

## CHECKLIST FOR IDENTIFYING, ACCOUNTING AND REPORTING IMPACTS FROM NATURAL DISASTERS

# INTRODUCTION

This self-assessment checklist for identifying, accounting and reporting impacts from natural disasters will help to guide your agency's accounting and reporting processes to reflect better practice.

This checklist is primarily intended to provide guidance to public sector not-for-profit agencies and must also be considered in conjunction with the Australian Accounting Standards and Non-Current Asset Policies for the Queensland Public Sector (in particular, the Checklist for Revaluations and the Checklist for Testing and Adjusting for Impairment within the NCAP tools).

The questions in this checklist should be revisited regularly to facilitate continued compliance with the Australian Accounting Standards and developing better practices.

## OBJECTIVE

To guide the agency in properly and reliably assessing impacts from natural disasters for the purposes of preparing their financial statements.

| No                    | Question   | Yes                      | No                       | Improvements / Actions Required |
|-----------------------|--|--------------------------|--------------------------|---------------------------------|
| <b><u>SYSTEMS</u></b> |  |                          |                          |                                 |
| 1.                    | Does the agency have a framework in place to assist with the identification of impacts from natural disasters?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |
|                       | Are the systems/processes within the framework adequately documented in the agency's Financial Management Practice Manual?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |
|                       | Does the agency have processes in place to assign a responsible officer to undertake an assessment of the impacts on the agency as a result of a natural disaster? Are the results of the assessment process and related adjustments explicitly endorsed by senior management? | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |
|                       | Does the Audit and Risk Committee review the framework and scrutinise the assessment of natural disaster impacts, processes and/or outcomes?   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |
|                       | Has the agency developed and implemented an agreed format and minimum information requirements for the working papers for the review of impacts from natural disasters?  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |

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| No  | Question  | Yes                      | No                       | Improvements / Actions Required |
|---|---|--------------------------|--------------------------|---------------------------------|
| <b>INDICATORS THE AGENCY HAS BEEN IMPACTED BY NATURAL DISASTERS</b> |   |                          |                          |                                 |
| 2.  | <ul style="list-style-type: none"> <li>Has a natural disaster occurred in areas where the agency operates or holds assets during the financial year?</li> <li>Has the agency identified all key stakeholders throughout the State who can help determine the impacts from the natural disaster?</li> </ul> <p>✓ For example: officers from regional centres/offices, external valuers, executive management, Audit and Risk Committee and internal auditors.</p>  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |
| <b>TESTING FOR FINANCIAL STATEMENT IMPACTS AND ADJUSTMENTS</b>      |   |                          |                          |                                 |
| 3.  | <b>Inventory</b> <ul style="list-style-type: none"> <li>Has the agency identified any damage to its inventory?</li> </ul> <p>✓ If yes, inventory that is no longer saleable or of a quality able to be distributed will need to be written off.</p> <li>Has the agency identified any inventory that has been damaged in part but is still saleable, or distributed at a discount?</li> <p>✓ AASB 102 <i>Inventories</i> requires inventory held for distribution to be measured at cost, adjusted where applicable for any loss of service potential.</p> <p>✓ AASB 102 <i>Inventories</i> requires inventory held for sale to be measured at the lower of cost and net realisable value with any write down recognised as an expense. That is, the cost of inventories may not be recoverable if that inventory is damaged as a result of a natural disaster.</p> <p>✓ Costs associated with the repair and cleaning of inventory are expensed as incurred.</p> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |
| 4.  | <b>Trade and loans receivables – Assets</b> <ul style="list-style-type: none"> <li>Has the agency assessed whether any of its major clients or customer bases have been directly affected by a natural disaster?</li> </ul> <p>✓ An agency's debtors may be unable to pay outstanding amounts as and when they fall due and therefore terms may need to be renegotiated. This will also increase the expected credit losses assessment for those trade receivables.</p> <li>Does the agency have any receivables or loan assets that are secured by assets that have been damaged during the natural disaster? e.g. loan receivables secured by land, buildings.</li> <p>✓ The expected credit losses (particularly loss given default) may have increased.</p>   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |

