

OCTOBER 17, 2022

CONSULTATION PAPER, NATURAL RESOURCES



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Manj has almost 30 years' experience working in public sector, focusing on implementation of accrual accounting across UK central Govt departments and the Whole of Government Accounts consolidation. She has advised several jurisdictions on implementing accrual accounting.

Manj has particular interest in supporting governments to address the practicalities of implementing IPSASs.



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International Public Sector Accounting Standards Board
International Federation of Accountants
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CANADA

Submitted electronically

17 October 2022

Dear IPSASB secretariat,

Consultation Paper: Natural Resources

Thank you for the opportunity to present my views on this important and topical consultation paper.

Globally, growing concerns for the sustainable management of the natural environment has highlighted a gap in the IPSAS landscape. It is good to see that this project has been prioritised to address this gap and fits well with IPSASB's work on sustainability reporting.

The adage, what gets measured gets managed is apt. A new natural resources standard will help address concerns that governments globally should be managing natural resources for future generations.

IPSASB and the technical teams have thought about this subject deeply, drawing on other international financial and statistical reporting standards which is to be commended. By adopting this approach IPSASB maintain the core strategic aim for greater alignment with the International Accounting Standards Board and IFRS.

Despite complexities, and there are many with the definition to the recognition and measurement of natural resources, the CP is a good basis for developing a new natural resources standard.

Detailed responses to the Preliminary Views and specific matters for comment are provided in the Annex.

Finally, thank you for the opportunity to comment. Once again, thank you to the team at IPSASB in preparing the webinar to support the consultation paper and images/flowcharts in the CP. If there are any questions, please do not hesitate to contact me.



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Yours sincerely,

A handwritten signature in black ink that reads "M. Kalar". The signature is written in a cursive style and is underlined with a single horizontal stroke.

Manj Kalar

Principal consultant



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Annex 1: Detailed comments

Preliminary View 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

I agree with the proposals. IPSASB have obviously considered the definitions widely: the proposed definition is drawn on GFSM2014, SNA 2008, South African GRAP 100 and FASAB technical bulletin 2011-1. Moreover, the definition of a natural resource must fit the conceptual framework qualitative characteristics.

This is a highly complex area, and the proposed definition is pragmatic and fits with the overall strategic aim to align to the respective international accounting standards used in the private sector. Alignment is important to facilitate consolidation of financial statements at a whole of government level.

Specific Matter for Comment 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?

There may be practical challenges in differentiating between natural resources and others subject to human intervention as demonstrated in the water and living resources chapters. There could be a potential to gamify to determine a specific outcome. How this could be avoided is difficult. For example, if trees had been left in their natural state, then this may fall under the definition of a natural resource; but if some trees are given fertilisers, then these will have been subject to human intervention and so outside the scope of natural resources. If the trees are not held for service potential purposes, it would not fall under the existing suite of accounting standards and fall between the cracks.



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Specific Matter for Comment 2

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?

I do not see other connections between the two important projects.

Preliminary View 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 GPFs. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons

I agree with the preliminary view. The proposed recognition approach is based on a sound basis i.e., it follows the conceptual framework definition for an asset and recognition and measurement basis. I note the measurement basis refers to the current operational value measure proposed in the recent limited scope review of the conceptual framework which I fully support as it is a more appropriate measurement basis within the public sector.

Preliminary View 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 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.

I agree with the preliminary view. The proposed approach follows IPSASB's strategic aim for greater alignment with IASB which will aid whole of government accounts consolidation exercises for jurisdictions.

(Note there is a typo in the para 3.10 3rd line – bringing is 'brining' and the same word in line 6 is 'bringint')



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Preliminary View 4

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

I agree with the preliminary view to supplement guidance on the accounting for stripping costs as set out in IFRIC 20. This will ensure alignment with established international accounting and financial reporting standards is maintained. This will assist with consolidation at the whole of government level.

Preliminary View 5

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.

I am not sure the sentence is complete?

I think by stating it can meet the definition of an asset introduces potential ambiguity. This could result in inconsistency and prevent comparability between jurisdictions. The standard should be definitive as to what is included and what is not, and due consideration given to additional disclosure note as and where required.

Preliminary View 6

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

I agree with the preliminary view. If it is difficult to provide evidence of existence it is difficult to recognise unextracted subsoil resources.



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Preliminary View 7

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

I agree with the preliminary view. It is difficult to recognise subsoil due to challenges in measurement. However, if it is possible for jurisdictions/entities to do so then they should. For example, they could do so with reference to other accounting frameworks.

Preliminary View 8

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.

I agree with the preliminary view. The difficulties in measuring water are well considered as evidenced in the CP.

Specific Matter for Comment 3

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



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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.

Yes, the existing standards provide sufficient guidance and I agree with the proposed approach.

Preliminary View 9

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 GPFRs, 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 GPFRs, 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 GPFRs 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.

I agree with the preliminary view.

Preliminary View 10

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.

I agree with the preliminary view.



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Specific Matter for Comment 4

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

I agree with the proposal that the optional reporting requirements set out in the recommended practice guides (RPGs) must be adopted in respect of natural resources. Such an approach would aid transparency and deliver accountability to the citizen as well as users of the financial statements.

An alternative approach would be to require disclosures as part of the financial statements.