



DATE: 13 JUNE 2005
MEMO TO: MEMBERS OF THE IPSASB
FROM: JESSE HUGHES AND PAUL SUTCLIFFE
SUBJECT: **BUDGET COMPARISON DRAFT ED**

ACTION REQUIRED

The Board is asked to:

- **review** the draft Exposure Draft; and
- **approve** the draft Exposure Draft (subject to any amendments agreed at the meeting) for publication, or provide directions for further development.

AGENDA MATERIAL:

	Pages
10.2 Proposed <i>ED</i> Comparison of Budget and Actual Amounts for the Accrual and Cash Bases of Financial Reporting	10.6 – 10.39
10.3 Responses of PAP members	10.40 – 10.43
10.4 List of PAP	10.44

Background

The IPSASB considered a second draft ED “Comparison of Budget and Actual Amounts for the Accrual and Cash Bases of Financial Reporting” at its March 2005 meeting in Oslo and identified areas for amendment. As directed, the draft ED has been amended, restructured and simplified to clarify the major points. This includes a more complete explanation of the objective, a requirement to include the final budget in the comparison but leave the inclusion of the original budget as an option, and a requirement to explain material differences between budget and actual amounts. In addition, the IPSASB directed that the comparison should be a part of the general purpose financial statements, either as a separate column or as a separate statement, rather than require the comparison in the note disclosures.

Arrangements going forward

The funding arrangement with PEFA to support the role of the consultant in the development of this project is now complete, and staff have taken over drafting responsibilities. However, Dr Hughes has agreed to continue to provide input on matters of principle and practice as needed.

Disclosure of original budget

At the meeting in Oslo, it was agreed that only the final budget would be required to be disclosed in the financial statements, and the inclusion of the original budget would be optional. This has been done - the ED now specifies that the variance between budget and actual should be computed using the final budget and significant variances should be

explained. At the Oslo meeting, some members noted that it was appropriate to revisit the issue of whether the original budget should also be disclosed when reviewing the next draft of the ED.

Those PAP members who provided comments on this draft ED were of the view that disclosure of/comparisons with the original budget should be required (see PAP member comments at item 10.3).

Format of Reconciliation in the Notes if Differences between Budget to Actual Amounts

The previous draft, required that a reconciliation between the actual budget amounts and amounts reported in the general purpose financial statements be presented, but did not identify the items that were to be reconciled. The previous draft ED noted that

“When making the reconciliation, entities are encouraged to disclose the major sources of differences between the actual amounts on the comparable basis and the actual amounts on the accounting basis....” (paragraph 15)

“For those entities using the accrual basis for budgeting and accounting ...The elements to be included in the reconciliation are not prescribed. Some may prepare the reconciliation based on the different elements within the operating statements (for example, revenues and expenses), whereas others may reconcile only to the net surplus/deficit – the excess (deficiency) of revenues over (under) expenses. Some may prefer greater detail. The reconciliation would only be necessary where there are timing or entity differences between the budget and the general purpose financial statements unless there has been some modification to the accrual budget” (paragraph 16)

“For those entities using the cash basis for budgeting and the accrual basis for accounting, the reconciliation between the actual amounts on the comparable basis to the actual amounts on the accounting basis would be to the Cash Flow Statement. The elements to be included in the reconciliation are not prescribed....” (paragraph 17)

The requirements in this draft have been strengthened by identifying that the reconciliation is to be made to key components of the financial statements. In addition, the reconciliation between the budgetary information now proposes identification of basis, timing, or entity differences between the budgeting and accrual accounting amounts. A reconciliation to the statement of financial or asset or liability balances are not required (nor prohibited). This is because annual or multi period budgets do not usually include such statements. A less prescriptive requirements reflective of that included in the previous draft is included in a text box in the draft ED.

Transitional Provisions

The IPSASB’s usual policy is to require application of the IPSAS for the first period commencing 12 months after the issue of the IPSAS. The IPSAS may include transitional provisions. The ED does not propose any transitional provisions, but does acknowledge that initial application of the Standard may be deferred for two years from its date of issue to provide time for entities to develop and, as appropriate, align their budget and financial reporting procedures, basis, time periods and budget coverage. The IPSASB has not previously considered whether transitional provisions should be included in the proposed IPSAS.

General Government Sector

This ED includes an acknowledgement of its relationship with the disclosures proposed by the ED dealing with the disclosure of financial information in respect of the General Government Sector (GGS) in general purpose financial statements. This relationship is also acknowledged in the GGS ED (see agenda item 12 of this Agenda).



Jesse W. Hughes, Ph.D., CPA, CIA, CGFM
CONSULTANT

EXTRACT FROM IPSASB MINUTES

10. REPORTING COMPLIANCE WITH BUDGETS

The IPSASB received and noted:

- A memorandum from the Consultant and a draft Exposure Draft; and
- A list of Project Advisory Panel (PAP) members; and a summary of responses from PAP members.

Members reviewed the agenda materials and the draft Exposure Draft (ED) and identified a number of substantive and drafting issues for amendment.

It was agreed that the ED be redrafted for consideration at the next IPSASB meeting and that it be circulated to PAP members for comment prior to the meeting.

Action Required: ***Prepare a revised draft ED for consideration at next meeting and circulate to the PAP for comment prior to meeting.***

Person(s) Responsible: ***Consultant, PAP Chair, Staff.***

EXTRACT FROM ATTACHMENT TO IPSASB MINUTES

10. REPORTING COMPLIANCE WITH BUDGET

Major areas for amendment to the ED identified by the IPSASB were to:

- Require the primary financial statements to include a comparison of actual to final budget (on a comparative basis), whether by inclusion of a separate statement comparing actual to budget or inclusion of an additional budget column in the current suite of statements;
- Specify that the ED was applicable to entities that make publicly available an approved budget or a summary thereof;
- Shorten the title and remove reference to “desired” in paragraph 19;
- Require disclosure of the reasons for significant variances between actuals and the final budget in the notes or as part of a management discussion and analysis (MD&A) (where an MD&A is prepared). Commentary paragraphs are to explain what is to be disclosed when there is no difference between final and actual.;
- Note that the original budget may be disclosed and to require an explanation of substantial changes between the original and final budget in the notes when this occurs - unless such explanation already occurs in other documents which include a MD&A, in which case a cross reference thereto is required. Commentary is also to explain that note disclosure of variances from the original budget is not prohibited. Some members noted that it was appropriate to revisit whether the original budget should also be disclosed when reviewing next draft;
- Make it clear that the objective of the ED and the comparison is to enhance accountability and transparency;
- Remove the encouragement that the IPSAS should be applied to GBEs (in para 5);

- Rework definitions of the following in para 6: approved budget, comparable basis, original budget and final budget. Also, to distinguish between “approved budgets” and “forecasts”;
- Restructure the sequence of requirements in the ED to first require the comparison of actual to budget on the budget basis and then require a reconciliation from the budget basis to the IPSAS basis. Commentary is to explain that the reconciliation of budget actuals to IPSAS actuals may be disclosed either in the notes or on the face of the statement;
- Explain in commentary paragraphs that in those jurisdictions where accrual budgets encompass the full suite of financial statements, actual and budget comparisons will be made across all the statements;
- the budget may be recompiled to reflect the IPSAS reporting entity. However, changing any data in legal budgets is prohibited in any such recompilation;
- Remove the layout specified in par. 23.
- Establish a separate black letter requirement to specify that the original budget is the first approved budget. Other matters currently included in para 27 regarding adjustments to the original budget are to be included in commentary paragraphs. The last phrase of paragraph 27 being “before.....period” is to be deleted.
- Consider/establish the link to the General Government Sector ED;
- Refer to “multi-year” budgets rather than “biennial” budgets;
- Consider whether there should be transitional provisions or deferred application when other components of the ED are drafted;
- Consider whether Appendix A should specify deletion of certain paragraphs in IPSAS 1 and Cash Basis IPSAS.
- Expand illustrative examples in Appendix B or C as appropriate to illustrate the explanations required by the ED;
- Change the variance column in Appendix C from “original budget” to “final budget” and include an explanation that disclosure of variance from “original budget” could also be included; and
- In Appendix C, focus on disclosure of relevant totals only.

