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International Public Sector Accounting Standards Board
International Federation of Accountants
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CANADA

Submitted to: www.ifac.org

Consultation Paper on *Natural Resources*

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB's) Consultation Paper on *Natural Resources*.

The Auditor-General is responsible for auditing all of New Zealand's public entities. Public entities in New Zealand include public benefit entities and for-profit entities. We provide the New Zealand Parliament and the public with independent assurance that public entities are operating and accounting for their performance as intended.

We welcome the IPSASB's Consultation Paper to consider whether natural resources should be recognised for financial reporting purposes. We support the IPSASB's principles-based approach to considering how natural resources should be accounted for by reference to the recognition (and measurement) criteria in the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the IPSASB's Conceptual Framework). The Consultation Paper raises important issues and is a good starting point for the IPSASB's sustainability reporting project to address the sustainability reporting of a country's natural resources.

We set out our specific comments on the Consultation Paper below. Our responses to the Request for Comments are set out in the Appendix.

Financial accounting vs sustainability reporting of natural resources

The project on natural resources is focused on considering those natural resources that meet the necessary criteria for recognition as assets in an entity's general purpose financial statements (GPFS). We agree with the narrow scope of this project and limiting its scope to how an entity should account for natural resources that it has recognised as assets.

We consider that it is more appropriate (and useful) for:

- Information on natural resources that may be relevant to an entity's long-term financial sustainability and/or to its service performance to be disclosed in separate reports, rather than in the GPFS; and
- Issues relating to the sustainable management of the natural environment for future generations and for the purpose of developing sustainability policies to be considered under the IPSASB's sustainability reporting project and for the sustainability information to be disclosed in a separate report, rather than in the GPFS.

Consideration of indigenous people's rights over natural resources

We consider that any discussion or guidance about natural resources needs to also consider the role of indigenous people's rights and concepts over the natural resources of a country.

In many instances, indigenous people's rights and concepts about natural resources are not compatible with financial reporting concepts and will play a critical role in determining, in the first instance, whether resources can meet the recognition criteria for financial reporting purposes. For example, in New Zealand, Māori rights and concepts over some of the country's natural resources (for example, water) may affect the ability of a public entity to demonstrate that they have control/ownership of certain natural assets.

If you have any questions about our submission, please contact Lay Wee Ng, Technical Specialist, at laywee.ng@oag.parliament.nz or +64 21 222 9752.

Nāku noa, nā



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Deputy Controller and Auditor-General

cc. External Reporting Board

Appendix: Request for 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.

We agree with the IPSASB's preliminary view that a natural resource can be generally described as an item which:

- (a) Is a resource as described in the IPSASB's Conceptual Framework¹;
- (b) Is naturally occurring²; and
- (c) Is in its natural state³.

However, while it may be desirable to require a natural resource to be in its "natural state" to delineate between a resource accounted for under the proposed natural resources project and accounting for resources under existing standards, we consider that it may be difficult in practice to determine what is considered to be "in its natural state" and what is considered to be "human intervention". Our response under Specific Matter for Comment 1 – Chapter 1 addresses the issue of human intervention.

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 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?

We consider that in many circumstances, it may be difficult to draw the line between natural resources in their natural state and other resources subject to human intervention. For example, some preservation and conservation activities and "protective" type work are undertaken to maintain a natural resource in its natural state, for instance, ridding lakes and rivers of noxious weeds or regenerating forests by planting native trees. These activities could also be considered to be "human intervention" as they "modify the quantity and/or quality" of the natural resource. [Also 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 accounting for natural resources while sustainability reporting may include consideration of how natural resources can be used in a sustainable manner.

¹ The IPSASB's Conceptual Framework, paragraph 5.7, states that a resource is an item with service potential or the ability to generate economic benefits.

² Paragraph 1.7 of the Consultation Paper states that "Naturally occurring means that the resource came into existence without the actions of humankind".

³ Paragraph 1.8 of the Consultation Paper states that "To be in its natural state, a natural resource must not have been subjected to human intervention, such as cultivation or mineral extraction, which modifies the quantity and/or quality of a natural resource".

In your view, do you see any other connections between these two projects?

We agree that there is a connection between the natural resources project and the project on sustainability reporting in the public sector. Both projects need to capture the necessary relevant information for users, based on the projects' objectives and scopes.

The natural resources project needs to capture information about those natural resources that meet the necessary criteria for recognition as assets on an entity's balance sheet. It focuses on accounting for resources that are under the control of the entity (and for which the entity has the potential or ability to benefit from their service potential).

The sustainability reporting project needs to capture information on, for example, how natural resources are used in a sustainable manner for the benefit of future generations and for developing sustainability policies. Sustainability reporting may relate to all natural resources irrespective of whether they meet the necessary criteria for recognition or measurement as assets in an entity's financial statements. For sustainability reporting purposes, it is critical that the natural resources be identified so that they can be sustainably managed (for example, protected, conserved, preserved, enhanced).

Preliminary View 2 – Chapter 2

The IPSASB's preliminary view is that a natural resource should only be recognised in GPFS if it meets the definition of an asset as defined in 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 agree that, similar to other resources, a natural resource should only be recognised 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.

[Also see our comments in the cover letter and under Preliminary View 1 – Chapter 1]

Preliminary View 3 – Chapter 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.

