

PSC Budget Reporting Project – Stage 1

INTERNATIONAL FEDERATION OF ACCOUNTANTS
PUBLIC SECTOR COMMITTEE
STEERING COMMITTEE PROJECT BRIEF
Budget Reporting – Stage 1

Background

The Budget

Most, but not all, governments prepare and issue as public documents, or otherwise make publicly available, their annual financial budgets. For many/most jurisdictions these budgets are prepared on a cash or near cash basis.

The budget documents are widely distributed and promoted. They reflect the financial characteristics of the government's plans for the forthcoming period and are used for analysis of the consequences of those plans for the economy. Making budget data publicly available is necessary to enable transparent reporting of the government's financial intentions. Reporting period results against the budget for the same period is a necessary component of any accountability regime. It enables the Government to communicate to its constituents the extent to which performance and plan coincide and to explain any differences therein.

In many respects, and for many external users, the budget documents are the most 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.

Government budgets are approved by the legislature and compliance is a legal matter. While administrative arrangements can differ from jurisdiction to jurisdiction, in most cases, spending units have no authority to commit or spend government funds until the legislation imparting spending authority (the budget) has been passed by the legislature.

International Public Sector Accounting Standards

International Public Sector Accounting Standards (IPSASs) deal with issues related to the presentation of annual general purpose financial statements. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document such as an annual report. The objectives of general purpose financial statements are to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it.

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The Issues

(a) Whether Budget Reporting is an issue that the PSC should deal with

The IPSASs currently on issue do not address the presentation of budgetary/forecast financial information, nor require the disclosure of information that enables users to determine whether actual financial results are broadly consistent with previously issued budgets or forecasts.

Given the widespread practice in the public sector of publicly reporting and commenting on budgetary information, a strong case can be made that government budgets are general purpose financial statements (see above) and there is a need for an IPSAS to be developed on the financial reporting of budget information.

While there may be strong support for such an IPSAS, there are different views on:

- whether the preparation of such an IPSAS is within the mandate of the PSC; and
- if within the PSC's mandate, the matters that should be dealt with by such an IPSAS and the nature and extent of its "requirements".

(b) The nature of any IPSAS that might be developed

As noted below, there are also differing views and arguments on the matters that should be dealt with by such an IPSAS, and the nature and extent of the requirements of any IPSAS.

Budget Formulation

Some may be of the view that in the interests of better financial management the PSC should issue an IPSAS, or at least a best practice guide, on matters including:

- budget formulation, definition and classification; and
- budget reporting and use as a management tool.

However, others note that such an exercise is unlikely to be practicable given that budget formulation requirements and practices are developed within a legislative framework and reflect different administrative arrangements and political, institutional and cultural systems and processes.

General Purpose Financial Reporting - Presentation

Some are of the view that an IPSAS should not deal with issues of budget formulation or classification for internal financial management purpose. Rather it would deal only with:

- how budget data should be presented in budget reports that possess the characteristics of general purpose financial statements as noted above; and
- the relationship between budget reports and historical financial statements and how budget execution should be reported in historical financial statements.

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An IPSAS developed on this basis could include requirements directed at such matters as:

- ensuring that the principles underlying the preparation of the budget were clearly communicated to readers, including;
 - clear explanations of the scope of the budget including whether, for example, the budget encompassed all government operations or only those traditionally designated as “general government” in GFS or similar statistical classifications;
 - whether the budget was prepared on a cash, accrual or other basis; and
 - whether the principles adopted for recognition, classification and disclosure in the budget papers reflected those in the cash or accrual IPSASs;
- enhancing the comparability of budget reports over time and between governments (or in enabling users to identify the major sources and effects of differences);
- enhancing the comparability of the budget with historical financial reports encompassing the budget period.

General Purpose Financial Reporting – Recognition and Measurement Rules

Some are of the view that an IPSAS on presentation of budget reporting should go further and deal with the application of the recognition and measurement requirements of the existing IPSASs in the budget context. The budget reporting IPSAS would then:

- deal only with general purpose budget reports;
- in respect of budgets prepared on the accruals basis, include requirements on the application of the definition and recognition criteria for assets, liabilities, revenues and expenses in “forward” budgets, the presentation of such information and related disclosures; and
- in respect of budgets prepared on the cash basis, include requirements on the basis on which projected cash receipts and payments should be included in the budget report, the presentation of that report and the additional disclosures that are required and encouraged.

Project Objectives

The Project is to be developed in two stages as follows.

