

17 October 2022

The International Public Sector Accounting Standards Board (IPSASB)

277 Wellington Street West
Toronto, ON M5V 3H2
Canada

IPSASB CONSULTATION PAPER, *NATURAL RESOURCES*

The South African Institute of Chartered Accountants (SAICA) welcomes the opportunity to make submissions to the IPSASB on the *Natural Resources* Consultation Paper.

SAICA is South Africa's pre-eminent accountancy body and is widely recognised as one of the world's leading accounting institutes. The Institute provides a wide range of support services to more than 52 000 members who are chartered accountants [CAs(SA)] and associates [AGAs(SA)] who hold positions as chief executive officers, managing directors, board members, entrepreneurs, chief financial officers, auditors, and leaders in their spheres of business operation.

Our work in the public sector goes beyond member support but also includes a significant focus on advocacy and capacity building to support and encourage an improvement in public finance management.

SAICA supports the development of an accounting standard on natural resources due to the importance of natural resources in relation to the broader sustainability reporting context. Government is often the custodian of natural resources and is responsible for the effective management of these resource through tools such as legislation and policy development. SAICA believes while that there is a close connection between natural resources and sustainability reporting, it is important that a separate natural resources accounting standard is developed for financial reporting purposes as sustainability reporting would be broader than financial reporting. However, there should be close alignment between the natural resources accounting standard and the sustainability reporting standards due to the interconnectivity of the two topics.

For ease of reference, we include our responses as follows:

- (a) Annexure A - our detailed comments on the IPSASB's Preliminary Views.
- (b) Annexure B – our detailed comments on the IPSASB's Specific Matter for Comment

Members have been consulted in responding to the Consultation Paper and therefore the comments reflected in the annexures consider the view of the membership. In addition, a task



group of highly skilled professionals with experience and understanding in public sector financial reporting and natural capital supported the institute in the preparation of this submission.

We would also appreciate the opportunity to engage further, and we would be willing to discuss the comments if required. Please do not hesitate to contact Odwa Benxa (odwab@saica.co.za) in this regard.

Kind regards,

A handwritten signature in black ink that reads "Soopal".

Natasha Soopal
Executive: Ethics Standards and Public Sector

A handwritten signature in black ink, appearing to be "Odwa Benxa".

Odwa Benxa
Project Director: Public Sector

ANNEXURE A – Comments on IPSASB’s Preliminary Views

Preliminary View Number	Preliminary View	SAICA Comments	SAICA Recommendations
Preliminary View 1 - Chapter 1	<p>The IPSASB’s preliminary view is that a natural resource can be generally described as an item which:</p> <ul style="list-style-type: none"> (a) Is a resource as described in the IPSASB’s Conceptual Framework; (b) Is naturally occurring; and (c) Is in its natural state. <p>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?</p> <p>If not, please provide your reasons.</p>	<p>SAICA agrees with the resource and naturally occurring components of the proposed definition of a natural resource. However, there may be challenges on differentiating between natural resources and those that have been subject to modification (human intervention) and therefore the natural state component of the definition as follows:</p> <ul style="list-style-type: none"> • The key component of whether a resource can provide services does not only depend on whether it is natural or modified. It is also based on functionality as modified ecosystems can still provide services or may require some modification to ensure service levels can be met (for example, a dam may need to be constructed in the river to ensure water is accessed by citizens to ensure water services are provided. This would ensure that value and thus service potential is 	<ul style="list-style-type: none"> • The IPSASB should consider removing the reference to "natural state" in the definition and rather refer to a natural resource which provides ecosystem services that contribute to an organisation’s mandate and objectives to provide services. Perhaps it would be easier to specifically exclude from the definition those natural resources that no longer provide services but due to the nature or extent of human intervention or disturbance have created a state which detracts from societal or economic value. Rather, a liability is created if human health and well-being is to be conserved or managed. This will align the definition more with sustainability reporting norms as well. • The IPSASB should consider the Natural Capital Protocol (the “Protocol”) which is a framework designed to help generate trusted, credible, and actionable information that business managers need to inform decisions. The Protocol aims to support better decisions by including how



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		<p>derived from the water in the river following some human intervention). This can have long-term impacts (and costs, including maintenance costs, adequate financial and human resources to do so which is where state organs currently fail).</p>	<p>humans interact with nature, or more specifically natural capital, in decision making. The Protocol offers a standardised framework to identify, measure, and value impacts and dependencies on natural capital. The Protocol further introduced the definition of natural capital which the IPSASB can consider to ensure consistency with already available literature on the topic of natural resources.</p> <ul style="list-style-type: none">• South Africa has Standard of Generally Recognised Accounting Practice 110 (Standard of GRAP 110) on Living and Non-living Resources which prescribes the recognition, measurement, presentation and disclosure requirements for living and for non-living resources. The IPSASB should consider using the principles in Standard of GRAP 110 in developing the accounting standard on natural resources. However, it should also be recognised that GRAP 110 might have been developed at a time where the linkages to the broader sustainability reporting agenda were not that much of a consideration. Consequently, while GRAP 110 may provide a solid foundation for a practical, if somewhat constrained, accounting approach, it may be appropriate to consider broadening the scope of the proposed IPSAS guidance in some respects to cater for more recent