Exposure Draft XX
MM 2005
Comments are requested by MM DD, 2005

Proposed International Public Sector Accounting Standard

**Financial Reporting Under the Cash Basis of
Accounting and Under the Accrual Basis of
Accounting – Comparison of Budget and Actual
Amounts**

International Public Sector Accounting Standards Board

International Federation of Accountants

REQUEST FOR COMMENTS

This Exposure Draft of the International Public Sector Accounting Standards Board was approved for publication in XXXX 2005. The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being issued in the form of an International Public Sector Accounting Standard (IPSAS) or amendments to an IPSAS.

Comments should be submitted in writing so as to be received by MM DD, 2005. E-mail responses are preferred. All comments will be considered a matter of public record. Comments should be addressed to:

Technical Director
International Public Sector Accounting Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017
United States of America

Fax: +1 (212) 286-9570
E-mail Address: EDComments@ifac.org

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INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in this Exposure Draft.

The IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

The IPSASB encourages governments to progress to the accrual basis of accounting and to harmonize national requirements with the IPSASs prepared for application by entities adopting the accrual basis of accounting. Entities intending to adopt the accrual basis of accounting at some time in the future may find other publications of the IPSASB helpful, particularly Study 14, "Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities 2nd Edition".

Due Process and Timetable

An important part of the process of developing IPSASs is for the IPSASB to receive comments on the proposals set out in IPSAS Exposure Drafts from governments, public sector entities, auditors, standard-setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft, inviting interested parties to provide their comments. Exposure

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Drafts will usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the IPSASB will consider the comments received on the Exposure Draft and may modify the proposed IPSAS in the light of the comments received before proceeding to issue a final Standard.

Background

Most governments prepare and issue as public documents, or otherwise make publicly available, their financial budgets. The budget documents are widely distributed and promoted. They reflect the financial characteristics of the government's plans for the forthcoming period. In many respects, and for many external users, the budget documents are important financial statements issued by governments. The budget also serves as a key tool for financial management and control, and is the central component of the process that provides for government and parliamentary (or similar) oversight of the financial dimensions of operations. It also forms the basis for amendments to the level of services which are to be provided and the level of taxation which is to be levied."

IPSAS 1, "Presentation of Financial Statements" encourages but does not require disclosure of comparisons of actual with budgeted amounts. The Cash Basis IPSAS, "Financial Reporting Under the Cash Basis of Accounting" also encourages the disclosure of a comparison of budgeted amounts with actual amounts for the reporting period.

This Exposure Draft differs from Exposure Drafts of proposed IPSASs previously issued. It applies equally to both entities that prepare general purpose financial statements in accordance with the cash basis IPSAS and entities that prepare general purpose financial statements in accordance with the accrual basis IPSASs.

Purpose of the Exposure Draft

This Exposure Draft proposes that the general purpose financial statements of entities that make their approved budget publicly available include a comparison of budget and actual amounts.

This requirement will apply to entities that report in accordance with the accrual and the cash basis IPSASs.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by MM DD, 2005. The IPSASB would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the issues in Item 10.2 *Draft ED Comparison of Budget and Actual Amounts etc.*
IPSASB New York July 2005

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the Exposure Draft. Respondents are also invited to provide detailed comments on any other aspect of the Exposure Draft (including materials contained in appendices and implementation guidance) indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the IPSASB if these comments clearly explained the issue and suggested alternative wording with supporting reasoning where this is appropriate

Specific Matters for Comment

The IPSASB would particularly value comment on:

1. The proposal to require a comparison of budget and actual amounts by all public sector entities which make publicly available their approved budgets as defined, whether individual entities or government (paragraphs 2 and 3). The IPSASB would welcome views on whether:
 - (a) the standard should require or encourage the presentation of a budget and actual comparison; and
 - (b) the standard should be limited to apply to only governments;
2. The proposal to require a comparison of amounts in the final budget and actual amounts as part of the general purpose financial statement (paragraph 9). The IPSASB would welcome views on whether comparisons of amounts in the original budget and actual amounts should also be required;
3. Whether disclosure of the difference between the final budget and the actual amounts (often referred to as the variance) should be required (paragraph 9). The IPSASB would also welcome views on whether disclosure of the reasons for material differences should be required or encouraged;
4. The proposal to allow, but not require, disclosure of the original approved budget (paragraph 25). The IPSASB would welcome views on whether the disclosure of the original approved budget should be required;
5. If the original budget is disclosed in the general purpose financial statements, the Standard requires disclosure of an explanation of whether differences between the original and final budget arise from policy shifts, natural disasters, or other unforeseen events (paragraph 25). The IPSASB would welcome views on whether such disclosure should be required or encouraged;
6. Whether it is appropriate to require the comparison to be made on the same basis of accounting as adopted for the budget even if that basis is different from the basis adopted for the general purpose financial statements (paragraph 27);
7. The proposal to require a reconciliation of actual amounts on a budget basis with in the general purpose financial statements prepared in accordance with IPSASs (paragraph 42); and

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8. Whether transitional provisions or an extended period for application of the Standard are necessary.
9. Whether separate IPSASs specifying requirements for the comparison of budget and actual amounts should be issued for application when the accrual basis is adopted and when the cash basis is adopted. The IPSASB would also welcome views on whether, rather than issuing a separate standard, the requirements proposed in this ED should be included in IPSAS 1 for those entities adopting the accrual basis of accounting, and in the cash basis IPSAS for those adopting the cash basis.

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International Public Sector Accounting Standard XX, “Financial Reporting Under the Cash and Under the Accrual Basis of Accounting: Comparison of Budget and Actual Amounts” (IPSAS XX) is set out in paragraphs 1-45 and the Appendices. All the paragraphs have equal authority. IPSAS XX should be read in the context of its objective, the Basis for Conclusion (if any), and the “Preface to the International Public Sector Accounting Standards”. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

International Public Sector Accounting Standard IPSAS XX

Financial Reporting Under the Cash Basis of Accounting and Under the Accrual Basis of Accounting – Comparison of Budget and Actual Amounts

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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS XX

Financial Reporting Under the Cash Basis of Accounting and Under the Accrual Basis of Accounting – Comparison of Budget and Actual Amounts

Objective

1. This Standard requires a comparison of budget and actual amounts to be included in the general purpose financial statements of entities which make publicly available their approved budget. The Standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Many governments and other public sector entities make their approved budgets publicly available. Compliance with the requirements of this Standard will ensure that public sector entities which make publicly available their approved budgets discharge their accountability obligations by demonstrating compliance with the approved budget. It will also ensure that the level of fiscal discipline applied by the elected and appointed officials will be transparent to the readers of the financial.

