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International Public Sector Accounting Standards Board (IPSASB)  
Toronto, Ontario, Canada

Via electronic submission

Dear IPSASB,

Our comments on the IPSASB Natural Resources Consultation Paper are below.

We have paraphrased the questions.

### **Preliminary view 1 chapter 1**

**Do you agree that a natural resource can generally be described as an item which is a natural resource as described in the conceptual framework, is naturally occurring, and is in its natural state?**

We agree, with reservations given the complexity of issues engaged in this discussion.

Given the complexity and importance of this topic, we suggest IPSASB conduct two phases of consultation. Following the initial consultation paper, utility may be found in a second consultation paper, going into more detail on the complex issues involved and seeking additional feedback from users. We have found the significance of the questions asked in the consultation paper to warrant more time and analysis, because they involve fundamental issues of recognition, measurement, stewardship and accountability.

It seems to us that many of the general issues and positions raised in the consultation paper are equally if not more significant than past watershed accounting issues, such as moving from the cash basis to accrual basis, from expensing to recognizing capital assets, and from historical cost to fair value measurements. In each of those examples, problems raised with recognition and measurement, such as lack of objectivity in estimates/accruals or too much difficulty with particular fair value measurements, were overcome through high-quality standards, evolutions in practice, and improvements in administrative and accounting systems. We believe the same can

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<sup>1</sup> The views expressed herein are the personal views of the authors and do not necessarily reflect the views of the Office of the Auditor General of Alberta or any other organization.

be done with natural resource accounting. Hence our suggestion for a second phase of consultation, or a comparable process.

### **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. How would you envision overcoming these challenges?**

We agree that the delineation between natural resources and other resources is desirable to distinguish “natural” resources from other resources such as inventory or biological assets or capital assets. The description “natural” would identify resources in their “natural” state, which would be understandable to users.

There are many complex challenges in determining if and when human intervention occurred, but we expect such challenges can be overcome with guidance.

Questions that raise issues of significant complexity and challenge include:

- How might an indigenous perspective inform the meaning of human intervention/change from natural state?
- How long ago can the intervention have occurred in order to be relevant? What about human interventions long ago in the past, but identifiable by archeologists or anthropologists?
- What if intervention was done – directly or indirectly– by a different public sector entity, or if the human intervention occurred before that particular nation-state even existed?
- What if intervention was involuntary? i.e. compelled by legal or other forces or responsive to a natural event or threat?
- Can interventions be “reversed” or rectified in some way?
- What if intervention was carried out illegally? i.e. based on mistaken belief the particular public sector entity possessed rights to perform an intervention which later determined by a court to be without authority. What if intervention carried out by third party intentionally acting illegally or fraudulently? Or perhaps even performed with intention to prevent another public sector entity from recognizing an asset?

We note an intervention may create what could be thought of as a natural resource. For example, a dam for hydro-electricity may create a lake.

We also note that there may be indirect effects, such as consequences of human-caused climate change (e.g. a glacier disappears and a river dries up), but it’s not clear how that is different from the intervention of damming a river or draining it. Perhaps intentionality, or “directness” are significant criteria to be considered.

Notwithstanding these challenges, in our view, the concept proposed by IPSASB is in principle appropriate. On the point of “how”, the primary message we would have is not to underestimate the level of complexity to analyze the issues.

### **Specific matter 2 chapter 1**

**IPSASB noted that natural resources 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. Do you see any other connections?**

We agree with the connection between accounting for natural resources and sustainability reporting.

We support a view to adopting sustainability reporting that is not just investor/enterprise value focused, but instead multi-stakeholder focused such as GRI or UN SGDs i.e. because many stakeholders of public sector entities may have an interest in natural resources (elected representatives, citizens present and future, corporations, not-for-profits or academics evaluating policy, etc.). Recognition of natural resources may drive various decisions around stewardship and accountability that are relevant to sustainability as well.

We would be concerned if IPSASB’s overall rejection of natural resource accounting was not for conceptual reasons or public management (including stewardship and accountability) reasons, but instead placing emphasis towards investor/creditor needs and financialization and market values (i.e. because these natural resources cannot be easily sold to repay creditors, they should not be recognized). Sustainability reporting for the public sector should be based more on concepts of stewardship, resource management and accountability in our view, rather than the interests of investors/creditors.

We encourage IPSASB to clearly define “sustainability” in its conceptual framework, which may reveal other connections, and may help develop the concepts of stewardship and accountability for natural resources in particular.