Stage I

The preparation of a research report to identify:

- current best practices in budget formulation and reporting under differing budget models and government administrative arrangements;
- whether the development of an IPSAS on budget reporting and/or other budget related matters falls within the PSC’s mandate;
- notwithstanding the above, whether there is any precedent, and or arguments, for an accounting standards setter to deal with budget reporting issues; and

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- if an IPSAS on budget reporting (or other budget related) matters is to be prepared, the matters which should appropriately be dealt with by that IPSAS.

Stage 2

Based on the results of Stage I above, and with the agreement of the PSC, prepare an Exposure Draft of an IPSAS.

The specific matters to be addressed in Stage 2 will not be developed until the results of stage 1 emerge.

Steering Committee

A Steering Committee will be established to assist in the progress of this matter.

The stages in the development of the IPSAS, the process to be adopted by the Steering Committee, the responsibilities of the Steering Committee and its relationship to the PSC is outlined in *PSC Steering Committees: Terms of Reference and Operating Procedures*.

The issues identified are intended to serve as a broad guide to the Steering Committee to assist it in scoping its task. These matters may be varied by the Steering Committee with the agreement of the PSC. The PSC acknowledges that as the Steering Committee researches the issue in depth and develops its guidance it may determine that certain matters identified should not be further progressed at this time and may identify other matters that will need to be dealt with.

It is anticipated that the Steering Committee will not formally meet during stage 1 of the project but will conduct its business electronically.

Project Timetable

The Project is to be developed in two stages as follows.

Stage 1

2003 Develop Survey Instrument and prepare Research Report

Stage 2

2004 Develop and issue Exposure Draft (if appropriate)

2005 Review responses to Exposure Draft and issue IPSAS (if appropriate)

Matters to be addressed

Stage 1

A survey instrument will be developed in conjunction with the Steering Committee and a survey undertaken on current best practices in budget formulation and reporting under differing budget models and government administrative arrangements.

In the first instance, the survey countries will be focussed, based on advice from appropriate sources of instances of “best practice”. Advice will be sought from PSC members and Steering Committee members and other relevant sources on developed

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and developing countries that should be included in the survey. To the extent possible, the survey will include representation from countries adopting a wide range of different budget and reporting models.

The examination of the relationship of budget reporting to the PSC's mandate will include an analysis of PSC terms of reference and a review of what other standards setters do in this area: GASB, FASAB, AASB, NZ-FRSB, IASB, UK Treasury etc. This would include any initiatives/plans in respect of reporting projected/prospective financial information.

As noted above, the specific matters to be addressed in Stage 2 will not be developed until the results of stage 1 emerge.

INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC)

THE PUBLIC SECTOR COMMITTEE (PSC)

STEERING COMMITTEES Terms of Reference and Operating Procedures

INTRODUCTION

1. Paragraph 8 of the *Introduction to the Public Sector Committee of the International Federation of Accountants* explains that the responsibility for carrying out the necessary research and for preparing exposure drafts of proposed standards and guidelines or drafts of studies may be delegated by the Committee to subcommittees or individuals. Such subcommittees are always chaired by a member of the Committee but may include persons who are not members of a member body of International Federation of Accountants (IFAC).
2. Steering Committees are a subcommittee of the Public Sector Committee (PSC) and are created by the PSC to assist it in achieving its objectives. Steering Committees provide the potential to:
 - broaden the technical expertise of the PSC beyond those currently on the Committee and encompass non-accountants where appropriate;
 - include a wider range of constituents/experience in the standards development process;
 - use past members to ensure that their expertise is not lost to the PSC;
 - maintain momentum on a wide range of projects; and
 - enable the PSC, meeting as the Committee, to consider documents at a later, higher value added, stage.
3. The PSC will establish the mandate of each Steering Committee and appoint the members of the Steering Committee. Final decisions regarding Steering Committee membership will be made by the PSC Chair in consultation with PSC members.
4. Attachment 1 provides Steering Committee members with background on IFAC and the responsibilities and terms of reference of the PSC.

RESPONSIBILITIES OF THE STEERING COMMITTEE

5. The topic(s) to be considered by each Steering Committee will be established by the PSC. Subject to the conditions outlined below, the operation of the Steering Committee will be determined by its members.
6. IFAC-PSC documents can only be published after voting by the PSC in accordance with voting rules as specified in the IFAC Constitution (see Attachment 1). As agreed with the PSC, a Steering Committee may be created with the responsibility to develop and recommend a document to the PSC for

its consideration. The Steering Committee may also be requested to recommend to the PSC documents to be published as:

- Studies;
- Invitations to Comment;
- Exposure Drafts;
- International Public Sector Accounting Standards (IPSASs); and/or
- other documents as identified by the PSC.