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| 5. | <b>Property, plant and equipment and intangible assets</b> <ul style="list-style-type: none"> <li>Has the agency identified any assets that have been damaged as a result of the natural disaster?                             <ul style="list-style-type: none"> <li>✓ If the assets are no longer useable they will need to be written down to recoverable amount or derecognised in accordance with AASB 116 <i>Property, plant and equipment</i>.</li> </ul> </li> <li>Has the agency identified any assets that have only been partly damaged but can be repaired or still utilised in the future?                             <ul style="list-style-type: none"> <li>✓ If yes, this is an indicator of impairment and an assessment will be needed as to what the recoverable value is in accordance with AASB 136 <i>Impairment of Assets</i> and <i>Non-Current Asset Policies for the Queensland Public Sector NCAP 4 – Impairment of Assets</i>.</li> <li>✓ If part of an asset is damaged, the agency may need to consider derecognising the damaged part in the carrying amount of the asset if it is practically separable. The cost of replacing the new part should be recognised in the carrying amount of the asset when it is incurred, provided it meets capitalisation recognition criteria.</li> <li>✓ Damage caused by a natural disaster may also result in the need to reassess the residual values and useful lives of assets. Refer to <i>Non-Non-Current Asset Policies for the Queensland Public Sector NCAP 3.5, NCAP 4.1 and NCAP tools Checklist for Testing and Adjustment of Impairment</i>.</li> </ul> </li> <li>Has the agency incurred any subsequent expenditure on an asset as a result of a natural disaster?                             <p>For example – costs incurred in relocating and installing assets at different locations; cleaning and safety inspection expenses?</p> <ul style="list-style-type: none"> <li>✓ If yes, this subsequent expenditure can only be recognised as part of the asset if it meets the AASB 116 <i>Property, plant and equipment</i> asset recognition criteria – future economic benefits flowing to the entity and cost can be measured reliably. Otherwise, it is recognised as an expense when incurred.</li> </ul> </li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |
| 6. | <b>Investments</b> <ul style="list-style-type: none"> <li>Does the agency have any investments in entities that have been directly affected by a natural disaster?                             <ul style="list-style-type: none"> <li>✓ If so, the carrying value of these investments will require reassessment.</li> <li>✓ Investments carried at cost will need to be assessed for the ability to receive payments and an impairment charge may be required.</li> </ul> </li> </ul>  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |

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| 7. | <b>Loans and payables - Liabilities</b> <ul style="list-style-type: none"> <li>As a result of the natural disaster, has the agency missed any due dates for scheduled payments?                             <ul style="list-style-type: none"> <li>✓ This may trigger non-compliance with debt covenants and the need to renegotiate terms or possibly reclassify loans from non-current to current if the agency's lender demands immediate repayment of the debt.</li> </ul> </li> </ul>   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |
| 8. | <b>Clean-up accruals and other provisions</b> <ul style="list-style-type: none"> <li>Has the agency recognised an expense accrual for clean up activities to rectify any damage as a result of a natural disaster?</li> <li>Have these clean up activities actually taken place prior to balance date?                             <ul style="list-style-type: none"> <li>✓ An agency can only recognise a liability for clean up activities expenditure once the activities have taken place.</li> </ul> </li> <li>Does the agency have a lease with a contractual requirement to restore leased items to their original condition at the end of the lease? If so, has this leased item been damaged as a result of a natural disaster?                             <ul style="list-style-type: none"> <li>✓ The lessee needs to review the lease agreement and, where it is obliged to perform restoration following a nature disaster, recognise (or re-examine) the amount required to restore the building to its original condition as a lease restoration provision.</li> </ul> </li> </ul>   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |
| 9. | <b>Onerous contracts</b> <ul style="list-style-type: none"> <li>Has the agency assessed whether, as a result of a natural disaster, any potentially onerous contracts now exist?                             <ul style="list-style-type: none"> <li>✓ An onerous contract is defined in AASB 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i> as one where the unavoidable costs of meeting obligations exceed the economic benefits expected to be received under the contract.</li> <li>✓ An assessment should be made as to whether the expected economic benefits are less than the unavoidable costs of the contract, over the term of the contract.</li> <li>✓ The future obligations under the onerous contract need to be recognised as a provision.</li> <li>✓ Contracts (such as leases, purchase and supply contracts) containing 'force majeure' provision may relieve the agency of its obligations.</li> </ul> </li> </ul> <p>Examples of an onerous contract may include:</p> <ul style="list-style-type: none"> <li>o a lessee of a building damaged by floods that still has to pay lease payments despite being unable to use the premises.</li> <li>o supply and purchase contracts that cannot broken/cancelled.</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |

