

February 28, 2025

International Public Sector Accounting Standards Board (IPSASB)
277 Wellington Street West
Toronto, ON M5V 3H2

Re: Exposure Draft 92 — Tangible Natural Resources — October 2024

Thank you for providing us with the opportunity to comment.

While we support the goal of reporting on natural resources, we continue to believe that it does not serve the public interest to report on natural resources in the financial statements.

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

- In many cases, tangible natural resources, such as provincial parks and non-harvested forests, do not have an established market value. The proposal to measure natural resources acquired in a non-exchange transaction at deemed cost, as proposed in paragraph 12, 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.
- Attaching a value to natural resources would require a significant commitment of time and staffing resources and would considerably increase the cost of the preparation of the financial statements and the execution of financial statement audits.
- 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.
- Given the accounting issues noted above, it would be exceedingly difficult to audit these assets as part of an audit opinion on the financial statements, especially when looking at the completeness and valuation assertions.

Providing information on the monetary value of tangible natural resources in the financial statements can also have unintended negative consequences. Assigning a dollar value to tangible natural resources could potentially encourage governments to exploit these resources in order to balance the budget. For example, governments may look to monetize natural assets originally intended for conservation by selling or leasing these resources without regard for environmental concerns.

The public expects transparency and accountability from governments on sustainability matters such as their governance, management, and protection of natural resources. Taxpayers and their elected representatives look to sustainability information to assess the achievement of environmental objectives, identify trends in sustainability matters, and to inform and improve environmental policies and programs. In this regard, we believe financial statements are not designed to capture the qualitative or quantitative information necessary to meet these expectations. We continue to believe it is more effective and cost-efficient to report on natural resources outside of the traditional financial statements.

Our responses to the Specific Matters for Comment are set out below.

Specific Matter for Comment 1: Scope (paragraphs 3-5):

This Exposure Draft is broadly applicable to all tangible natural resources which are not within the scope of any other existing IPSAS. (See paragraphs 3-4, BC8, and BC34.) Do you agree with the proposed scope? If not, what alternative scoping approach would you propose and why?

As a result of the proposed scope, tangible natural resources held for conservation are one common example of items which could fall within the scope of this Exposure Draft. What other items would you anticipate being accounted for through this Exposure Draft?

Natural resources should not be recognized in the financial statements. See our introductory comments.

Specific Matter for Comment 2: Definitions (paragraph 6):

This Exposure Draft defines a natural resource as an item which is naturally occurring and embodies service potential, the capability to generate economic benefits, or both, and a tangible natural resource as a natural resource with physical substance.

Do you agree with the proposed definitions? If not, why not?

Natural resources should not be recognized in the financial statements. See our introductory comments.

Specific Matter for Comment 3: Depreciation (paragraph 23):

This Exposure Draft includes a rebuttable presumption that the tangible natural resources recognized within the scope of this [draft] Standard have indefinite useful lives on the basis that they are generally not used or consumed in the same manner as tangible assets within the scope of other IPSAS. Therefore, these tangible natural resources are not depreciated.

Do you agree with the proposed rebuttable presumption that tangible natural resources should not be depreciated? If not, why not?

It would not serve the public interest to recognize natural resources in the financial statements. See our introductory comments.

We agree that with the presumption that depreciation would be not needed for many tangible natural resources, especially those held for conservation. We note that the ongoing monitoring of the valuation or potential impairment of these assets would be a costly exercise. The cost versus the benefit of tracking these assets would be too high in the public sector.

Specific Matter for Comment 4: Exemption from Certain Disclosures (paragraph 51):

As explained in paragraph BC31, this Exposure Draft exempts an entity from disclosing certain information which may lead to further degradation of tangible natural resources which are rare or endangered. Do you agree with the proposed disclosure exemption? If not, why not?

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

We note that the current exemption in paragraph 51 leaves it to an entity's judgment to define rare or endangered tangible natural resources, making it difficult to scope in or out tangible natural assets on the basis of these perceived risks.

Specific Matter for Comment 5: Cross-References to IPSAS 45, Property, Plant, and Equipment (paragraphs 15 and 54):

This Exposure Draft includes cross-references to the guidance in IPSAS 45 on the determination of cost in an exchange transaction and the disclosure requirements for current value. This guidance was incorporated by cross-reference as the acquisition of tangible natural resources is expected to be rare in the public sector, and there is familiarity with the principles on the determination of cost, which are consistent with those found in IPSAS 45. Do you agree that these cross-references are sufficiently clear? If not, how should the above guidance be incorporated into the Final Standard?

We agree that it would be rare for a government entity to purchase a tangible natural resource and that the principles of cost determination would suffice. However, we feel it would not serve the public interest to recognize natural resources in the financial statements. Please see our introductory comments.

Specific Matter for Comment 6: Transition (paragraph 60):

This Exposure Draft allows the application of its requirements on a modified retrospective approach, by recognizing tangible natural resources which meet the recognition criteria on the date of initial application of the [draft] Standard at their deemed cost, or on a full retrospective basis in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.

Do you agree that the option to apply the proposed guidance on a modified retrospective basis will result in useful information? If not, why not?

Natural resources should not be recognized in the financial statements. Please see our introductory comments. Accordingly, we offer no comment on transition requirements.

Specific Matter for Comment 7: Amendment to the Description of 'Heritage Asset' in IPSAS 45, Property, Plant, and Equipment (Appendix B):

The IPSASB proposes to amend the description of 'heritage asset' in IPSAS 45 so that heritage assets which are also tangible natural resources are accounted for within the scope of this [draft] Standard. Do you agree with the proposed amendment? If not, why not?

We do not agree. Natural resources should not be recognized in the financial statements. Accordingly, there is no need to amend the description of heritage assets in IPSAS 45.

Specific Matter for Comment 8: Sufficiency of Proposed Implementation Guidance and Illustrative Examples:

The non-authoritative guidance in this [draft] Standard was developed for topics that are potentially complex and difficult to apply in practice, are areas of concern for constituents, or where additional non-authoritative guidance could be useful.

Do you agree that the proposed implementation guidance and illustrative examples are sufficient? If not, what other topics would be helpful and why?

The cost versus benefit of reporting natural resources in the financial statements does not serve the public interest. See our introductory comments.

Kind regards,

A handwritten signature in black ink, appearing to read 'Spence', with a stylized flourish at the end.

Shelley Spence, FCPA, FCA, LPA
Auditor General of Ontario