The Steering Committee may also be requested to evaluate comments on the above documents, or exposure drafts thereof, and to act as an “expert group” and provide input to the PSC on specific issues, or aspects of issues, that the PSC is considering.

7. The Steering Committee is expected to operate within the parameters of the project brief prepared by the PSC. However, the Steering Committee may also propose revisions to that brief. In developing a document for forwarding to the PSC for publication, or otherwise providing input to the PSC, the Steering Committee is expected to review and respond to proposals presented by the PSC, or PSC staff supporting the Steering Committee, on the issues to be addressed and areas for research, and to identify and review where relevant:

- existing and proposed PSC pronouncements;
- existing and proposed IASB pronouncements;
- national and regional accounting requirements;
- current practices; and
- other relevant material.

8. When initially developing a project which deals with issues of recognition and/or measurement, the SC will consider whether the definitions of Assets, Liabilities, Revenues, Expenses and Net Assets/Equity, and the recognition criteria adopted by IPSASs apply. Unless directed otherwise by the PSC, it is anticipated that as the first stage in the project development process the Steering Committee will explore the implications and consequences of application of these definitions and recognition criteria to the transactions and events under consideration and advise the PSC on:

- the extent to which existing definitions and recognition criteria apply to the transactions and events under consideration, and the alternative approaches to resolution of the issue that fall within the context of those definitions and recognition criteria;
- additional matters that need to be dealt with and propose the means of dealing with those additional matters;
- whether variations in definitions and recognition criteria are considered necessary and the nature of, and reasons for, any such variations;
- the approach recommended by the Steering Committee and the implications of this approach for current practice; and
- the extent to which the approach recommended by the Steering Committee reflects or otherwise the requirements or guidance in

existing IPSASs, International Financial Reporting Standards (IFRs) or International Accounting Standards (IASs) dealing with similar or related issues.

This advice may be in the form of a formal report, by way of Steering Committee meeting minutes or otherwise. With the approval of the PSC, the Steering Committee will then develop a document for publication based on its recommended approach, with any additions or variations as directed by the PSC. The Steering Committee may recommend, or the PSC may request, that the Steering Committee prepare a report on its background research and basis for conclusions for publication together with (or as part of) a Study, Invitation to Comment or other document.

STEERING COMMITTEE MEMBERS, MANDATE AND PROCESS

Steering Committee Members

9. Members will be appointed by the Chair in consultation with PSC members and relevant IFAC staff. Members will be appointed as individuals (rather than as representatives of an organisation or country) because of their knowledge and experience on particular issues. Nominations for members may be sought from PSC members, IFAC member bodies and other organisations. Members appointed to a Steering Committee will be expected to attend all Steering Committee meetings.
10. Members appointed to a Steering Committee will be expected to make decisions that are consistent with the development of IPSASs that, subject to practical constraints and consideration of costs and benefits, reflect the highest levels of accountability and transparency in financial reporting. It is anticipated that a Steering Committee will comprise up to 10 members including the Chair. Membership of the Steering Committee may be broadly based and is not restricted to only IFAC Member Bodies.
11. The Steering Committee will be chaired by a member of the PSC. The Chair of the Steering Committee will act as liaison between the Steering Committee and the PSC and report to the PSC on progress of the Steering Committee. It is not anticipated that other Steering Committee members will be required to attend PSC meetings. However, on certain occasions, members of a Steering Committee may be requested to meet with the PSC to discuss particular issues.

Attendance

12. Continuity of attendance is essential if the Steering Committee is to operate efficiently and achieve its objectives in a timely fashion. If Steering Committee members do not attend two consecutive meetings, the Chair of the Steering Committee must advise the PSC and the PSC will seek a replacement member. It is anticipated that the Steering Committee member will resign where it becomes apparent that continuity of their attendance is not possible. In these circumstances, the Steering Committee member may propose a replacement member, which may be agreed by the PSC chair.

Steering Committee Observers and Technical Support

13. Steering Committee members may be provided with technical assistance by their employer, national or international professional body or other interested parties. Those providing technical assistance will have access to Steering Committee documents on the same basis and subject to the same confidentiality conditions that apply to Steering Committee members.
14. Subject to agreement with the Chair of the Steering Committee, other persons may also be invited to attend Steering Committee meetings as observers. PSC members and the PSC Director of Accounting Standards may attend Steering Committee meetings in the capacity of observer and may contribute to the discussion.

