



INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PROJECT BRIEF AND OUTLINE

1. Subject—Accounting for the Impact of Natural Disasters

- 1.1. This project will research practice and guidance on accounting for the impact of natural disasters, identify resources and guidance available, and identify any issues arising, including whether there are gaps in IPSAS coverage that could be usefully addressed.
- 1.2. Natural disasters include floods, earthquakes, tsunamis, hurricanes, tornadoes, volcanic eruptions, landslides and forest fires. Natural disasters exclude man-made disasters such as industrial disasters (oil spills, nuclear disasters, etc).
- 1.3. Public sector entities are impacted by natural disasters in the same way that private sector entities are impacted. But in addition to this impact, many public sector entities have public sector specific responsibilities with respect to natural disasters, which broaden the scope and type of impact that arises. Those responsibilities include providing direct disaster relief and providing support in terms of funding, equipment or loan of personnel for relief operations. The special role that public sector entities perform when a natural disaster strikes has been evident during recent disasters as hospitals, police, fire fighters, and the military provide direct support in response to disasters such as floods, earthquakes, tsunamis and tornadoes. Governments may also provide funding to different parties impacted by a disaster including private individuals, businesses, government agencies and different levels of government.
- 1.4. Natural disasters raise a number of accounting issues. The full range of accounting issues is presently not clear. Some issues may be addressed by application of existing IPSASs. The requirements and related guidance available in different IPSASs may not adequately cover all the accounting issues raised by the impact of natural disasters on public sector entities.

2. Project Rationale and Objectives

- 2.1. The objective of the project would be to provide an overview of the accounting issues raised for public sector entities by natural disasters as well as to consider any existing guidance. The project will also consider existing IPSASs and whether they adequately address accounting issues raised by natural disasters. Recommendations on addressing any gaps in existing IPSASs would be considered.

International Guidance on this Topic

- 2.2. The IASB does not specifically address the topic of accounting for the impact of natural disasters, although IFRS applies to many, and possibly all, of the issues raised for private sector entities.

National Guidance on this Topic

- 2.3. Based on a preliminary review National Standards Setters (NSS) do not generally have specific guidance on accounting for the impact of natural disasters. There is guidance developed by private sector firms on application of IFRS to the accounting impact of natural disasters. A small amount of public sector oriented guidance has also been identified.

Issues identified

- 2.4. A number of accounting issues arising from the impact of natural disasters have been identified on preliminary review. These include:
- Accounting for different types of asset impairments (inventory, accounts receivable, PP&E, etc);
 - Recognition of expenses and liabilities (for example provisions for clean-up, provisions for disaster relief funding obligations, onerous contracts etc);
 - Recognition of assets/revenue from insurance recoveries;
 - Accounting for contributed services and/or grants received;
 - Separate disclosure of significant items;
 - Note disclosures; and,
 - Events after the reporting date.

Objectives to be achieved

- 2.5. The ultimate objective of the project is to provide a comprehensive overview of accounting issues raised by natural disasters and assess existing guidance and applicable IPSAS requirements. Gaps in available IPSAS requirements and related implementation guidance will be identified. The research may result in consideration of whether a new IPSAS should be developed or whether amendments to existing IPSASs are needed.

(c) Link to IFAC and IPSASB Strategic Plans

i. Link to IPSASB Strategy

- 2.6. The impact of natural disasters on many public sector entities goes much wider than that for private sector entities, because public sector entities take an essential role in actively responding to natural disasters. This project would correlate to the IPSASB's strategic theme of addressing public sector critical projects.

- ii. *Link to IFAC Strategic Plan*
- 2.7. The IFAC Strategic Plan for 2011-2014 identifies 2 specific strategies that are relevant. The first is IFAC's commitment to the development adoption and implementation of international standards, including those for the public sector. The second is an enhanced focus on public sector financial reporting. Considering the issues around accounting for the impact of natural disasters supports both of these strategies.

3. Outline of the Project

(a) Project Scope

- 3.1. The scope of this project is to research existing guidance and practice on accounting for natural disasters and summarize issues on the topic. The research could contribute to consideration of whether an IPSAS on accounting for natural disasters would be warranted. It could also provide material relevant to the development of implementation guidance examples that address natural disaster accounting issues applicable to individual IPSASs, for example accounting for impairment, post reporting date events, loss provisions, etc. The focus is on the financial statements rather than more comprehensive scope financial reporting information areas.