We agree that guidance on exploration and evaluation expenditures, as well as development costs, should be provided based on the guidance from IFRS 6 and IAS 38. We consider it will be useful to have all relevant guidance in one place.

Preliminary View 4 – Chapter 3

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.

We agree that IPSAS12, IPSAS 17 and IPSAS 31 should be supplemented, as appropriate, with guidance on the accounting costs of stripping activities based on IFRIC 20. We consider it will be useful to have all relevant guidance in one place.

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.

Do you agree with the IPSASB's Preliminary View?

If not, please provide the reasons supporting your view.

We agree with the IPSASB's Preliminary View that before consideration of existence uncertainty, an unextracted subsoil resource can meet the definition of an asset.

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?

If not, please provide the reasons supporting your view.

We agree with the IPSASB's preliminary view that existence uncertainty can prevent the recognition of unextracted subsoil resources. If subsoil resource is unable to meet the characteristics of an asset and the recognition criteria under the Conceptual Framework, it should not be recognised.

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 of 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 agree with the IPSASB's preliminary view that the recognition of subsoil resources as assets in the GPFS will be challenging because of the high level of measurement uncertainty and the difficulty in selecting a measurement basis that achieves the qualitative characteristics and takes account of constraints on information.

Preliminary View 8 – Chapter 4

Based on the discussion in paragraphs 4.11-4.31, the IPSASB's preliminary views are:

- (a) It would be difficult to recognise 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 recognise 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 recognised as an asset in the GPFS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons supporting your view.

(a) We agree that it would be difficult to recognise 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 difficult to ensure that such water could be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the GPFs.

(b) and (c) We are uncomfortable with the concept of control over water impounded in reservoirs, canals, and certain groundwater aquifers.

In many instances, indigenous people's rights and concepts about natural resources are not compatible with financial reporting concepts and will play a critical role in determining whether natural resources can meet the recognition criteria for financial reporting purposes. For example, in New Zealand, Māori rights and concepts over the country's natural resources (for example, water) may affect the ability of an entity to demonstrate that they have control/ownership of the natural resource. In some instances, the idea of a public entity recognising certain natural resources as being "controlled" (and be subject to valuation) by an entity may be considered culturally insensitive and politically unacceptable. These issues will affect the ability of an entity to subject a natural resource to the recognition criteria.

(d) We agree that 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 recognised as an asset in the GPFS.

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, the activities relating to them and to living resources, is likely to fall within the scope of existing IPSAS.

In your view, is the guidance in IPSAS 12, IPSAS 17, or IPSAS 27 on how to determine which IPSAS to apply for these sufficient?

If not, please explain the reasons for your view.

As stated in our responses to Preliminary View 1 – Chapter 1 and Specific Matter for Comment 1 – Chapter 1, we consider that it is difficult in some instances to determine what is "human intervention". For most living organisms, it is likely that there will be some form of human intervention involved and, in many instances, the hurdle for whether there is human intervention (or not) is difficult to assess.

However, we agree that once a living organism has "sufficient" human intervention and meets the criteria for recognition in the IPSASB's conceptual framework, the accounting treatment of those living organisms, the activities relating to them and to living resources, is likely to fall within the scope of existing IPSAS.

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 recognised 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 recognised 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 the constraints on information in the GPFS using the currently available technologies and capabilities, the living resource cannot be recognised as an asset in the GPFS.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

We agree with the IPSASB's preliminary view that:

- (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 recognised 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 recognised 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 the constraints on information in the GPFS using the currently available technologies and capabilities, the living resource cannot be recognised as an asset in the GPFS.

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 agree with the IPSASB's preliminary view that, based on the discussion in paragraphs 6.7-6.15, certain information conventionally disclosed in GPFS should be presented in relation to natural resources.

In particular, we consider that, where material, it is important to disclose those "*Items that do not meet the definition of an element of the recognition criteria, but are important to an understanding of the entity's finances and ability to deliver services—for example, information about events and conditions, that might affect future cash flows or service potential, including their nature, possible effects on cash flows or service potential, probabilities of occurrence, and sensitivities to changes in conditions*" (paragraph 6.9 of the Consultation Paper, fourth bullet point).

Preliminary View 11 – Chapter 6

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 recognised or unrecognised 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 under Specific Matter for Comment 4 – 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 GPFS, 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.

We agree it is important for an entity to disclose certain information on recognised and unrecognised natural resources that are relevant to its long-term financial sustainability, financial statement discussion and analysis and service performance reporting. However, we do not agree that the GPFS is necessarily the location for such disclosures. In some circumstances this information may be suitable and appropriate to include elsewhere in the GPFR (outside the GPFS), whereas some information may be best disclosed in separate reports (outside the GPFR).

Similarly, issues and information relating to the sustainable management of the natural environment for future generations and for the purpose of developing sustainability policies should be considered under the IPSASB's sustainability reporting project. For example, where natural resources-related information proposed in Preliminary View 11 is considered necessary to disclose, the specific requirements and location of any disclosure should be considered under the sustainability reporting project.

The non-mandatory Recommended Practice Guides (RPGs) are not adopted by the standard setter in New Zealand into its accounting standards framework. We do not support any move to make the RPGs (or aspects of them) mandatory in relation to natural resources.