Scope

2. **An entity that prepares and presents general purpose financial statements under the accrual or cash basis of accounting in accordance with International Public Sector Accounting Standards (IPSASs) shall apply this Standard.**
3. **This Standard applies to public sector entities, other than Government Business Enterprises (GBEs), that make publicly available their approved budgets.**
4. This Standard applies to all entities that make publicly available their approved budgets, other than GBEs. It deals with both reporting under the accrual and the cash basis of accounting. If the accrual basis of accounting is adopted, this Standard should be read in conjunction with the accrual basis IPSASs. If the cash basis of accounting is adopted, this Standard should be read in conjunction with the Cash Basis IPSAS.
5. This Standard applies to whole-of-government entities that make publicly available their approved budgets as well as individual government controlled entities that make publicly available their approved budgets. It does not require approved budgets to be made publicly available nor does it require that the

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general purpose financial statements disclose information about, or make comparisons with, budgets which are not otherwise made publicly available.

6. In some cases, approved budgets will be compiled to encompass all the activities controlled by the whole-of-government or individual entity. In other cases, separate approved budgets may be made publicly available for certain activities, groups of activities or entities included in the general purpose financial statements of a government. This may occur where the government's general purpose financial statements encompass government agencies or programs that have operational autonomy and prepare their own budgets. In still other cases, approved budgets may be made publicly available for only a component of the general purpose financial statements. This may occur where a budget is prepared only for the general government sector of the whole of government general purpose financial statements. This Standard applies to all entities which presents general purpose financial statements when approved budgets for the entity or components thereof are made publicly available.
7. The "Preface to International Public Sector Accounting Standards" issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB). Therefore this Standard does not apply to GBEs. GBEs are defined in paragraph 8 below.

Definitions

8. **The following terms are used in this Standard with the meanings specified:**

Accounting basis means the accrual or cash basis of accounting as defined in the accrual IPSASs and the Cash Basis IPSAS.

Annual budget means an approved budget for one year. It does not include published forward estimates or projections for periods beyond the annual budget period.

Appropriation is an authorization granted by a legislative body to set aside funds for purposes specified by the legislature.

Approved budget means the expenditure authority derived from laws, appropriation bills, government ordinances and other decisions relative to the anticipated revenue or receipts for the budgetary period.

Budgetary basis means the accrual, cash or other basis of accounting adopted in the budget that has been approved by the legislative body.

Comparable basis means the actual amounts classified on the same basis for the same entities covering the same period as the final approved budget.

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Final budget is the originally approved budget adjusted for all reserves, carry over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative changes applicable to the budget period.

Forecast (published forward estimates) means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place, and the actions management expects to take, as of the date the information is prepared (best-estimate assumptions).

Government Business Enterprise means an entity that has all the following characteristics:

- (a) Is an entity with the power to contract in its own name;
- (b) Has been assigned the financial and operational authority to carry on a business;
- (c) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
- (d) Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and
- (e) Is controlled by a public sector entity.

Multiyear budget is an approved budget for more than one year. It does not include published forward estimates or projections for periods beyond the budget period.

Original budget is the initial approved budget for the budget period.

Projection means prospective financial information prepared on the basis of:

- (a) Hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or
- (b) A mixture of best-estimate and hypothetical assumptions.

Prospective financial information means financial information based on assumptions about events that may occur in the future and possible actions by an entity.

Publicly available approved budget means an approved budget that has been made available to the public at large.

Presentation Of A Comparison Between Budget And Actual Amounts

9. **An entity shall present a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements currently presented in accordance with IPSASs. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:**
- (a) The final budget amounts;**
 - (b) The actual amounts on a comparable basis;**
 - (c) The difference between the final budget and the actual amounts; and**
 - (d) By way of note disclosure, an explanation of material differences between budget and actual amounts unless such explanation is included in other public documents issued at the same time or in conjunction with the general purpose financial statement and a cross reference to those documents is made in the notes.**
10. This IPSAS deals with comparisons of actual amounts and their comparable amounts in publicly available approved budgets (hereafter referred to as approved budgets). In some jurisdictions, budgets may be signed into law as part of the approval process. In other jurisdictions, approval may be provided without the budget becoming law. Whatever the approval process, the critical feature of approved budgets is that the authority to withdraw funds from the government treasury or similar body for agreed and identified purposes is provided by a higher legislative body. The approved budget establishes the expenditure authority for the specified items. The expenditure authority is generally considered the legal limit within which an entity must operate.
11. Presentation of the final budget and differences between the actual amounts and the final budget amounts (often referred to as “variances” in accounting) will enable users of the financial statements to identify whether resources were obtained and used in accordance with the legally approved budget. Reports which provide commentary on the performance and achievements of the entity during the reporting period, including its compliance with budgets, are often issued at the same time or in conjunction with the financial statements. An explanation of the material differences between actual and final budget amounts in notes to the financial statements, or other public documents issued at the same time as or in conjunction with the general purpose financial statements, will assist users in understanding the reasons for material departures from the approved budget.

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12. General purpose financial statements consolidate entities and activities controlled by the entity. As noted in paragraph 6, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the consolidated general purpose financial statements. Where this occurs, the separate budgets may be recompiled for presentation in the general purpose financial statement in accordance with the requirements of this Standard. Where such re-compilation occurs, it will not involve changes or revisions to amounts included in the final budget. This is because the final budget is a legally approved budget and this Standard requires a comparison of actual amounts with the final budget.
13. Comparisons are required to be made at the level of governing body oversight identified in the budget document(s). These comparisons may be made in a separate financial statement (“statement of comparison of budget and actual amounts”, or similarly titled statement) included in the complete set of financial statements under the accrual or cash basis of accounting. Alternatively, separate columns can be added to existing general purpose financial statements to identify final budget amounts and differences between the budget and actual amounts.
14. In those jurisdictions where budgets are prepared on the accrual basis and encompass the full set of general purpose financial statements, or where budgets are prepared on the cash basis and adopt a format for presentation consistent with the cash basis IPSAS, comparisons will be made with all the statements as required by IPSASs.
15. In some cases, there may be no differences between budget and actual amounts. Where the separate “budget column” approach is adopted, the requirements of paragraph 9 will be complied with by either including in the financial statements an additional column, such that budget and actual columns include the same amounts, or by disclosing by way of note that budget and actual amounts are the same. When budget and actual amounts are the same, an entity may elect to prepare a separate statement of comparison of budget and actual amounts for consistency of presentation with previous periods. If the additional column approach is not adopted, a separate statement of budget and actual amounts will be disclosed, notwithstanding that the budget and actual amounts will be the same.
16. Budget documents may provide great detail about particular activities, programs, or entities. These details are often aggregated into broad classes and “budget heads” for presentation to, and approval by, the legislature or other authoritative body. The disclosure of budget and actual information consistent with those broad classes and budget heads approved by the legislature is also required by this IPSAS.

