example is where government construct fireguards to prevent fire from spreading in sections of the forest. This can be regarded as human intervention leading to assets being scoped out but such assets will not be covered by existing IPSAS.

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 into account the constraints on information in the GPFs, and so 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 judgement to determine if it is feasible to measure the living resource in a way that achieves the qualitative characteristics and takes into account the constraints on information in the GPFs, and thus meet the criteria to be recognized as an asset in GPFs;
- 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 into account the 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.

PAAB agrees with the view. Living resources can serve multiple purposes and, as such, determining an appropriate measurement basis for their operational value could be difficult. In circumstances where measurement cannot be made, we agree the living resource should not be recognised as an asset in the GPFs. However, as with other types of natural resources, they should be disclosed as supplementary information in entities' financial reports.