### **Preliminary view 2 chapter 2**

**IPSASB’s preliminary view is that a natural resource should only be recognized in general purpose financial statements if it meets the definition of an asset and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in financial statements. Do you agree with IPSASB’s preliminary view?**

We agree but suggest IPSASB reexamine its conceptual framework and qualitative criteria which may be unduly constricting stewardship of natural resources by being too restrictive. Recognition of natural resources may be so critical to their sustainability and their stewardship that an

expanded and more supportive view of recognition and measurement is needed to allow for their recognition (either in primary statements or as note disclosure).

Chapter 2 notes service potential or ability to generate economic benefits. We suggest IPSASB should emphasize these considerations, especially service potential or “operational capacity,” rather than defaulting to market sale, because the service potential or generating economic benefits, more broadly thought of, is relevant. For example, a swamp that naturally provides cleaning of water much like a sewage treatment plant could be thought of as providing economic benefits, so why recognize the sewage treatment plant as an asset but not the swamp? In both cases, relevance of the information outweighed these concerns and financial reporting improved.

We are hopeful that over time and with involvement of standard setters, the methods, assumptions and data will mature and standardize, perhaps similar in ways that measurements of pension obligations or financial instruments have evolved, to reach the level of reliability and relevance for financial statement recognition.

We note that in some jurisdictions there may be relevant considerations found at an intersection of legal, constitutional, indigenous and historical issues with respect to ownership and control of such resources. All taken into account, we feel that better accounting for natural resources may assist in identification or perhaps even advancement towards better decision-making and stewardship of natural resources and serve the public interest.

### **Preliminary view 3 chapter 3**

**IPSASB’s preliminary view is that guidance on exploration and development expenditures as well as development costs should be provided based on IFRS 6 and IAS 38.**

We have no view on this, other than whatever promotes better stewardships of resources. We note the IFRS guidance may be more enterprise valuation driven, which is not as applicable to public sector, and the “successful efforts” vs “full cost” views may be driven by private sector taxation or regulatory reasons that are not relevant to public sector entities.

### **Preliminary view 4 chapter 3**

**IPSASB’s preliminary view is IPSASBs 12 [Inventories], 17 [Property, plant, equipment], and 31 [Agriculture] should be supplemented as appropriate with guidance for accounting for costs of stripping activities based on IFRCI 20. Do you agree?**

We have no view on this, other than whatever promotes better stewardships of resources. We note the IFRS guidance may be more enterprise valuation driven, which is not as applicable to public sector.

### **Preliminary view 5 chapter 3**

**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?**

We agree.

Uncertainty of control, particularly in the complicated legal and socio-economic context of certain jurisdictions, may pose a challenge to recognition and meeting the definition of an asset. However, there may be practical parameters adopted for the sake of meeting the objectives of public sector reporting and usefulness to readers that still support recognition of unextracted subsoil resources. We suggest this may be a particular focus area for further consideration.

### **Preliminary view 6 chapter 3**

**IPSASB's preliminary view is existence uncertainty can prevent the recognition of unextracted subsoil resources. Do you agree?**

We urge IPSASB to consider that in many cases, the existence of something is not uncertain, only the extent (volume, tonnage, etc.), which is a matter of measurement, and specific methods, assumptions and data, refined continuously, can be developed to reduce existence uncertainty to an acceptable level for recognition.

### **Preliminary view 7 chapter 3**

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

We agree it will be challenging. But we believe it is worth doing and that with appropriate effort by IPSASB to develop standards and guidance, and involvement of additional resources such as specialists in other fields, over time it can be done, no differently than over time we moved from cash to accrual accounting and historical cost to fair value accounting (for some items).

### **Preliminary view 8 chapter 4**

**Based on paragraphs 4.11-4.31, IPSASB preliminary views are it would be difficult to recognize water in seas, rivers, streams, lakes or certain groundwater aquifers because it is unlikely to meet definition of an asset or could be adequately measured; water impounded in reservoirs canals and certain groundwater acquirers can meet the asset definition if the entity controls the water; where water meets definition of an asset it may be possible to recognize water in general purpose financial statements if it can be measured**

**appropriately, and were the financial or operational capacity of a water resources cannot be reliably measured using currently available technologies and capabilities, the resources cannot be recognized as an asset.**

We encourage IPSASB to further explore the possibility of disclosure, if not recognition, of all water resources.

Public sector entities likely are aware of the lakes, rivers and other water resources in their jurisdiction. Volume, depth, and flow are likely known as well.

The complexity of legal and socio-economic forces/agreements pose a particular challenge to the control (asset definition) analysis, but in our view these challenges need to be balanced with the value of reporting that provides significant information to users.

Disclosure or recognition of these resources may promote stewardship and accountability for their use and maintenance and protection. We would be concerned if deference is given to the IFRS view of financial valuation and valuation of the enterprise, rather than the high stewardship- or accountability-value that would result from recognition of these assets.