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17. IPSAS 1 and the cash basis IPSAS require general purpose financial statements to provide information that meets a number of qualitative characteristics, including that the information is:
- (a) understandable;
 - (b) relevant to the decision-making and accountability needs of users; and
 - (c) reliable in that it:
 - (i) represents faithfully transactions and other events
 - (ii) reflects the economic substance of transactions and other events and not merely their legal form;
 - (iii) is neutral, that is, free from bias;
 - (iv) is prudent; and
 - (iii) is complete in all material respects.
18. In some cases, the detailed financial information included in final approved budgets may need to be aggregated for presentation in general purpose financial statements in accordance with the requirement of this Standard. Such aggregation may be necessary to avoid information overload and to reflect relevant levels of legislative oversight. Determining the level of aggregation will involve professional judgment. That judgment will be applied in the context of the objective of this Standard and qualitative characteristics of financial reporting as outlined in paragraph 17 above. Appendix 4 of the cash basis IPSAS and Appendix 2 of IPSAS 1 summarize the qualitative characteristics of financial reporting.
19. Additional budget information, including information about service achievements, may be presented in documents other than general purpose financial statements. A cross-reference from general purpose financial statements to such documents is encouraged, particularly to link budget and actual data to non-financial budget data and service achievements.
20. It is not intended that this Standard apply to prospective financial information since such information does not qualify as an approved budget. Prospective financial information can be in the form of a forecast, a projection or a combination of both, for example, a one year forecast plus a five year projection.
21. **The final budget shall include all changes approved by legislative actions or other designated authority to revise the original budget.**
22. The original budget may include appropriation amounts automatically carried over from prior years by law. For example, governmental budgetary processes in

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some jurisdictions include a legal provision that requires the automatic rolling forward of appropriations to cover prior-year commitments. Commitments encompass possible future liabilities based on a current contractual agreement. In some jurisdictions, they may be referred to as obligations or encumbrances. Commitments include outstanding purchase orders and contracts where goods or services have not yet been received.

23. The original budget may be adjusted by reserves, transfers, re-allocation of appropriated amounts to different organizations or for different activities or purposes. They may also be adjusted by supplemental appropriations, and other authorized legislative and executive changes if those actions occur prior to the beginning of the budget period. If a budget is not approved prior to the beginning of the budget period, the original budget is the budget that was first approved for application in the budget year.
24. Supplemental appropriations may be necessary where the original budget did not adequately envisage expenditure requirements (e.g. war, natural disasters). Internal transfers between budget heads or line items may be necessary to accommodate changes in funding priorities during the fiscal period. In addition, there may be a budget shortfall in revenues. Consequently, the funds allotted to an entity may need to be cut back from the amount originally appropriated for the reporting period in order to maintain fiscal discipline. The final budget includes all authorized changes (or amendments) even if they occur after the end of the reporting year, but before issue of the financial statements.
25. **Where an entity elects to disclose the original budget it shall also disclose by way of note an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget or of other factors, unless such explanation already occurs in other documents issued in conjunction or at the same time as the financial statements and a cross reference thereto is made in the notes.**
26. A public sector entity is not required to, but may elect to disclose the original budget and the difference between the original budget and the final budget. This disclosure may be made by way of note, in a separate column in the Statement of comparison of budget and actual, or otherwise in accordance with the requirements of this standard. Where such disclosure is made the entity will also explain by way of note whether changes between the original and final budget arise as a consequence of reallocations within the original budget parameters or as a consequence of changes in the overall parameters, including changes in government policy. In some cases, extensive disclosures of the original budget objectives and policies and sources of changes during the reporting period are included in other documents issued by government at the same time as, or in conjunction with, the general purpose financial statements. In these cases, a

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cross reference to those documents rather than explanation in the general purpose financial statements themselves may be made.

27. **All comparisons shall be presented on a comparable basis to the final budget.**
28. The comparisons of budget and actual amounts shall be presented using the same basis (format, terminology, budgetary basis and classification) and for the same entities and period as for the final budget. This will ensure that the disclosure of information about compliance with the budget in the general purpose financial statements is on the same basis as the budget itself. In some cases, this may mean presenting a budget and actual comparison on a different accounting basis, for a different group of activities, and on a different presentation or classification format than that adopted for the general purpose financial statements.
29. Entities may adopt different accounting basis for the preparation of their general purpose financial statements and approved budgets. For example, some governments may adopt the accrual basis for its general purpose financial statements and the cash basis for its budget. However, notwithstanding this difference, in many jurisdictions, the budget entity and financial reporting entity will be the same. Similarly, the period for which the budget is prepared and classification basis adopted for the budget will often be reflected in general purpose financial reports. This will ensure that the accounting system records and reports financial information in a manner which facilitates the comparison of budget and actual data for management and accountability purposes – for example, for monitoring progress of execution of the budget during the budget period, and reporting to the government and the public and other users on a relevant and timely basis.
30. In some jurisdictions, budgets may be prepared on a cash or accruals basis consistent with a statistical reporting system that encompasses entities and activities different from those included in the general purpose financial statements. For example, budgets prepared to comply with a statistical reporting system may focus on the general government sector and encompass only entities fulfilling the “primary” non commercial functions of government as their major activity, while general purpose financial statements report on all activities controlled by a government, including the business activities of the government. ED XX “Disclosure of Financial Information about the General Government Sector” encourages note disclosure of financial information about the general government sector of a whole of government entity when the accrual basis of accounting is adopted. In many cases, disclosures made in accordance with ED XX will encompass the same entities, activities and classification bases as adopted in budgets prepared consistent with the general government sector as

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defined in statistical reporting models. In these cases, disclosures made in accordance with ED XX will also facilitate the comparisons required by this Standard.

31. In statistical reporting models the general government sector may comprise national, state or provincial and local government levels. In some jurisdictions, the national government may control state/provincial and local governments, consolidate those governments in its general purpose financial statements and develop and make publicly available an approved budget that encompasses all three levels of government. In these cases, the requirements of this Standard will apply to the general purpose financial statements of those national governmental entities. However, where a national government does not control state or local governments, its general purpose financial statement will not consolidate state, provincial or local governments. Rather, separate general purpose financial statements are prepared for each level of government. The requirements of this Standard will only apply to the general purpose financial statements of governmental entities when approved budgets for the entities and activities they control, or subsections thereof, are made publicly available.

Multiyear budgets

32. Some governments approve and make publicly available multiyear budgets, rather than separate annual budgets. Conventionally, multiyear budgets comprise a series of annual budgets or annual budget targets. The final approved budget for each component annual period reflects the application of the budgetary policies associated with the multiyear budget for that component period. In some cases, the multiyear budget provides for a roll forward of unused appropriations in any single year.
33. Governments with multiyear budgets may take different approaches to determining their final budget depending on how their budget is passed. For example, if a government passes a biennial budget that contains two legally enforceable annual budgets, the final approved budget for each annual period will be the annual budget, and the comparison of budget and actual will be disclosed in the general purpose financial statements in accordance with the requirements of this Standard. If unused appropriations from the first year of the biennium budget are legally authorized to be spent in the second year, the “original” budget for the second year period will be increased for these “carryover” amounts. In the rare cases in which a government passes a biennial or other multi period budget that does not specifically separate budget amounts into each annual period, judgment may be necessary in determining which amounts are attributable to each annual period. For example, the final approved budget for the first year of a biennial period will encompass any approved capital acquisitions for the biennial period that occurred during the first year,

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together with the amount of the recurring revenue and expenditure items attributable to that year. The comparison of budget and actual will then be disclosed in the general purpose financial statements for that year in accordance with the requirements of this Standard. The unexpended amounts from the first annual period would then be included in the “original” budget for the second annual period and that budget together with any amendments thereto would form the final budget for the second year. Where multiperiod budgets are adopted, entities are encouraged to provide additional note disclosure about the relationship between budget and actual during the budget period.

