



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

535 Fifth Avenue, 26th Floor Tel: (212) 286-9344
New York, New York 10017 Fax: (212) 286-9570
Internet: <http://www.ifac.org>

DATE: 18 JUNE 2003
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE
FROM: PAUL SUTCLIFFE
SUBJECT: **10 BUDGET REPORTING**

ACTION REQUIRED

The Committee is asked to:

- **Note, and provide input on**, the draft Research Report on Budget Reporting; and
- **note** membership of the Steering Committee (second distribution).

AGENDA MATERIAL:

	Pages
10.2 The Project Brief	10.2 – 10.6
10.3 Draft Research Report	10.7-10.54
10.4 Steering Committee Members (2 nd distribution)	

BACKGROUND

The Consultant, Dr Jesse Hughes, prepared the attached draft Research Report on Budget Reporting. Dr Hughes will attend the meeting in Vancouver. He will make a presentation on the Draft Report and discuss issues and future development with members.

The membership of the Budget Reporting Steering Committee is still subject to final confirmation. As discussed at the last PSC meeting, membership will be drawn from those identified at the April PSC meeting and others agreed by the PSC Chair and SC Chair to achieve an appropriate spread of expertise and experience. I will forward the membership list as soon as finalized.

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 by:

PSC Budget Reporting Project – Stage 1

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.

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

PSC Budget Reporting Project – Stage 1

- 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
- 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.

PSC Budget Reporting Project – Stage 1

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 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.

PSC Budget Reporting Project – Stage 1

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.

DRAFT

**INTERNATIONAL FEDERATION OF ACCOUNTANTS
PUBLIC SECTOR COMMITTEE**

**RESEARCH REPORT TO THE STEERING COMMITTEE
ON BUDGET REPORTING**

By
Dr. Jesse W. Hughes, CPA, COA, CGFM
Email—jhughes@odu.edu

June 2003

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¹ To better understand the Research Report, key terms are defined in Appendix A.

Executive Summary

Most governments prepare and issue their annual financial budgets as public documents. There are three main stages in the budgetary process: (1) During the **formulation** stage, spending priorities are established based on the fiscal policies of government. These budgets reflect the financial characteristics of the government's plans for the forthcoming period and are used to analyze the potential consequences of those plans on the economy. Public reporting of the initial budgets (transparency) permits the government to identify their financial intentions. (2) Adherence to these fiscal policies is accomplished during the **execution** stage. (3) In the **reporting** stage, a comparison of the actual results with the final budget permits the government to identify their actual performance against the approved budget (accountability).

International Public Sector Accounting Standards (IPSASs) have been issued to identify those general purpose financial statements that are necessary to meet the needs of users who are not in a position to demand reports tailored to meet their information needs. These statements provide users with information indicating whether resources were obtained and used in accordance with the adopted budget. Yet, current IPSASs only **encourage** governments to include in their financial statements a comparison of the actual results of operations with the approved budget for the reporting period. Research is being conducted to determine if an international public sector accounting standard should be issued on budget reporting. The objectives of the research are to identify the following:

- 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;
- whether there is any precedent for an accounting standard setter to deal with budget reporting issues; and
- the issues which should appropriately be considered in any IPSAS that might be issued.

One issue is whether budget **formulation** should be included in an IPSAS since these budgets are developed within a legislative framework and reflect different administrative arrangements as well as political, institutional and cultural systems and processes. Another issue pertains to the **execution** of the budget with particular emphasis on the recognition and measurement rules associated with the budgetary data. A third issue deals with the **reporting** (i.e., all of government or only general government) of the budgetary data as a part of the general purpose financial statements.

In the area of budget **formulation** (both for the Medium Term Fiscal Framework and the approved budget), an IPSAS on budget reporting should ensure that data is provided to support the preparation of such budgets but that the format of the budgets would not be specified. Governments would be encouraged to prepare their budgets in a format that would permit preparation of the Comparative Statement as well as the statistical reports desired by the IMF in their Government Financial Statistics Manual 2001.

In order to assure that approved budgets are meaningful, close interaction between the budgeting and accounting systems is essential during the **execution** of the budget. In addition, commitment accounting is crucial to maintaining budgetary control during each fiscal period. Further, cash can be managed separately from the budgetary control process. The execution stage is enhanced when integrated financial management information systems are used.

