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Dear *Ross*,

CONSULTATION PAPER ON NATURAL RESOURCES

The Public Sector Accounting Standards Board in Kenya (PSASB) is a Semi-Autonomous Government Agency under the National Treasury. It is established in accordance with section 192 and 193 of the Public Finance Management Act of 2012. PSASB 's mandate is to set generally accepted accounting standards and internal audit standards for public sector entities in Kenya.

The Public Sector Accounting Standards Board Kenya welcomes the request for comments on the consultation paper relating to Natural Resources. Kenya is endowed with numerous natural resources including a wide range of wildlife, natural forests, natural water resources as well as subsoil resources that include natural gas and minerals among others. Kenya will benefit immensely from the outcome of this project and the accounting and disclosures of these natural resources will be possible enabling enhanced accountability and transparency in how these resources are managed.

PSASB also takes note of the IPSASB's project on sustainability reporting and the connectedness to sustainability reporting. Extracting value out of natural resources must be done in a sustainable manner in the interest of the future generations. Consequently, the necessity to consider this project alongside the on-going discussions on sustainability reporting.

The Public Sector Accounting Standards Board - Kenya is therefore pleased to submit its comments on the Consultation Paper on Natural Resources. The details of the submissions are contained in the attached paper.

Yours

Sincerely



FCPA FREDRICK RIAGA
CHIEF EXECUTIVE OFFICER

Promoting Sound Financial Reporting and Internal Audit Standards in the Public Sector

RESPONSES TO THE CONSULTATION PAPER ON ADVANCING PUBLIC SECTOR SUSTAINABILITY REPORTING

Q 1. 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.

PSASB agrees with this preliminary view.

We however propose to IPSASB to relook at description b and c. Most natural resources especially the wildlife and water resources have over time been subjected to scientific modifications and the determination as to whether they are naturally occurring and in their natural state might be difficult for most jurisdictions. Inclusion of examples may also assist entities in the determination of natural resources in their natural state.

Q2. 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 of your concerns. How would you envisage overcoming these challenges?



We foresee challenges in differentiating between natural resources and other resources subject to human intervention.

There is a likelihood of some living resources moving in between the two mentioned categories. A case in point is where poaching happens in the national park and a group of mature elephants are killed in the process leaving behind several baby elephants. The Entity responsible for wildlife is expected to pick the baby elephants from their natural habitat to an elephant orphanage for tender care for a few years. In this case the orphanage would be an example of human intervention there after the elephants would be returned to their natural habitat.

Another case is where animals with gene modification are released into the wild and they integrate and 'cross-breed' with those in the natural wild. It will not be feasible to differentiate them after some years. This would also be quite challenging where modification has happened in the past and entities are not able to differentiate animals that have been genetically modified from those that are naturally occurring.

PSASB opines that for the wildlife, this description is not as:

- 1. May prove costly for entities to distinguish between the wildlife in the natural state and those that are not naturally occurring*
- 2. May eliminate a lot of natural resources from being recognized as natural resources within the standard if issued*

Q3 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 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?

Yes,

Information relating to sustainability reporting and disclosures on natural resources should be matched. Sustainability Reporting will, in the GPFs, include information relating to the sustainable development and use of the Natural Resources in a manner that conserves resources for future generations. Since it may not be feasible to measure certain natural resources, information on natural resources will be provided to users through disclosures in the financial statements and this brings about the interconnectedness of the two projects.

Q4 Preliminary View 2—Chapter 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 GPFRs.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

PSASB agrees with this preliminary view.

However, some Natural Resources especially sub-soil assets may not be measured in a manner that takes in to account the constraints on information in GPFRs.

Q5 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.

PSASB agrees with this preliminary view in light of the IPSASB's convergence project with the IFRSs.

Q6 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.

PSASB agrees with this preliminary view in light of the IPSASB's convergence project with the IFRSs.

Q7 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?

Please provide the reasons supporting your view.

PSASB opines that for a natural resource to be considered as an asset, there must be some level of certainty. Most respondents to PSASB as we were collecting our views did not seem to understand the question and the context to which it had been raised.

Q8 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?

Please provide the reasons supporting your view.

PSASB agrees with this preliminary view.

Q9 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 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.

PSASB agrees with this preliminary view

Without measurement certainty it will prove very challenging to recognize subsoil resources as assets.

Q10 Preliminary View 8—Chapter 4

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.

PSASB agrees with this preliminary view.

However, Water impounded in artificial lake may fall under IPSAS 12. This is because in some instances unprocessed water can be placed in an artificial lake for irrigation purposes. And having it in a controlled storage means the natural flow has been interfered with.

Q11 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 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.

It is the PSASB's view that notes that there may need supplemental guidance in the existing IPSAS to be able to identify such organisms and account for them. IPSAS 27 may need to have supplemental guidance for wildlife that has been subjected to human intervention.

Q12 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 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 GPFs, 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 GPFs 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.

PSASB agrees with this preliminary view.

Q13 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.

PSASB agrees with this preliminary. Certain information conventionally disclosed in the GPFS should also be presented for natural resources.

Q14 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 GPFs 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 performance reporting.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

PSASB agrees with this preliminary view. With respect to the project on sustainability reporting, areas of convergence should be identified and merged.

Q15 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.

PSASB considers that the information required in RPGs and specific to Natural Resources should not be mandatory . Making this information mandatory may be challenging for entities who may also be having difficulties in identification and recognition of natural resources. Owing to nature of information to be disclosed and the fact that it may be challenging to obtain this information, its PSASB's considered view that it be optional with a possibility of enhancing the standard during the post implementation reviews and considerations of making it mandatory be made at that point.