Note Disclosures of Budgetary Basis, Period and Scope

34. **An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget.**
35. The budgetary policies adopted for preparation and presentation of the budget may differ from the accounting policies adopted for preparation and presentation of the general purpose financial statements. For example, there may be differences between the accounting basis (cash, accrual, or some modification thereof) used in preparation and presentation of the budget and the basis used in the general purpose financial statements. These differences may occur when the accounting system and the budget system compile information from different perspectives – the budget may focus on cash flows, or cash flows plus certain commitments, while the financial statements report cash flow and accrual data.
36. Formats and classification schemes adopted for presentation of the approved budget may also differ from the formats adopted for the general purpose financial statements. An approved budget may classify items by economic nature (for example, compensation of employees, use of goods or services), function (for example, health, education) as is adopted in the general purpose financial statements. The budget could also classify items by specific programs (for example, poverty reduction, control of contagious diseases) or program components linked to performance outcome objectives (for example, tertiary education - students graduating, hospital emergency services - surgical operations performed). Further, a recurrent budget for ongoing operations (e.g. education, health) may be approved separately from a capital budget for capital outlays (e.g. infrastructure, buildings).
37. Disclosure of the budgetary basis and classification basis adopted will assist users to better understand the relationship between the budget and accounting information disclosed in the general purpose financial statements.
38. **An entity shall disclose in notes to the financial statements the period of the approved budget.**

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39. General purpose financial statements are presented at least annually. Entities may approve budgets for an annual period or multiyear periods. Disclosure of the period covered by the approved budget where that period differs from the reporting period adopted for the general purpose financial statements will assist the user of those financial statements to better understand the relationship of the budget data and budget comparison to the general purpose financial statements. Disclosure of the period covered by the approved budget where that period is the same as the period covered by the general purpose financial statements will also serve an useful confirmation role, particularly in jurisdictions where interim budgets and financial statements and reports are also prepared.
40. **An entity shall disclose in notes to the financial statements a list of the entities included in the approved budget.**
41. IPSASs require entities to prepare general purpose financial statements that consolidate all resources controlled by the entity. At the whole of government level, a general purpose financial statement prepared in accordance with IPSASs will encompass budget dependant and GBEs controlled by the government. However, as noted in paragraph 30 approved budgets prepared in accordance with statistical reporting models may not encompass operations of the government that are undertaken on a commercial or business basis. Consistent with the requirements of paragraph 27, budget and actual amounts will be presented on a comparable basis. Disclosure of the entities encompassed by the budget will enable users to identify the extent to which the entity's activities are subject to an approved budget and how the budget entity differs from the entity reflected in the general purpose financial statements.

Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the General Purpose Financial Statements

42. *The actual amounts presented in the budget and actual comparison shall be reconciled to the following actual amounts presented in the general purpose financial statements, identifying separately any basis, timing and entity differences:*
- (a) When the cash basis is adopted for the budget:*
- i. net cash flows from operating activities, investing activities and financing activities; or*
 - ii. total cash receipts and total cash payments if the cash basis of accounting is adopted and a statement of cash receipts and payments is presented in the general purpose financial statements; and*

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(b) When the accrual basis is adopted for the budget, total revenues, total expenses and net cash flows from operating activities, investing activities and financing activities.

The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements.

43. As noted in paragraph 26, differences between the actual amounts identified consistent with the comparable basis and the actual amounts recognized in the general purpose financial statements can usefully be classified into the following: (1) Budgetary basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, where the budget is prepared on the cash basis or modified cash basis but the financial statements are prepared on the accrual basis; (2) Timing differences, which occur when the budget period differs from the reporting period reflected in the general purpose financial statements; (3) Entity differences, which occur when the budget omits programs or entities that are part of the entity for which the general purpose financial statements are prepared.
44. This standard requires that the actual amounts presented in the budget and actual comparison be reconciled to certain equivalent amounts presented in the general purpose financial statements, identifying separately amounts attributable to basis, timing or entity differences. The reconciliation will enable the entity to better discharge its accountability obligations by identifying major sources of difference between the actual amounts on a budget basis and the amounts recognized in the general purpose financial statements. This Standard does not preclude reconciliation of each major total and subtotal, or each class of items presented in the statement of comparison and actual amounts with the equivalent amount in the general purpose financial statement.
45. For some entities adopting the same basis of accounting for both preparation of the budget documents and the general purpose financial statements, the reconciliation will only involve identification of differences between actual amounts in the budget and the equivalent amounts in the general purpose financial statements. This will occur where the final budget is prepared for the same period, encompasses the same entities and adopts the same presentation format as the general purpose financial statements. In these cases, the comparison may be effected by the inclusion of an additional budget column in the financial statements as noted in paragraph 9. For other entities, there may be a difference in presentation format, reporting entity or reporting period - for example the approved accrual budget may comprise a budgeted statement of financial performance and capital expenditure budget, may include only non-commercial activities of the entity and a government and may be a multi-year

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budget. A reconciliation would be necessary where there are presentation, timing or entity differences between the budget and the general purpose financial statements prepared on the same accounting basis.

46. For those entities using the cash basis of accounting for the presentation of the approved budget and the accrual basis for their general purpose financial statements, the major totals presented in the statement of budget and actual comparison will be reconciled to net cash flows from operating activities, net cash flows from investing activities, and net cash flows from financing activities as presented in the cash flow statement prepared in accordance with IPSAS 2 “Cash Flow Statements.

ALTERNATIVE RECONCILIATION PARAGRAPHS- NO DETAILS PRESCRIBED (as per previous draft ED)

42. Those entities that have differences between the actual amounts on a comparable basis and the actual amounts reflected in the general purpose financial statements shall disclose separately, either on the face of the Budget and Actual Comparative Statement or in the notes to the financial statements, a reconciliation of budget amounts to amounts recognized in the general purpose financial statements.

43. As noted above in paragraph 26.....No change to this para

44. This standard requires that the actual amounts presented in the budget and actual comparison be reconciled to amounts presented in the general purpose financial statements. Entities are encouraged to disclose separately, amounts attributable to basis, timing or entity differences. The reconciliation will enable ... No further change to this para

45. For some entities adopting the same basis of accounting ... No change to this para

46. For those entities using the cash basis of accounting for the presentation of the approved budget and the accrual basis for their general purpose financial statements, amounts presented in the statement of budget and actual comparison may be reconciled to amounts reported in the cash flow statement prepared in accordance with IPSAS 2 “Cash Flow Statements. The reconciliation may be to the major subtotals: net cash flows from operating activities; net cash flows from investing activities; and net cash flows from financing activities, or may be more detailed. IPSAS 2 encourages, but does not require, entities to report cash flows from operating activities using the direct method. If the direct method is adopted, the reconciliation between surplus/(deficit) from ordinary activities as reported in the Cash Flow Statement and in the budget documents may be on a line item basis.

Effective Date

47. **An entity shall apply this IPSAS for annual periods beginning on or after Month XX, XXXX. Earlier application is encouraged. If an entity applies this Standard for an earlier period, it shall disclose that fact.**
48. When an entity adopts the cash or accrual basis of accounting, as defined by IPSASs, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.
49. Application of this Standard is not required for 2 years from its issue date. The deferred application is intended to provide sufficient time for entities to develop and, as appropriate, align their budget and financial reporting procedures, time periods and coverage. Earlier adoption of this Standard is encouraged.

Appendix A

Changes to Existing IPSASs

IPSAS 1, “Presentation of Financial Statements”

Add the following (identified by underlining) to paragraph 19 19.

- (a);
 - (c)
 - (d)
 - (e) ; and
- (c) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in other financial statements.

Add the following (identified by underlining) to paragraph 23 (assuming a separate IPSAS on comparison of budget and actual is issued): “...Entities which make publicly available their approved budgets are required to comply with the requirements of IPSAS XX “Comparison of Budget and Actual Amounts”. For other entities, where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period. Reporting against budgets for these entities may be presented in various different ways, including:

- a) The use of a columnar format for the financial statements, with separate columns for budgeted amounts and actual amounts. A column showing any differences from the budget or appropriation may also be presented, for completeness; and
- b) A statement by the individuals(s) responsible for the preparation of the financial statements that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements.”