We note that IPSASB should more carefully analyze the unit of account. We note that rather than viewing the accounting problem as individual water molecules, the unit of account may be a body of water, or perhaps even a water system (such as a set of lakes with interconnected rivers). This may make the accounting or disclosure more feasible, and is not inconsistent with perhaps capital asset accounting in which not every individual piece of wood or metal of a building is considered a separate capital asset.

We agree with appropriate measurement. We question the requirement for “reliably measured using currently available technologies and capabilities” because new standards often require new administrative capabilities, including new kinds of information and records to be kept, involvement of specialists and other new technologies and techniques. If IPSASB adopted as a requirement for new standards that they are only issued if IPSASB is confident no new kinds of information or records will need to be developed or kept by public sector entities, likely few new standards would be issued.

### **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 are to living resources is likely to fall within the scope of existing IPSAS. Are IPSAS 12, 17 or 27 sufficient guidance?**

We agree, although we encourage IPSASB to re-examine IPSAS 12, 17 or 27 from a stewardship, accountability for management and protection perspective.

## **Preliminary view 9 chapter 5**

**Based on paragraphs 5.18 to 5.41, IPSASB’s preliminary views are: it is possible for a living resource held for financial capacity to meet the definition of an asset, be measurable in accordance with qualitative characteristics, and thus meet the criteria to be recognized as an asset; 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 qualitative characteristics and takes into account constraints on information in general purpose financial reporting so meet asset criteria, and in situations where financial or operational capacity of a living resource cannot be measured adequately, the living resource cannot be recognized as an asset. Do you agree?**

As with other questions, we suggest IPSASB may need to reexamine its conceptual framework and qualitative characteristics for recognition and measurement and perhaps relax constraints on this information because of the critical stewardship and accountability value of disclosure and recognition of natural resources.

We note there are similarities with living resources and other natural resources such as water.

We note that natural phenomena impact natural resources, which will need to be considered in accounting for natural resources. Rivers may ebb and flow over time. Herds may migrate across jurisdictions. However, we note that other assets of public sector entities already given accounting recognition are subject to natural phenomena which are typically ignored in accounting. For example, a sink-hole may open and destroy a public sector entity’s building, but we don’t consider that as lack of control.

For living resources, IPSASB seems to be focusing on the difficulty of controlling a single animal rather than the control over a herd or population, which may be much less difficult. Paragraph 5.33 says “it may be difficult to count individual animals which can roam freely.” We repeat our point made under preliminary view 8, chapter 4, that IPSASB should more carefully analyze the unit of account. We note that rather than viewing the accounting problem as an individual unit such as a single animal or tree, the unit of account may be a herd or forest. This may make the accounting more feasible, and may be more consistent with how particular living resources are managed and public sector entities exercise stewardship and are subject to accountability. Only in rare cases, such as perhaps with endangered species, would an individual organism unit of account be needed.

We question looking at living organisms in terms of financial capacity and suggest IPSASB may choose a wider view of “operational capacity” that includes sustainable stewardship.

## **Preliminary view 10 chapter 6**

**Based on discussion in paragraphs 6.7 – 6.15, IPSASB’s preliminary view is that certain information conventionally disclosed in general purpose financial statements should be presented in relation to natural resources. Do you agree?**

We agree. Processes relevant to stewardship of these resources and accountability for their effective and sustainable management, the risks and opportunities associated with these resources, and performance measures, are important disclosures.

#### **Preliminary view 11 chapter 6**

**Based on paragraphs 6.16-6.20, IPSASB's preliminary view is that certain information conventionally found in broader general purpose financial reports 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 reporting. Do you agree?**

We agree. We encourage IPSASB to recognize the importance of this information from stewardship and accountability perspectives.

#### **Specific matter for comment 4 chapter 6**

**The proposals in paragraphs 6.16-6.20 (preliminary view 11) are largely based on IPSASB's RPGs. While these proposals are expected to be helpful to users of broader general purpose financial reports, the information necessary to prepare these reports may be more challenging to obtain compared to the information required for traditional general purpose financial statement disclosures. As noted in paragraph 6.17, the application of the RPGs is currently optional. In your view, should the provision of natural resources-related information proposed in preliminary view 11 be mandatory? Such a requirement would be only applicable to natural resources.**

We agree the provision of this information should be mandatory because of its importance to stewardship, accountability, and society's views on sustainability, especially if provision of this information as disclosures is necessary because they are not recognized in the financial statements.

Thank you for the opportunity to comment.

Sincerely,

Wayne Morgan

Phil Peters