

**SUBMISSION OF COMMENTS ON EXPOSURE DRAFT- ED 92 ON TANGIBLE NATURE RESOURCE ASSET(S) ACCOUNTING AND DISCLOSURES TO THE IPSAS BOARD BY DR. C. E. ALOZIE (NIGERIA)**

Prelude: The undersigned had in part contributed to the origination of the conceptualisation of the idea of accounting for Natural Resources (Tangible and in Reserves forms) through the Draft Report of the IPSASB's commissioned report that was awarded to this Commentator in the year 2021 (two studies were awarded to me. The first was on Improvement or Modernisation of Government-Wide Accounting and Financial Reporting and the second was on Social Discounting of Public Sector's Enterprises Capital Projects to which the two research topic approvals and awards were duly signed by Professor Andreas Bergkman as the Chairman of the AAG at the time. The draft reports of the two research studies were duly submitted in May 2022 as prescribed but going by the dramatic turn of events, the core commissioned study on Modernisation of Government-wide Accounting and Financial Reporting was un-ceremoniously denied whilst the secondary awarded research (according to the AAG and the Awarding Authority – the IPSASB) was used in the substitution of the originally awarded commission study. It is an irony that the IPSASB concurrently and subsequently recognised some of the sub-themes in that dropped DRAFT Research Report on Modernisation of Government-wide Accounting, specifically the one on accounting for natural resources reserves and assets as an accounting issues for which the ED 92 has been currently issued. The intervening set-back notwithstanding, with the conviction that the said works are worthy of adoption in government accounting space, the same researcher and budding author reworked the version that was submitted to the AAG and IPSASB in 2022 to manuscript for Journal publication which is currently in press and a pre-print already published by SSRN in 2022 in different titles.

This undersigned (Commentator) commences my commentary to the Exposure Draft - ED. 92 by observing that the necessary working definition of the terms for the Natural Resources Assets and Reserves and Tangible Natural Resource Assets as invoked in the document were not provided as accompanying information or disclosures to the ED. 92 under reference. The undersigned strongly believes that the provision of the working definitions of the different classes of natural resource reserves and assets should be provided for the general public education in both this ED and also in the proposed IPSASB standards. The Concepts and conceptual frameworks of the different classification of the Natural Reserve Assets and Tangible

Natural Reserve Assets, Conservation Natural Reserve Asset Items (Heritage Assets (in some ways), Agricultural Assets should also be well defined for the benefit of the accounting operators, users and external readers. Similarly, the four or five broad categories of Tangible and Natural Resource Assets should also be provided as guide to the public on whatever these classifications of assets represents in accounting. In sum, the information supplied hereto as guides to the ED.92 is too scant or scanty for more meaningful contributions from the discerning members of the public, please. Please endeavour to enrich these passages.

Flowing from the foregoing points, the undersigned have selected to make comments specifically on the Natural Resource Assets, but not to clear about whatever is reference to Tangible Natural Reserve Assets ; leaves the distinction between the two types to the ED 92 and the AAG to sort out. Therefore, my commentaries and presentations focuses on the recognition of the Natural Resource Assets and National Resources Reserves which sovereign government entities possess, some of the agricultural assets such as forestry reserves as component of national resource assets as well as the Conservation items or species which we may rightfully given the accounting treatments as Heritage assets. In essence, my presentation concentrates on three (3) types or items of Natural Resource Assets and Reserves as follows:

(1) Accounting and Disclosure of Proven Mineral / Natural Resources Reserves in Government's Financial reporting and Government Finance Statistical Reports

