



Office of the Provincial Controller Division
Office of Comptroller General
Controllership Policy and Accounting Consultation Branch

Ontario’s response to IPSASB’s Consultation Paper “Natural Resources”

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The Province of Ontario follows the standards in the CPA Canada Public Sector Accounting (PSA) Handbook in the preparation of its public accounts. However, considering the Public Sector Accounting Board (PSAB) in Canada has adopted an international strategy of “adapt IPSAS” when developing new standards and has changed its GAAP hierarchy, where the PSA Handbook is silent, to require IPSAS to be the prime secondary source of GAAP, Ontario considers it important to communicate our views on certain IPSASB issued documents for comment. As the PSA Handbook has no specific guidance on the accounting for natural resources, and considering there is limited preparer representation on IPSASB, following is Ontario’s position on the content of the Natural Resources Consultation Paper. We have chosen to provide overall comments rather than to respond directly to the specific questions included in the Consultation Paper.

As background, Governments in Canada own large quantities of land including parks. Ontario’s Crown land represents 87% of the Province (<https://www.ontario.ca/page/crown-land>). Ontario Parks manages some 340 provincial parks. In area, Ontario is approximately 1.076 million km². Ontario therefore controls very large quantities of natural resources, including subsoil resources, living resources and water.

While Ontario understands the objectives of improving accountability, stewardship and management of natural resources by public sector entities, we have concerns regarding the onerous effort required to implement the proposed standard given the limited additional disclosure that may result for senior governments. Considering the definition of an asset and the recognition criteria, we expect very few natural resources to be recognized and as a result we do not expect significant additional information to be provided in the financial

statements that will be of use and benefit to financial statement users. We consider reporting on natural resources to be better suited for reports outside of financial statements prepared by management on a best effort basis.

Take for example a single park in Ontario. That one park could contain thousands of different types of subsoil resources, living resources and water. Each of these resources is somewhat different regarding its societal and environmental purpose. While it is doubtful any of these resources would result in asset recognition, as there is uncertainty regarding quantities and measurability, making a full inventory of these resources, determining existence, determining control, and considering economic benefits and/or service capacity specific to that resource, would be an onerous if not impossible exercise. Further, maintaining the inventory records would also require significant effort. This is for just one piece of land controlled by the Province.

We would recommend IPSASB provide an example of what level of detailed analysis would be expected under this proposed guidance for a sample piece of land and/or park. Additionally, IPSASB should consider developing a full listing of subsoil resources and living resources that need to be considered so both the Board and stakeholders are aware of the extent of the analysis that will be required in relation to the proposed guidance. Auditors would expect to see how their public sector entities have addressed completeness with respect to implementation of this standard which would be a significant challenge for preparers and auditors.

Paragraph 1.14 of the Consultation Paper notes that accounting for land in its natural state is excluded from IPSASB's work on natural resources. While it is not very clear, we believe IPSASB means that surface areas/rights are already covered by other IPSAS and the accounting for surface areas/rights are not addressed in this Consultation Paper. However, when governments purchase a parcel of land, they are acquiring its associated natural resources as well. The land would be reported at cost. Historical cost is the primary basis of measurement in the PSA Handbook. The cost of a piece of land with known natural resources reflects those natural resources, especially if there are plans to monetize these resources. To additionally recognize the natural resources associated with the land would be double counting. It would not be consistent with the historical cost basis of measurement. The land as a whole would be inventoried and recorded on the financial statements and therefore be subject to stewardship and accountability. This should be a sufficient level of detail for financial statement users of general purpose financial statements.

We also have concern regarding service potential in relation to natural resources considering the objective of sustainable development. Service potential is the capacity to provide services that contribute to achieving the entity's objectives without necessarily generating net cash inflows. Most natural resources assist in reaching sustainable development and climate change objectives. For example, forests have service potential as they contribute to biodiversity which in turn leads to maintaining air, water and soil quality. Most controlled natural resources will therefore meet the definition of an asset. They may not meet the

recognition criteria due to measurability and therefore be unrecognized assets, but they would be considered to be assets. This would require note disclosure as proposed in the Consultation Paper including: the difficulties in obtaining a reliable measurement that prevented recognition; the significance of the unrecognized natural resource(s) in relation to delivery of the entity's objectives; and information regarding the nature and costs of activities related to unrecognized natural resources. Again, this would be a very onerous exercise with little benefit provided to the financial statement users. It might also suggest to financial statement users the ability to monetize these natural resources which is not the intent, and which would be at the expense of climate change and conservation objectives. Again, land which is purchased with known natural resources will have been capitalized and that should be sufficient detail for general purpose financial statements.