Staff

15. A member of the PSC's staff or a person contracted in that capacity will provide administrative and technical support to the Steering Committee. Staff responsibilities will include:
 - preparing materials as directed by the Chair of the Steering Committee;
 - preparing Steering Committee minutes;
 - co-ordinating Steering Committee meeting arrangements;
 - preparing Steering Committee budget reports;
 - keeping the PSC Director of Accounting Standards, and other PSC staff as appropriate, briefed on the Steering Committee progress and proposed response(s) to technical issues; and
 - other matters as directed by the Steering Committee Chair or PSC Director of Accounting Standards.

The PSC staff member supporting a Steering Committee may be requested to attend PSC meetings to report on particular aspects of PSC operations and to make presentations on activities of the Steering Committee to interested parties.

Funding

16. Those accepting a position as a member of a Steering Committee will generally fund their own attendance. The PSC will support but not initiate applications to international and national funding agencies for funding assistance for individuals appointed to a PSC Steering Committee. The PSC will also consider any proposals that the operation of a Steering Committee be funded by an international or national agency.
17. The PSC Standards Project will meet the costs of the PSC staff supporting the Steering Committee and any charges relating to meeting facilities.

Steering Committee Quorum and Voting Procedures

18. Formal decisions of the Steering Committee to approve a document for forwarding to the PSC for publication or to otherwise make recommendations to the PSC regarding any issue, shall be decided by a simple majority of the members of the Steering Committee. The Chair will have a casting vote where the vote is otherwise tied. Technical support and observers, including PSC members attending in such a capacity, cannot vote on formal decisions.
19. A document forwarded to the PSC for approval to publish, or other recommendation made by the Steering Committee, may not necessarily reflect all of the views of all of the members of the Steering Committee. The Chair of the Steering Committee is to advise the PSC of circumstances in which some members of the Steering Committee vote against the document recommended by the Steering Committee on a majority vote, and the Steering Committee is to prepare a report for the PSC which identifies the views of those members who do not agree with the majority view. In addition, Steering Committee members who do not agree with particular aspects of a Steering Committee approved document or recommendation can submit comments on those matters to the PSC prior to publication of the document or as part of an exposure process.

Frequency and Duration of Meetings

20. It is anticipated that Steering Committees will meet twice a year, but may hold an additional meeting(s) if necessary.

Confidentiality Requirements

21. Certain documents provided to the PSC and the Steering Committee may be done so on a confidential basis. In addition, certain working documents prepared by the PSC which are relevant to the Steering Committee may not yet be available to the public. This is likely to be the case in respect of draft Exposure Drafts and draft IPSASs which are subject to change. These documents will be provided on a confidential basis to Steering Committee members where relevant to the Steering Committee task. Steering Committee members and their support staff and Steering Committee observers are expected to respect confidentiality in relation to any documents they receive.

Meetings Open to the Public

22. In the future, PSC meetings may be open to the public. It is not anticipated that Steering Committee meetings will also be open to the public.

ATTACHMENT 1

INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC)

INFORMATION FOR STEERING COMMITTEES OF THE PUBLIC SECTOR COMMITTEE (PSC)

Objectives and Responsibilities of the PSC

The following paragraphs outline the objectives, terms of reference and working procedures of the PSC. They are reproduced from the following sections of the 2001 IFAC Handbook: “Introduction to the Public Sector Committee of the International Federation of Accountants” and “Preface to International Public Sector Accounting Standards”. (Note: The full text of these sections of the Handbook is not reproduced here. Consequently, paragraph numbers below do not necessarily correspond with the equivalent paragraph numbers in the IFAC Handbook.)

1. “The mission of the International Federation of Accountants (IFAC) as set out in paragraph 2 of its Constitution is ‘the worldwide development and enhancement of an accountancy profession with harmonized standards, able to provide services of consistently high quality in the public interest.’”
2. “The Public Sector Committee (PSC) is a standing Committee of the Board of IFAC formed to address, on a coordinated worldwide basis, the needs of those involved in public sector financial reporting, accounting and auditing. In this regard, the term “public sector” refers to national governments, regional (e.g., state, provincial, territorial) governments, local (e.g., city, town) governments and related governmental entities (e.g., agencies, boards, commissions and enterprises).”
3. “PSC has been given the authority, on behalf of the Board, to issue standards, guidelines, studies and occasional papers on financial reporting, accounting and auditing in the public sector.”
4. “While PSC is ultimately responsible for selecting the subject matters to be addressed by its standards, guidelines, studies and occasional papers, suggestions and proposals from interested individuals and organizations are encouraged. The responsibility for carrying out the necessary research and for preparing exposure drafts of proposed standards and guidelines or drafts of studies may be delegated by the Committee to subcommittees or individuals. Such subcommittees are always chaired by a member of the Committee but may include persons who are not members of a member body of IFAC.”