Natural resources are subset of environmental assets, include all natural biological resources (inclusive of timber and aquatic resources), mineral and energy resources, soil resources and water resources (IPSASB, 2022). Natural resources are generally understood as resources existing without actions of mankind. Hence, the consultation paper on natural resources accounting issues related to recognition, measurement, presentation and disclosure with references to sub-soil resources (IPSASB, 2022). Resource-rich countries frequently obtain scientifically determined volumes or quantities of their proven reserves and most often with estimates of monetary values are stated and published. Information of proven natural resources is rarely reflected in sovereign financial statements or public finance statistics. Non-disclosure of proven natural / mineral resources encourages illegal extraction by economic saboteurs who deprive the society of the benefits of such public resources. Disclosure statement(s) of proven natural reserves with estimates of monetary value represent attestation of existence specific

resources alongside depletion timeframe is necessary for policy (IPSASB, 2022). If this important reporting requirement cannot be suitably reflected as financial data in government accounting for valuation reasons, it should be provided in form of disclosure as accompanying notes to government's financial statements (IPSASB, 2022).

The methods and methodologies to be followed in the accounting classifications and treatments necessitates that Mineral / Natural Resources Proven Reserves and Disclosure Statements MPRS-DS represented in statement of disclosure of the proven reserves based on scientific valuations and measurements for their presentation in consolidated financial statements and public finance statistics'. (*Disclosure statements is necessary in order to moderate illegitimate extraction and export of such commodities for the benefit of few and exclusion of larger section of the society's population*)

(2) Conservation of Natural Resource Assets, (Wildlife, Biological Objects, Etceteras as Heritage assets accounting (HA) with the related or resulting capital reserves in financial reporting

Aversano, Christiaens, Polcini and Sannino (2019) described HA as historical buildings, monuments, archeological sites, conservation areas, nature reserves, and works of art that generally define cultures, histories and identities of countries. HA is broadly defined in IPSASB (2017) as resources controlled by an entity as a result of the past events and from which future economic benefits or service potential are expected to flow to the entity". IPSASB (2017) states that heritage items are held indefinitely and preserved for the benefit of present and future generations due to their rarity or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological feature. Virtually all countries possess heritage assets but many have not reflected their values alongside their correspondence special capital reserve fund in financial statements prior to the introduction of IPSAS 17 on heritage assets. With adoption of IPSAS 17 on HA, this asset accounting head-item is still serially omitted in government-wide accounting and financial reporting over time. It is on this premise that HA and correspondence special capital reserve fund is considered omitted in GPFs of some sovereigns. For this reason, the paper evaluates IPSAS-17 compliance as a part of accounting process including the presentation HA carrying balances in financial reporting.

Accounting for HA requires critical review of its IPSAS compliance and valuation method followed in its presenting in financial reporting. It important to note that many assets and

liabilities are recorded in financial position, except for those relating to natural resources (example, federal oil and gas resources), are included in 'required supplementary information' including museums, monument and artifacts as heritage item (IPSASB, 2017). It is uncertain whether HA inclusion enhances sovereigns' financial position (Aversano, et al). Lack of uniformity in HA accounting led to conduct of in-depth review of selected entities financial statements in verifying IPSAS compliance.

Subject to extant superior scientific reasons, Natural Resource Assets and Resources that are conserved should be considered and treated as Heritage Asset. These perhaps may be based on the conventional methods, cost-in-use valuations and or revaluations, and current cost or replacement values. Therefore the methodologies and methods to be followed in the measurement of values of such conservation Natural Resource Assets as Heritage Assets and the correspondence Special Capital Reserve would require consultations with Archaeologists and Accounting Experts of the Heritage Assets as well as the Professional Assets Valuers as the situations warrant. Thereafter, they should be represented under heritage assets sub-head items and their capital reserve with correct balances in government financial statements. The representation of this category of assets in Government or Public Finance Statistic Reporting requires further consultation with the relevant professional bodies on this special asset species.