Cash Basis IPSAS, “Financial Reporting Under the Cash Basis of Accounting”

Add the following (identified by underlining) to paragraph 1.3.4.

1.3.4

- (a);
- (b)
- (c) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash Receipts and Payments.

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Insert an additional paragraph following paragraph 1.3.8 (assuming a separate IPSAS on comparison of budget and actual is issued):

1.3.9 Entities which make publicly available their approved budgets are required to comply with the requirements of Cash Basis IPSAS “Comparison of Budget and Actual Amounts”.

Rewrite paragraph 2.1.33 as follows: *“An entity is encouraged to disclose in the notes to the financial statements information about assets and liabilities of the entity.”*

Add a new paragraph 2.1.34: *“Entities other than those which make publicly available their approved budgets and are required to disclose budget and actual comparisons in accordance with IPSAS XX, are encouraged to include in the financial statements a comparison with the budgets”*

Add the following (identified by underlining) to paragraph 2.1.36: “...In some jurisdictions, this requirement is reflected in legislation. Entities which make publicly available their approved budgets are required to comply with the requirements of IPSAS XX “Comparison of Budget and Actual Amounts”. This Standard encourages other entities to include in their general purpose financial statements the disclosure of a comparison of actual with the budgeted amounts for the reporting period where the financial statements and the budget are on the same basis of accounting. Reporting against budgets may be presented in different ways, including:...

Implementation Guidance

Implementation Guidance -

This guidance accompanies ED XX but is not part of the IPSAS.

A. Statement of comparison of budget and actual amounts when the cash basis is adopted for the budget

B. Separate column approach when the accrual basis is adopted for the presentation of the budget and the general purpose financial statements. (Illustrated only for the statement of financial performance.)

C. Note disclosures

D. Encouraged Note disclosure: biennial budget

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A. Statement of Comparison of Budget and Actual Amounts
For Government XX for The Year Ended 31 December 20XX
Budget On Cash Basis
(Classification Of Payments By Functions)

(in thousands of currency units)	Budgeted Amounts		Actual Amounts on Comparable Basis	Difference Between Final Budget and Actual
	Original	Final		
RECEIPTS				
Taxation				
Aid Agreements				
International agencies	X	X	X	X
Other Grants and Aid	X	X	X	X
Proceeds: Borrowing	X	X	X	X
Proceeds: disposal of plant and equipment	X	X	X	X
Trading Activities	X	X	X	X
Other receipts	X	X	X	X
Total receipts	X	X	X	X
PAYMENTS				
Health	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)
Public order/safety	(X)	(X)	(X)	(X)
Social protection	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)
Housing and community amenities	(X)	(X)	(X)	(X)
Recreational, cultural and religion	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)
Total payments	(X)	(X)	(X)	(X)
NET RECEIPTS/ (PAYMENTS)	X	X	X	X

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B. Separate Column Approach
For Government YY for the Year Ended 31 December 20x2
Both Annual Budget And Accounting On Accrual Basis
(Illustrated only for Statement of Financial Performance. Similar structure would be adopted for other financial statements)

Actual 20x1	(in thousands of currency units)	Actual 20x2	Final Budget 20x2	Difference: Final Budget and Actual	Original Budget 20x2
	Operating revenue				
X	Taxes	X	X	X	X
X	Fees, fines, penalties and licenses	X	X	X	X
X	Revenue from exchange transactions	X	X	X	X
X	Transfers from other governments	X	X	X	X
X	Other operating revenue	X	X	X	X
X	Total operating revenue	X	X	X	X
	Operating expenses				
(X)	Wages, salaries, employee benefits	(X)	(X)	(X)	(X)
(X)	Grants and other transfer payments	(X)	(X)	(X)	(X)
(X)	Supplies and consumables used	(X)	(X)	(X)	(X)
(X)	Depreciation/amortization expense	(X)	(X)	(X)	(X)
(X)	Other operating expenses	(X)	(X)	(X)	(X)
(X)	Total operating expenses	(X)	(X)	(X)	(X)
	Surplus/(deficit) from operating activities				
X		X	X	X	X
(X)	Finance costs	(X)	(X)	(X)	(X)
X	Gain on sale: property, plant, equipment	X	X	X	X
(X)	Total non-operating revenue/(expenses)	(X)	(X)	(X)	(X)
	Surplus/(deficit) from ordinary activities				
X		X	X	X	X
(X)	Minority interest share of surplus/(deficit)	(X)	(X)	(X)	(X)
X	Net surplus/(deficit) for the period	X	X	X	X

C. Extract of Note Disclosures for Government X (which presents its approved budget on a cash basis and the general purpose financial statements on the accruals basis).

1. The budget is approved on a cash basis by functional classification. The approved budget covers the fiscal period from 1 January 20XX to 31 December 20XX and includes all entities within the general government sector. The general government sector includes all entities identified as government departments in note xx (prepared in accordance with IPSAS 6 “Consolidated and Separate Financial Statements”).
2. The original budget was approved by legislative action on (date) and a supplemental appropriation of XXX for disaster relief support was approved by legislative action on (date) due to the earthquake in the Northern Region on (date). The original budget objectives and policies, and subsequent revisions are explained more fully in the Operational Review and Budget Outcomes reports issued in conjunction with the financial statements.
3. The excess of actual expenditure over budget of 15% for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final approved budget and the actual amounts.
4. The general purpose financial statements for the whole of government are prepared on an accrual basis using a classification based on the nature of expenses in the statement of financial performance. The general purpose financial statements are consolidated statements which include all controlled government business enterprises for the fiscal period from 1 January 20XX to 31 December 20XX. The general purpose financial statements differ from the budget which is approved on the cash basis and which deals only with the general government sector which excludes government business enterprises and certain other entities. In addition, the continuing appropriations created a timing difference between the approved budget and the general purpose financial statements.
5. The amounts in the general purpose financial statements were recast from the accrual basis to the cash basis by functional classification to be on the same basis as the final approved budget. In addition, adjustments to amounts in the general purpose financial statements for timing differences associated with the continuing appropriation and differences in the entities covered (government business enterprises) were made to express the actual amounts on a comparable

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basis to the final approved budget. The amount of these adjustments are identified in the following table:

- 6.** Reconciliation between Actual Amounts on a Comparable Basis as Presented in the Budget and Actual Comparative Statement and the Actual Amount in the Statement of Cash flows for the Year Ended 31 December 20XX. The financial statements and budget documents are prepared on the same basis and for the same period. There is an entity difference: budget is prepared for the general government sector and the financial statements consolidate all entities controlled by the government.

	Operating	Financing	Investing	Total
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	X	X	X	X
Basis Differences	X	X	X	X
Timing Differences	X	X	X	X
Entity Differences	X	X	X	X
Actual Amount in the Statement of Cash Flows	X	X	X	X

*This reconciliation could be included on the face of the Budget and Actual Comparative Statement or as a footnote.