To further demonstrate the complexity and onerous nature of what is being proposed additional areas that IPSASB would need to address in their standard in relation to natural resources include:

- How would a natural resource be recorded? Land may or may not already be recorded, would the credit on recording the natural resources be to land or revenue? Should recording natural resources have a positive fiscal impact? What if the valuation of the natural resources is determined to be in excess of the book value of the land?
- Should recognized natural resources be depreciated, appreciated or neither? What type of impairment and write-down provisions are appropriate for natural resources? Does this vary by the category of a natural resource? For example, trees and living organisms grow but also age. How would a preparer go about updating the conditions of all of their natural resources on an annual basis?
- Would individual natural resources be considered an asset or would they be grouped and if so how? For example, would an individual tree be an asset, or would the whole forest be an asset?
- When there is no financial capacity but there is operational capacity for a natural resource, how do you determine a valuation, how do you put a price on nature when it offers so many benefits, such as education, tradition, spiritual health and mental well-being? How do you audit such valuations when these determinations and inputs are subjective? Historical cost is the primary basis of measurement in the PSA Handbook.
- For natural resources that cannot be measured, how do you assess materiality for inclusion in note disclosure? How do you audit such general disclosures related to natural resources?
- What constitutes human intervention for each natural resource category, and therefore whether a resource is in scope of the proposed guidance? Comprehensive guidance on each type of natural resource would be required.

Given the significant challenges associated with reporting of natural resources in general purpose financial statements and the resulting limited additional disclosures, Ontario would recommend IPSASB consider the following two approaches to address reporting of natural resources in the public sector. These approaches may be considered together or as alternative approaches:

1. Limit the scope of application to profit-oriented government organizations

Section PS 2200, *Related Party Disclosures* was introduced by PSAB in Canada in 2017. Implementation of this standard by senior governments in Canada resulted in no change in recognition and very general disclosure being added to the Public Accounts. However, a significant amount of time was required to document all the Province's related parties and to confirm there were no such transactions to be reported. Section PS 2200 was more suited for government organizations, not governments. This guidance on natural resources is similarly more appropriate for government organizations (particularly those profit-oriented in nature) which will typically not hold large amounts of land and which use land for financial purposes, similar to private sector entities. If a profit-oriented government organization funds its activities using controlled natural resources it may be appropriate to recognize and disclose them, provided the natural resources are not already reflected in the measurement of the land and subject to certain accounting, disclosure and auditing considerations being addressed by IPSASB (see such considerations raised above). We do not believe the proposed guidance with its broad scope of application will achieve the stated objective of addressing growing public concerns for sustainable management of the natural environment. It would only result in the use of a significant amount of public funds for disclosure that will not properly reflect how a government is using and managing its natural resources. IPSASB should therefore reconsider the merits of this proposed guidance for senior governments and government organizations that do not have an objective of generating profits but are instead stewards of these resources.

2. Include such guidance in voluntary reporting outside of financial statements

Government general purpose financial statements are intended to assist governments in fulfilling their reporting objective of accountability (i.e. did the government do what it said it would do). General purpose financial statements are not intended to be at a granular level but rather indicate the overall financial position and results of operation of the government. These statements are therefore referred to as general purpose. Inventorying of natural resources, estimating quantities and/or values and demonstrating stewardship of individual natural resources seems more suited for voluntary reporting outside of financial statements. Reporting which are management's best estimate and do not require to be audited. For example, in the Canadian Public Sector Accounting Handbook, there is Statement of Recommended Practice (SORP)-3, *Assessment of Tangible Capital Assets*, for public sector entities that choose to prepare and report on the physical condition of their tangible capital assets. This guidance is voluntary and provides detailed information,

beyond the mandate of public accounts. The purpose of holding natural resources is often not financial so including such information in financial statements is misleading. It suggests that the government is controlling resources beyond what is truly available to meet its future financial obligations. It would encourage the monetizing of these resources at the expense of climate change and sustainability development targets.

Ontario appreciates the opportunity to respond to IPSASB to assist in their deliberations on this matter. I would be pleased to elaborate on any of the above comments. Thank you for your consideration.