(b) Major Problems and Key Issues that Should be Addressed

Key Issue #1—Description of natural disasters and sub-categories

- 3.2. A definition or description of a natural disaster will need to be developed. The factors specific to a 'disaster', as opposed to other events, will need to be identified. 'Natural' disasters will need to be clearly distinguished from other types of disasters. What is meant by the 'impact' of a natural disaster will also need to be considered. For example, should consequential 'downstream' effects, which may emerge over long time periods, be treated as further impacts of the disaster? Consideration may also need to be given to identification of whether natural disaster subcategories exist that raise particular accounting issues. For example, some natural disasters are relatively rare one-off events, while others occur on a frequent enough and regular enough basis to be considered a normal part of business risk, for example, tornadoes that occur annually.

Key Issue #2 —Accounting issues raised by natural disasters

- 3.3. Accounting issues raised by natural disasters will need to be identified, including any public sector specific issues. The impact of a natural disaster may vary between different types of public sector entities. Some entities need to report on the impact of the disaster on their normal operations, for example the need to consider impairment issues. Other entities may have a role in responding to the disaster either as relief agencies (disaster relief agencies, hospitals, police, military, etc) or by providing financial support or funding for emergency response (for example, national and lower levels of governments). The issues

raised for the first group of entities are likely to be similar to those encountered in the private sector. A wider set of issues could arise from the second group of entities. For example, different levels of governments may share responsibilities for disaster response with resulting obligations arising that may be complex to identify and measure.

- 3.4. Once accounting issues are identified and assessed it will be necessary to consider existing IPSASs and whether they adequately address the situation. This will be important as a basis for considering whether the research should lead to either development of a new Standard or inclusion of additional implementation guidance in existing Standards.

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 IFRSs do not include specific requirements with respect to accounting for the impact of a natural disaster, although general requirements can be applied to issues raised by natural disasters, for example IFRS applicable to recognition of impairment losses. Guidance already exists, developed by audit firms, on the application of IFRSs to accounting issues raised by natural disasters.

(b) Relationship to Other Standards, Projects in Process or Planned

- 4.2 Initially this project will generate a research report rather than a new IPSAS or material for inclusion in existing IPSASs. On that basis the project does not directly impact on IPSASs, in process or planned. The research may identify examples of implementation guidance to include in various IPSASs, when those IPSASs are next revised. For example, the research may identify implementation guidance that could be included in existing IPSASs with respect to asset impairment, provisions, contingencies and post reporting date events.

(c) Other—Government Finance Statistics

- 4.3 One aspect of the IPSASB's strategic theme of undertaking public sector specific projects is to consider convergence with the statistical basis of accounting where appropriate. Any changes in definition and accounting treatment will need to be considered in the context of their impact on the statistical basis of accounting.

5. Development Process, Project Timetable and Project Output

(a) Development Process

- 5.1 The research report will require the IPSASB's formal approval. Any subsequent IPSASs or amendments to IPSASs will be subject to the IPSASB's formal due process. The issuance of any documents for public comment will be subject to the usual IPSASB voting rules. As the project progresses, regular

assessments will be made to confirm the proposed path in the project timetable remains the most appropriate.

(b) Project timetable

| Major Project Milestones | Expected Completion |
|---|----------------------------|
| Present Project Brief | June 2011 |
| Discussion of issues and review of a draft Research Report (RR) | June 2012 |
| Approve RR | September 2012 |

(c) Project output

- 5.3 The initial output will be a Research Report. The ultimate output may be revisions to existing IPSASs or possibly development of a new IPSAS.

6. Resources Required

(a) Task Force/Subcommittee

- 6.1 A Task Based Group will assist in exploring the issues.

(b) Staff

- 6.2 It is envisaged that 0.25 Full Time Equivalent (FTE) will be required to resource the project.

(c) Factors that might add to complexity and length

- 6.3 A factor that might add to the complexity and length of the project is the identification of complex public sector specific accounting issues raised by natural disasters.

7. Important Sources of Information that Address the Matter being Proposed

- 7.1 Potential sources of information regarding accounting for the impact of natural disasters include:
- a) National Standard Setters guidance. (No guidance specific to natural disasters was identified in a preliminary scan for applicable guidance, although guidance relevant to specific issues (for example, disaster relief funding guidance, insurance related guidance) was identified.)
 - b) Private sector guidance. (Examples exist of audit firm guidance in this area, but the focus is exclusively on private sector entities.)
 - c) Supreme Audit Institution and Treasury/Finance Department guidance.
 - d) Existing reporting practice by governments and other public sector entities.