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D. Encouraged Note Disclosure Government B: -Biennial Budget On Cash Basis
For The Year Ended 31 December 20XX

(in thousands of currency units)	Original Biennial Budget Year	Target Budget for 1st Year	Revised Budget in 1st Year	1st Year Actual on Comparable Basis	Balance Available for 2nd Year	Target Budget for 2nd Year	Revised Budget in 2nd Year	2nd Year Actual on Comparable Basis	Difference Between Budget and Actual
RECEIPTS									
Taxation									
Aid Agreements									
Proceeds: Borrowing									
Proceeds: Disposal of plant and equipment	X	X	X	X	X	X	X	X	X
Trading Activities									
Other receipts	X	X	X	X	X	X	X	X	X
Total receipts	X	X	X	X	X	X	X	X	X
PAYMENTS									
Health	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Public order and safety	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Social protection	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Housing, community amenities	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Recreational, cultural, religion	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Total payments	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
NET RECEIPTS/ (PAYMENTS)	X	X	X	X	X	X	X	X	X

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Basis for Conclusion

This appendix gives reasons for supporting or rejecting certain solutions related to comparisons between the approved budgets and the financial accounting of government activities for the reporting period.

Scope of the Standard

- BC1. This proposed Standard applies to governments and government entities which make publicly available their approved budgets. The approved budget reflects the financial characteristics of the government's, or other entity's, plans for the forthcoming period and, in respect of activities funded from the government budget, represent the legal authority to expend funds. Reporting against those financial plans is an important element in the discharge of accountability.
- BC2. The inclusion of a comparison of budget and actual amounts in general purpose financial statements will provide financial information to assist users to assess whether resources were raised as anticipated and used in accordance with legal budgets approved by the legislative or similar body, and other legislative and related authorities such as legal and contractual conditions and constraints reflected in the budget amounts. In the interests of enhanced transparency and accountability, many governments already prepare and publish their approved budget and report actuals against budgeted amounts. For these governments, comparisons of budget and actual amounts are generally made at the levels of legislative oversight approved by the legislature and explanations of material differences are made where budgetary authority is exceeded. This proposed Standard reinforces that practice, and requires that it be adopted by all entities that make publicly available their approved budgets.
- BC3. This proposed Standard does not require entities to make publicly available their approved budgets, or specify presentation requirements for approved budgets that are made publicly available. Such issues are beyond the scope of this project. Some would argue that they are beyond the scope of general purpose financial statements and accounting standards. The IPSASB has indicated that in the future it will consider whether an IPSAS should be developed to deal with these matters.

Comparisons with final approved budget

- BC4. This proposed Standard requires the disclosure of the final approved budget and a comparison of actual amounts and amounts included in the final approved budget. Since budgets are prepared in advance, natural disasters

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and political or economic conditions may dictate a need for revisions to the initially approved budget during the budget period. In some jurisdictions, the authority for such revision is delegated to the Minister of Finance (within specified limits). In other jurisdictions, the revisions must be approved by the legislature. Where those amendments and revisions are authorized by the appropriate authority they comprise the approved final budget for the reporting period.

- BC5. This proposed Standard requires presentation of differences between amounts in the final approved budget and equivalent actual amounts (often referred to as “variances” in accounting) in a separate column in the financial statements or as part of an additional statement of comparison of budget and actual amounts. Explanations of material differences (positive and negative) are also to be included as note disclosures supporting the financial statements or in other publicly available documents issued by the entity to report on the achievement of performance and budget objectives. The IPSASB is of the view that disclosure of this information will enhance the transparency of financial statements and strengthen the accountability of entities that make their budgets publicly available.

Disclosure of Original Budget amounts

- BC6. The IPSASB considered whether, the proposed Standard should require disclosure of the original budget and comparisons of actuals with both original and final budgets. The IPSASB acknowledges that users may be interested in identifying amendments to the original budget as input for analysis of policy shifts during the reporting period and their financial consequences. The IPSASB also acknowledges that budget approval processes in place in some jurisdictions allow amendments to budgets such that the final approved budget reflects actual inflows and outflows during the period – as such there will be no difference between budget and actual because the budget has been revised to reflect performance. However, the IPSASB is of the view that the role of general purpose financial statements is to ensure that entities discharge their accountability obligations by reporting whether actual amounts were in accordance with the legally approved budget for the period, and the legally approved budget for the period is the final budget.
- BC7. The proposed Standard does not prohibit the disclosure of the original budget as approved by the legislative body, as well as the final approved budget. When the original budget is disclosed, the proposed Standard requires certain disclosures to be made about any amendment approved during the period. The IPSASB is of the view that such disclosures are necessary to ensure that readers of the financial statements are aware of the

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nature and extent of changes that might have been made to the original budget during the course of the budget period.

Need for an IPSAS

BC8. Currently IPSAS 1 encourages but does not require comparisons where the same basis is used for the budget and accounting systems. The Cash Basis IPSAS also encourages a comparison between the budget and actual amounts. The IPSASB considered whether compliance with this standard should be encouraged or required. It concluded that disclosure of information evidencing compliance with the budget is a necessary element for the discharge of accountability for entities that make publicly available those budgets. Accordingly, it was appropriate that an accounting standard be developed to ensure that an appropriate level of disclosure occurs for all entities which make publicly available their approved budgets and to identify how best to reconcile any differences between the budget and accounting amounts.

Presentation of budget and actual information

BC9. The IPSASB is of the view that budget and actual comparisons should be part of the general purpose financial statements for each entity which makes publicly available its approved budget. This proposed standard allows the comparative information to be presented in a separate statement or as an additional budget column in existing financial statements. Flexibility in the method of presentation allows entities to present the comparison in a manner that best serves user needs, while at the same time retaining the prominence that comes from inclusion in the general purpose financial statements.

Adoption of the budget basis and reconciliation of budget and accounting bases

BC10. Some entities that adopt the accrual basis of accounting for preparation of their general purpose financial statements prepare their budgets on the cash basis. In these circumstances, the financial reporting and budget basis will differ. Differences between the budgetary basis and the general purpose financial statements may also arise as a consequence of timing, entity or classification differences.

BC11. The IPSASB is of the view that actual amounts should be compared with their equivalent budget amounts. This is necessary to enable the financial statements to demonstrate the extent to which actual amounts were used in accordance with legally authorized budgets. It will ensure that disclosures are made on a comparable basis, and the financial statements demonstrate compliance with the approved budget. Consequently, amounts reflected in

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COMPARISON OF BUDGET AND ACTUAL AMOUNTS

the general purpose financial statements under the accrual IPSASs or the cash basis IPSAS will need to be recast to be comparable to the final approved budget where there are basis, timing, or entity differences.

- BC12. To better enable users to identify the relationship between the budget entity and the financial reporting entity, the proposed Standard requires that actual amounts on the budget basis be reconciled to specified equivalent amounts presented in the general purpose financial statements, identifying separately any basis, timing and entity differences.
- BC13. The scope of general purpose financial statements is usually clearly designed and defined in the statements (with a list of entities covered by the statements, and the description of the method used to build that list). It is not always the case for budgetary reports, which are not necessarily based on the “control” approach described in IPSAS 6. The budget scope can be broader or narrower than the scope of the general purpose financial statements. Disclosure of the entities encompassed by the budget will also assist users to better understand the relationship between budget and actual amounts.

**COMMENTS FROM PROJECT ADVISORY PANEL FOR BUDGET TO ACTUAL
COMPARATIVE EXPOSURE DRAFT**

Claes-Goran Gustavsson (Sweden)

In my opinion the Exposure Draft is on an appropriate level. The many different situations in different countries are not suited for a common treatment.

A consequence of the reduction of the material is however that there is one passage that in my opinion is a bit too limited in scope or at least can be mistaken to be so. I aim at requirements in p41. There are many cases where the budget is on another basis than cash or accruals. Then p. 41 is unclear in the sense that it can be interpreted so that the requirements to make reconciliation can be seen as not being in force for those entities. Another possible interpretation is that the specific specifications only apply to the cash and accrual basis. I believe that the latter interpretation might be suitable, as a consequence of the difficulties to consolidate when there are other bases applied. Perhaps there might be difficulties also for entities that publish budgets on any of these bases as well, namely when the budget and accounting structures differ in great extents.