Due Process

5. “The Committee issues Exposure Drafts of all proposed Standards for comment by interested parties including IFAC member bodies, auditors, preparers (including finance ministries), standard-setters, and individuals. The Committee will usually expose a proposed Standard for a reasonable time

(normally at least 4 months) to allow for its constituents to consider and comment on its proposals. This provides an opportunity for those affected by the Committee's pronouncements to present their views before the pronouncements are finalized and approved by the Committee. The Committee considers all comments received on Exposure Drafts and makes such modifications as it considers appropriate in the light of its objectives."

6. "The draft of a Standard, duly revised after the exposure period, is submitted to the Committee for approval. If approved by the Committee, it is issued as an IPSAS and becomes effective from the date specified in the Standard. On occasion, where there are significant unresolved issues associated with an Exposure Draft, the Committee may decide to re-expose a proposed Standard."
7. "For the purposes of approving an Exposure Draft or a Standard, each Committee member represented on the Committee has one vote. A quorum of nine members is required. If a Standard is approved by at least three-quarters of the total voting rights present at a meeting, the pronouncement is published and released. Exposure Drafts are approved by at least two-thirds of the total voting rights present at a meeting."
8. "The approved text of a pronouncement is that published by the PSC in the English language. Member bodies of IFAC are authorized to prepare, after obtaining IFAC approval, translations of such pronouncements at their own cost, to be issued in the language of their own countries as appropriate. These translations should indicate the name of the body that prepared the translation and that it is a translation of the approved text."

IPSASs for the Accrual and Cash Bases

9. "The Committee is developing a set of IPSASs which will include Standards applying to the accrual basis and a separate IPSAS that will specify the reporting requirements for the cash basis."

General Purpose Financial Statements

10. "Financial statements issued for users that are unable to demand financial information to meet their specific information needs are deemed to be general purpose financial statements. Examples of such users are citizens, voters, their representatives and other members of the public. The term "financial statements" used in IPSASs covers all statements and explanatory material which are identified as being part of the financial statements."
11. "When the accrual basis of accounting underlies the preparation of the financial statements, the financial statements will include the statement of financial position, the statement of financial performance, the cash flow statement and the statement of changes in net assets/equity. When the cash basis of accounting underlies the preparation of the financial statements, the primary financial statement is the cash flow statement. IPSASs apply to the

published financial statements of public sector entities other than Government Business Enterprises.”

Moving from the Cash Basis to the Accrual Basis

12. “The Committee envisages that some entities in the process of moving from cash accounting to accrual accounting may wish to adopt the requirements of particular accrual-based IPSASs during this process. An entity may voluntarily adopt the relevant disclosure provisions in an accrual-based IPSAS, although its core financial statements will nonetheless be prepared according to the IPSAS dealing with financial reporting under the cash basis of accounting. The status (for example, audited or unaudited) and location of additional information (for example, in the notes to the financial statements or in a separate supplementary section of the financial report) will depend on the characteristics of the information (for example, reliability and completeness) and any legislation or regulations governing financial reporting within a jurisdiction.”
13. “The Committee attempts to facilitate compliance with IPSASs through the use of transitional provisions in certain Standards. Where transitional provisions exist, they allow an entity additional time to meet the full requirements of a specific accrual-based IPSAS. An entity may at any time elect to adopt the accrual basis of accounting in accordance with IPSASs. At this point, the entity should apply all the accrual-based IPSASs and could choose to apply any transitional provisions in an individual accrual-based IPSAS.”
14. “Having decided to adopt accrual accounting in accordance with IPSASs, the transitional provisions would govern the length of time available to make the transition. On the expiry of the transitional provisions, the entity should report in full in accordance with all accrual-based IPSASs.”
156. “International Public Sector Accounting Standard IPSAS 1 *Presentation of Financial Statements* requires disclosure of the extent to which the entity has applied any transitional provisions.”

Scope of the Standards

16. “The Standards apply to all public sector entities including national governments, regional governments (for example, state, provincial, territorial), local governments (for example, city, town) and their component entities (for example, departments, agencies, boards, commissions), unless otherwise stated. The Standards do not apply to Government Business Enterprises. The Committee has resolved that these entities should apply IASs.”
17. “Any limitation of the applicability of specific IPSASs is made clear in those Standards. IPSASs are not meant to apply to immaterial items.”