



Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

October 28, 2022

Mr. Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto ON M5V 3H2

Dear Mr. Smith:

RE: CONSULTATION PAPER—NATURAL RESOURCES—MAY 2022

We support IPSASB's goal of addressing growing public concerns for sustainable management of the natural environment. However, from a sustainability and financial reporting perspective, reporting natural resources in the financial statements would not serve the public interest.

Financial statements should not be the vehicle for communicating on the state of the environment and the sustainability of natural resources. Important decisions around public stewardship of natural resources rest on a number of considerations that are not captured by financial statement reporting, such as asset preservation and public access. It seems likely that is more appropriate and cost-effective to report on the environment and natural resources outside of the financial statements. We encourage the IPSASB to develop non-financial guidance on reporting on the state of natural resources and the environment and/or the impacts in the following broad categories: air quality, water quality and quantity, land and waste, climate and biodiversity. This approach would facilitate the recognition of the role and value of natural assets as part of a comprehensive understanding of sustainability conditions, benefits, problems and risks. See our September 2022 response to IPSASB's consultation paper, *Advancing Public Sector Sustainability Reporting*.

Providing information on the monetary value of natural resources in the financial statements can also have unintended negative consequences. Assigning a dollar value to natural resources could potentially encourage governments to exploit natural resources in order to balance the budget (e.g., selling the rights to harvest Crown forests). As well, recording these assets would reduce the net debt-to-equity measure that in turn may encourage governments to take on further debt.

There are a number of additional practical and logistical difficulties involved in recognizing natural resources as assets, including:

- In many cases, natural resources, such as provincial parks and non-harvested forests, do not have an established market value. Any attempt to measure such assets would produce a vast range of potential values. Such ranges would not only be too wide to provide meaningful information to financial statement users, they would also be more susceptible to management bias.

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- Attaching a value to natural resources would require a significant commitment of resources and would considerably increase the cost of the preparation of the financial statements and the execution of the financial statement audit.
- There are practical difficulties in accurately and consistently determining the opening inventory of natural resources, tracking the amounts of natural resources consumed on an annual basis and determining the ending inventory of natural resources.
- There are challenges in determining the amortization of natural resources, including estimating the useful life of natural resources and the appropriate amortization method.

Our responses to the matters on which you specifically requested comments are set out below.

Responses to Requests for Specific Comments

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.

Natural resources should not be recognized in the financial statements. The IPSASB could develop specific guidance on reporting on the state of the environment, governance, and social impacts as it relates to the reporting entity and its stakeholders. See our introductory comments.

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?

See our response to Preliminary View 1—Chapter 1.

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?

Financial statements were not designed to capture important qualitative information about the public stewardship of natural resources. Annual reports have well served their purposes in capturing important qualitative information. As well, specialized reporting may be incorporated by reference in the annual report and may better serve this purpose by including measures such as emission reductions, particulates in the air, percentage of land protected, lead in water, etc.

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.

We do not agree with the premise of the question. It would not serve the public interest to report natural resources in the financial statements. See our introductory comments.

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.

We do not agree with the premise of the question. It would not serve the public interest to report natural resources in the financial statements. See our introductory comments.

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.

We do not agree with the premise of the question. It would not serve the public interest to report natural resources in the financial statements. See our introductory comments.

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.

We do not agree with the premise of the question. It would not serve the public interest to report natural resources in the financial statements. See our introductory comments.

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.

We do not agree with the premise of the question. It would not serve the public interest to report natural resources in the financial statements. See our introductory comments.

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.

We do not agree with the premise of the question. It would not serve the public interest to report natural resources in the financial statements. See our introductory comments.

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.

We do not agree. It would not serve the public interest to report natural resources in the financial statements. See our introductory comments.

Preliminary View 11—Chapter 6

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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.

See our response to Preliminary View 10—Chapter 6.

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 needed 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.

See our response to Preliminary View 10—Chapter 6.

Thank you for the opportunity to comment.

Sincerely,



Bonnie Lysyk
Auditor General of Ontario