(3) Accounting classifications and treatments of the items Natural Resource Assets within the spheres of Agriculture and Agricultural Items, For the Natural Resources from Agriculture and Agricultural Assets; we shall first identify and consider the working definition of Tangible Natural Agricultural Resource Assets, particularly considering which aspect of them to be classified as Inventory or inventories including Work-In-Progress Items; Matured inventories; Investment Property. Agricultural Assets in our honest opinion would not likely to fall into PPE classifications for any reasons except where the IPSASB convince the general public of such applications and its applicability. Given the nature of natural resource assets falling within the ambit of agriculture, we would like to see situations in which their relevant maturity age are specified which in turn would guide the accounting practitioners and assets valuers in the measurement of values and classifications as Matured forestry(ies), fisheries, and animals (core inventories); work-in-progress or immature inventories and those to be considered as Investment Property – depending on the nature and purposes of their conservation, nurturing and retention. The accounting treatment is left open for others to fill-in.

## Elucidations on Evaluation of Practical Experience of Sovereign Governments Reporting

The level of IPSASs compliance on HA accounting and without clear segregation HA special reserve fund from general funds in GPFs is too low indicating lack of uniform practice:

Prior to the development of ED 92, only about four sovereign entities provided (Norway, Canada, USA and Australia (partially) have provided (some sorts of) disclosure statements of proven resource reserves as accompanying notes to financial statements or government finance statistics and related reports (Alozie, 2023). This signifies that resource-rich and non-commodity wealthy countries are not rendering this information in public space and this indicates lack of openness, transparency and prudence in resource management resource-rich countries.

This accounting behaviour noticed in HA is anchored on grounds that HA are non-tradable commodities without well recognised market values (Aversano et al). Value measurements and accounting methods applied by sovereign adoptors is in tandem with IPSAS-17 requirements. Since HA is not tradable or marketable—it might not be plausible to capture and add HA values to the financial position. This finding demonstrates poor HA accounting penetration or many countries are reluctant to implementing it. Sovereign entities in possession HA, should capture the notional values or provide disclosure notes in financial statements or in statement of accounting policies as suggested in Carnegie and Woliner (1999) cited in Aversano, et al. The consensus among accounting scholars on inclusion / non-inclusion of HA is that, when heritage asset it is not captured as financial data; in this case, HA should be disclosed as accompanying notes in financial statements when excluded (IPSASB, 2001).

Norway, Canada, Australia (partially) and USA provided disclosure statements of proven resource reserves in either GPFs or GFS in public domain. These countries routinely evaluate and register scientifically proven volumes of resource reserves during bidding processes for acreage allocations. Information on proven resources reserves is significant to macroeconomic and fiscal planning and in convergence of macroeconomic statistical information between accounting professions' accrual accounting / financial reporting and statistical agencies as encouraged by IFAC (IPSASB, 2012; 2022)

In conclusion, this commentator makes the following recommendations:

Sovereign entities should ensure that realistic carrying values or financial value estimates are shown in financial statements. Where sovereign entities choose to exclude heritage assets in financial reporting in financial position, such sovereign entities should provide a statement of

disclosure to form part of notes to financial statements or provide this information as statements of significant accounting policies in line with the international best practice in accounting.

Proven reserves of minerals and natural resources should be presented as statements of disclosures in consolidated financial statements and public finance statistical reports, periodically. (Some of the write-ups here are curled from the author's previous publications including: *Modernisation of Government-Wide Accounting and Financial Reporting*; *Transformation of Government Accounting and Consolidated Financial Reporting* and lastly; *Assessing Incompleteness in Government-wide Accounting and Review of IPSASS Compliance in Sovereign Entities' Financial Reporting*)

Future research should explore more deeply on accounting for minerals / natural resources which the IPSASB issued a consultation paper - guidelines on accounting for natural resources in 2022; sequel to non-existence of specific standard(s) on mineral deposits / natural resources accounting. The development of such standards will reduce mismanagement of resource revenues. Furthermore, accounting and financial reporting for SWF for decision; accounting and financial reporting for government's portion of foreign reserves inclusive foreign reserves fund minimise prevalence of understatement of financial assets and fund liabilities in sovereigns' financial position.

This commentaries and presentation contributes to the development of public sector accounting practices and good governance by identifying assets and liabilities sub-head items not duly captured and reflected in sovereign entities' financial statements and prescribed plausible solution for improvements.

Thank you.

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