Andy Wynne (ACCA)

Attached are my brief comments on the Draft ED.

I thought this was a very good outline - well done.

My two major concerns are that the comparison should be with the budget which was originally approved by the legislature and the suggestion that it is fine for a Government not to publish its budget - the IPSAS should require the publication of a budget and the subsequent comparison of the actual results to the original budget. A problem may remain of defining those organisations which are not subject to a budget set by a legislative or council.

Please come back to me if you need any explanation for any of my suggestions.

(See detailed comments attached)

Mike Parry (UK-African focus)

I concur with the two points made by Andy Wynne.

1. I regard it as essential that there is a comparison with the original approved budget. This represents for a government the will of the legislature and hence the budget against which the actual results must be compared. The final budget is the result of modifications through the bureaucratic process and does not have the legal significance of the original approved and enacted budget. This is particularly important for national governments where the approved budget has a legal and often constitutional significance.

2. If an entity must publish financial statements then it must also publish its budget. This should not be an option.

In addition, I would make the following point.

3. Explanation of material variances (8d). I do not think that this should be a mandatory requirement.

Other than these points a huge step forward when it is approved.

Normand Saucier (OECD)

1. The comparison should be required for entities which make publicly available their approved budgets. This is about proper accountability. It should be encouraged for others.

2. The original budget should also be published, along with the (significant) adjustments leading to the final budget.

3. Definitely yes.

4. Yes, as noted in 2. above.

5. Significant differences and explanations should be disclosed. By definition, it seems to me, these are important to understanding the governance of the Organization.

6. I believe both should be required, as the word "material" speaks for itself.

7. I disagree. These should not be encouraged but required. The reconciliation is fundamental to understanding financial position and performance .

8. No comment

A final point, regarding paragraph 41 : you refer to cash basis or accrual basis...we and I suspect many are neither, but rather on a modified accrual basis.

Detailed Comments from Andy Wynne

Comparison of Budget and Actual Amounts

I think this is an excellent draft – well done.

1. Add another sentence to the end of the first paragraph under 'Background' on page 10.3:

"It also forms the basis for amendments to the level of services which are to be provided and the level of taxation which is to be levied."

2. I do not understand the last sentence of the first paragraph under 'Purpose of the Exposure Draft' on page 10.3. Surely the ED should require the adopted budget to be publicly

available (similarly for paragraph 3 of the draft IPSAS)? The comparison should be required for all entities which are adopting the IPSAS (?) or all entities subject to approved budgets (on page 10.4 - although this may require some explanation). In addition, this paragraph should recognise that the practice of publishing such a budget comparison is widespread.

3. The specific matters for comment on page 10.4 needs some editing to ensure that there is one question per paragraph. It would also appear logical to swap the positions of paragraphs 2 and 4.
4. The box on page 10.5 states that, "All the paragraphs have equal authority." In contrast the ED contains three levels of authority:
 - bold type (for example, paragraph 2)
 - normal type (for example, paragraph 1)and
 - those aspects which are merely encouraged(for example, end paragraph 32).
5. As this ED covers both the cash basis and the accrual basis this could be omitted from the title and paragraph 3.
6. In paragraph 1, the word 'budget' on lines, 1, 3 and 6 should be prefaced with 'final'.
7. The definition of Approved Budget in paragraph 7 should be amended to read, "... and other decisions and the revenue or receipts planned for the budgetary period."
8. The definition of the term 'entity' should be added.
9. Are each of the terms 'forecast', 'projection' and 'prospective financial information' really needed? Could one term be used? See also paragraph 19.
10. The definition of the term 'multi-year budget' should be amended to read "is a formally approved budget for more than one year. It does not include published forward estimates or projections for periods beyond the years covered by such a budget".
11. The term 'governing body' should be deleted from the last line of paragraph 9 and replaced with the term 'entity'. Similarly for 'governing body oversight' in the first line of paragraph 12.
12. The term 'in accounting literature' should be deleted from paragraph 10.

13. Paragraph 13 be emboldened as this is a requirement.
14. The term 'separate column' should be used in place of "budget column" (line 1) and 'additional column' on line 4 of paragraph 14.
15. In paragraph 15 the word 'may' should be added before the word 'focus' on the third line. The disclosure should be consistent with the broad headings and details used by the legislature when formally agreeing the budget.
16. Thus it is not clear why paragraph 17 is necessary. Many countries now publish budgets and out-turn reports we should not be encouraging less disclosure, especially with the Internet such detail may be useful and may not be costly to disclose.
17. In paragraph 20, we should refer to '**formally** approved' and 'or other designated authority' should be deleted.
18. Similarly on the last line of paragraph 23, only virements which are formally approved by the whole legislative body should be reported.
19. Paragraph 26, amend so the end reads: "... basis to the final budget document which was formally approved by the legislative."
20. Paragraph 27, should also refer to the final budget document and the word 'consistent' should be added before the word 'information' on the 3rd line.
21. Paragraph 32, I would be interested to hear of any governments which have a biennial budget (typo on 5th line) especially any where this does not also define an annual budget.
22. In paragraph 33 the phrase 'an explanation of the' should be added after the words 'financial statements'.
23. The changes outlined to IPSAS 1 (a and b) in Appendix A appear to be less extensive than paragraph 41 of the Exposure Draft.
24. The illustrative statements on pages 10.16 and 10.17 should also include the figures for the previous year.
25. The reconciliation on page 10.18 should also provide an explanation for each of the significant differences.

**International Federation of Accountants
International Public Sector Accounting Standards Board
Project Advisory Panel on Budget Reporting**

Name	Country	Position
Ron Points (Chair)	USA	rpoints@worldbank.org
James Allan Brumby	IMF	Division Chief, Budget Reform, Office of Budget and Planning, IMF jbrumby@imf.org
Brian Gray	EU	brian.gray@cec.eu.int
Claes-Goran Gustavsson	Sweden	Senior Expert - Swedish National Finance Management Authority Claes-Goran.Gustavsson@esv.se
Jerry Gutu	Africa	jerry@esaag.co.za
Geoff Harry	Australia	Partner (Assurance) – PricewaterhouseCoopers geoff.harry@au.pwc.com
Lou Hong	China	Director, Research and Regulation Division, Treasury Department, Ministry of Finance, Peoples Republic of China louhong@mof.gov.cn
Steve Leith	New Zealand	Principal Advisor – Treasury, Budget and Macroeconomic Branch Steve.Leith@treasury.govt.nz
James Leudeke	NATO	jamesleudeke@cox.net
Alan Mackenzie	South Africa	CFO – Department of Justice alanmack@iafrica.com
Sophie Mahieux	France	Former head of the Budget Directorate. Currently senior position in public expenditure execution. sophie.mahieux@cp.finances.gouv.fr
Mike Parry	UK- African focus	Chair of IMG (International Management Consultant Group). mparry@imcl.biz
Normand Saucier	OECD	Normand.SAUCIER@oecd.org
Christian Iver Svane	Denmark	Ministry of Finance - Special Adviser, Central Government Accounting and Budget cis@oes.dk
Stephen Walker	IFAC	Director of Operations stephenwalker@ifac.org
Andy Wynne	ACCA	Head of Public Sector Technical Issues andy.wynne@accaglobal.com