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			<p>developments in sustainability reporting, and the urgency around climate action to motivate positive change through reporting.</p>
<p>Preliminary View 2 – Chapter 2</p>	<p>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.</p> <p>Do you agree with the IPSASB’s Preliminary View?</p> <p>If not, please provide your reasons.</p>	<p>SAICA agrees that a natural resource should be recognised 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.</p>	<p>The IPSASB should consider developing guidance for the accounting treatment and disclosure of potential liabilities relating to the impact of infrastructure assets that are not working appropriately in providing the related services. For example, where water treatment plants are not effectively maintained by a municipality and therefore fail, the water will be polluted, and the municipality will be unable to provide a basic requirement in the form of potable clean water to the citizens. While the water may need to be recognised as obsolete inventory if polluted, the lack of provision of portable clean water may have a negative impact on the environment and thus sustainability and therefore necessitate a disclosure of a liability from an environmental perspective.</p>
<p>Preliminary View 3 – Chapter 3</p>	<p>The IPSASB’s preliminary view is 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.</p>	<p>SAICA cautions the IPSASB on developing guidance based on reliance on IFRS 6, Exploration for and Evaluation of Mineral Resources as IFRS 6 allows for management to use its judgement in developing and applying an accounting policy relating to the exploration and evaluation costs. The use of management judgement may</p>	<ul style="list-style-type: none"> Considering the importance of natural capital on climate change resilience and the urgency around sustainability, SAICA recommends that the IPSASB develops guidance or an accounting standard that will detail uniform requirements for the recognition, measurement, presentation and disclosure of exploration and evaluation costs to ensure consistency in



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	<p>Do you agree with the IPSASB's Preliminary View?</p> <p>If not, please provide your reasons.</p>	<p>lead to inconsistencies in the financial statements presentation and disclosure relating to exploration and evaluations costs.</p>	<p>the GPFRs. This will be critically important for consolidation purposes by government to ensure the consistent presentation and disclosure of assets and associated liabilities.</p> <ul style="list-style-type: none"> The IPSASB should consider adoption of other frameworks, such as the United Nations Environmental Programme The Economics of Ecosystems and Biodiversity (UNEP TEEB) framework, or the United Nations' more recent System of Environmental Economic Accounting (SEEA). From a South African perspective, The SEEA has already been used by Statistics South Africa to determine Natural Capital Accounts for the protected areas of South Africa.
<p>Preliminary View 10 – Chapter 6</p>	<p>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.</p> <p>Do you agree with the IPSASB's Preliminary View?</p> <p>If not, please provide your reasons.</p>	<p>SAICA agrees with the preliminary view.</p>	<p>None.</p>
<p>Preliminary View 11 – Chapter 6</p>	<p>Based on the discussion in paragraphs 6.16-6.20, the IPSASB's preliminary view is that certain information</p>	<p>SAICA agrees with the preliminary view.</p>	<p>None.</p>



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	<p>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.</p> <p>Do you agree with the IPSASB's Preliminary View?</p> <p>If not, please provide your reasons.</p>	<p>However, the IPSASB should also consider that natural resources/capital is not only about future cash flows through exploitation for benefit or provision of services. There are short and long-term liabilities that may accrue as well because of the activities (or lack thereof) of the entity as referred to under Preliminary View 2 – Chapter 2 above which may require consideration for disclosure in the financial statements.</p> <p>In addition, as part of the global drive to account for carbon, and similarly drive a net-zero narrative the Task Force on Climate-Related Disclosures (TCFD) was established for the quantification of financial disclosures on carbon under the IFRS. Similarly, the Taskforce for Nature-related Financial Disclosures framework (TNFD) is being developed on the back of the TCFD framework for adoption by mid-2023. The IPSASB should consider the guidance in the TCFD and TNFD frameworks in developing disclosure requirements on natural resources/capital.</p> <p>Furthermore, the IPSASB should be deliberate in developing guidance that is sufficiently “future-proof” to allow for the subsequent incorporation and alignment with developments in natural resources</p>	



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		<p>and sustainability reporting, as the world is moving toward a position where it will become more feasible and acceptable to place a quantitative or financial value on natural resources than what we previously had. Therefore, the accounting framework should envisage and encourage the eventual quantification and recognition of assets and liabilities in this regard, subject to them meeting the usual requirements per the Conceptual Framework.</p>	



ANNEXURE B – Comments on IPSASB’s Specific Matter for Comment

Specific Matter for Comment Number	Specific Matter for Comment	SAICA Comments	SAICA Recommendations
Specific Matter for Comment 1 – Chapter 1	<p>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.</p> <p>Do you foresee any challenges in practice in differentiating between natural resources and other resources subject to human intervention?</p> <p>If so, please provide details of your concerns. How would you envisage overcoming these challenges?</p>	Refer to comments under Preliminary View 1 - Chapter 1 above.	None.
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.	<p>The IPSASB should consider the following areas in relation to the connection between natural resources and sustainability reporting:</p> <ul style="list-style-type: none"> • Monetary valuation of natural capital assets in the financial statements and the convergence with non-financial information disclosed 	None.



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	In your view, do you see any other connections between these two projects?	<p>in reports such as the integrated report.</p> <ul style="list-style-type: none">• The key consideration of an accounting standard versus sustainability reporting standard is the user of the information reported. Non-financial information (that is, sustainability information) is often used by non-financial stakeholders while financial information is often used by financial decision makers. Assigning monetary values to natural capital will assist financial decision makers in understand the business risks associated with the information.• The purpose of the natural resources standard should include the alignment of sustainability disclosures to the financial statements disclosures and assigning a monetary value to the sustainability disclosures aspects which would assist in identifying the potential long-term liabilities of the sustainability aspects in relation to the entity.	



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		<ul style="list-style-type: none">• It may be important for the IPSASB to consider closely aligning the two projects to ensure the realisation of possible cost savings since the two projects are closely linked. There may be an opportunity to avoid replication of efforts for slightly different reasons where the two projects are closely aligned.	