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| 10. | <p><b>Insurance recoveries</b></p> <ul style="list-style-type: none"> <li>Is the agency expecting any insurance recoveries as a result of a natural disaster?</li> <li>✓ These are to be recognised as a separate asset (insurance recoveries receivable) and income (revenue).</li> <li>✓ Compensation monies received as a result of damage or loss of asset/s is recognised as revenue when it is 'receivable' as mentioned in AASB 116 paragraphs 65-66.</li> <li>✓ Compensation for costs to be incurred is recognised when it is virtually certain of being received (e.g. the insurance company has confirmed in writing that it has accepted the claim).</li> </ul> <p>Note: Insurance recoveries may be recognised in a different period to when a natural disaster occurs and when related losses are recognised, due to the length of time insurance companies may take to accept and process insurance claims.</p>   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |
| 11. | <p><b>Grants and other contributions – Revenues / Expenses</b></p> <ul style="list-style-type: none"> <li>Has the agency received grant funding as a result of a natural disaster? For example: Disaster Recovery Funding Arrangements?</li> <li>✓ For-profit agencies are to account for grants in accordance with AASB 120 <i>Accounting for Government Grants and Disclosure of Government Assistance</i></li> <li>✓ Not-for-profit entities are to apply AASB 1058 <i>Income of Not-for-profit Entities</i> to account for the grant. <ul style="list-style-type: none"> <li>Where a grant meets the "capital grant" conditions in AASB 1058 paragraph 15, consider whether: <ul style="list-style-type: none"> <li>➤ the grant is received in arrears relating to assets already constructed or under construction and the grant should be recognised as income; or</li> <li>➤ the grant is received in advance for future asset construction works yet to be undertaken and there is deferred revenue to be recognised at the year-end reporting date?</li> </ul> </li> </ul> </li> <li>Has the agency <b>received</b> any contribution of services as a result of a natural disaster? (Example: volunteers helped an agency clean up its parks after a flood).</li> <li>✓ Agencies can only recognise volunteer services when they would have been purchased had they not been donated and when the fair value of those services can be measured reliably.</li> <li>✓ Recognise donated services at fair value and as income and expenses (i.e. bottom line neutral)</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |

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|---------------------------------|--|--------------------------|--------------------------|---------------------------------|
|                                 | <ul style="list-style-type: none"> <li>Has the agency paid out any grants as a result of a natural disaster?</li> <li>✓ Grant payments in arrears: Where terms of a grant have been satisfied, but the full amount has not yet been disbursed, agencies must recognise an expense and a liability (payable)</li> </ul>   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |
| <b>DISCLOSURES</b>              |  |                          |                          |                                 |
| 12.                             | <b>Note Disclosures to Financial Statements</b> <ul style="list-style-type: none"> <li>If the agency has been significantly impacted by a natural disaster, has an assessment been made as to whether a separate note disclosure is warranted outlining the nature, extent, and impact of the natural disaster?</li> </ul>   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |
| <b>LEGISLATIVE REQUIREMENTS</b> |  |                          |                          |                                 |
| 13.                             | <b>Financial Accountability Act 2009; Financial and Performance Management Standard 2019</b> <ul style="list-style-type: none"> <li>Has the agency suffered any material loss to property as a result of a natural disaster?</li> <li>✓ Section 17 of the <i>Financial and Performance Management Standard 2019</i> requires the accountable officer of a department or a statutory body to keep a written record (i.e. a register of losses) of the following details about the loss: <ul style="list-style-type: none"> <li>a description of the property including its value</li> <li>the reason for the loss</li> <li>the action taken as a result of the loss, including, for example, action taken to obtain reimbursement</li> <li>details about approval for writing off the loss</li> </ul> </li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |
| <b>KEY LEARNINGS</b>            |  |                          |                          |                                 |
| 14.                             | <b>Key Learnings</b> <ul style="list-style-type: none"> <li>Has the agency undertaken an assessment of how it managed the process for identifying, accounting and reporting impacts from the natural disaster?</li> <li>Has the agency updated the framework for key learnings from this assessment, if needed?</li> <li>Has the agency updated its Financial Management Practice Manual for key learnings from this assessment, if needed?</li> </ul>   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>        |