In the area of budget **reporting**, the international oversight bodies (UNDP, IMF, World Bank, and OECD) recommend that governments annually prepare a comparative budget to actual financial statement. Many standard setters within each government also recommend comparative statements.² However, there are some differences between these standards as to what information to include in the comparative statements.

The research found that there was generally consensus for an IPSAS to be issued on a Comparative Budget to Actual Statement as part of the general purpose financial statements and that such a standard falls within PSC's mandate. Further, it was believed that a reconciling schedule should be prepared in those instances where the budget is on a different basis (i.e., cash) than the accounting system (i.e., accrual).

OECD (in collaboration with the World Bank, the Inter-American Development Bank, and IMF) is in the process of surveying 30 OECD Member countries and 30 non-OECD countries on their Budget Practices and Procedures. The goal of this survey is to create a database of quantitative measures that will provide a unique and comprehensive resource for various groups to assist them in making well-informed analysis and enable them to compare and contrast national practices.

Research is ongoing to analyze pertinent data currently being collected by OECD in their survey of budget practices in the 60 countries. In addition, work is continuing to finalize the membership of the steering committee for this research project. These members (along with the PSC members) can help identify budget formulation, execution, and reporting standards in their respective countries. It is anticipated that this research will be completed by November 2003.

² Further research is needed with the PSC members and OECD to validate this statement.

1. Background

a. The Budget

Most, but not all, governments prepare and issue their annual financial budgets as public documents, or otherwise make them publicly available. There are three main stages in the budgetary process: (1) During the **formulation** stage, spending priorities are established based on the fiscal policies of government. These budgets reflect the financial characteristics of the government's plans for the forthcoming period and are used to analyze the potential consequences of those plans on the economy. Public reporting of the initial budgets (transparency) permits the government to identify their financial intentions. (2) Adherence to these fiscal policies is accomplished during the **execution** stage. (3) In the **reporting** stage, a comparison of the actual results with the final budget permits the government to identify their actual performance against the approved budget (accountability).

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 on 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. These budgetary documents can become controversial during the political process as noted in the following news release:³

"The federal government yesterday weighed into the New South Wales (NSW) election campaign less than a week from polling day, attacking the transparency and accountability of the incumbent Labor government's budget papers. Federal Family and Community Services Minister Amanda Vanstone released an Access Economics survey which ranked NSW second-last out of all the states and territories on the quality of its budgets. . . Senator Vanstone said the study - which analysed state budget papers and annual reports against 32 indicators - found NSW performed "dismally" in the transparency of its reporting on programs in the key areas of housing, gambling and disability services. "This is unacceptable for a state whose services affect six million people." Christopher Sheil, a senior research fellow at the University of NSW's school of history, said there was often a "quasi-bureaucratic, legal mentality" in published state and federal budgets and annual reports, but said the issue could not be debated sensibly just days ahead of a state election. The Access Economics report questioned the ability to make valid comparisons in the budget papers because they used different frameworks to annual reports. It also said the state's departmental structures are messy, complex and "just bad administration"."

Fiscal transparency is a major contributor to the cause of good governance. It should lead to better informed public debate about the design and results of fiscal policy, make governments more accountable for the implementation of fiscal policy, and thereby strengthen credibility and public understanding of macroeconomic policies and choices. In a globalized environment, fiscal transparency is of considerable importance to achieving macroeconomic stability and high-quality growth. However, it is only one aspect of good fiscal

³ Federal attack on NSW budget papers by Annabel Hepworth, 18/03/2003. This story was found at <http://afr.com/australia/2003/03/18/FFXGUX0ADDD.html>.

management, and attention has to be paid also to increasing the efficiency of government activity and establishing sound public finances. To encourage countries to publicize their budgetary practices, the International Monetary Fund (IMF) issued a Code of Good Practices on Fiscal Transparency (See Appendix B).

Some professional organizations publish best practices in public budgeting in order to encourage their members to improve their budgeting procedures. One such set of practices, by the National Advisory Council on State and Local Budgeting in the United States, is included as Appendix C. Many of the practices cited are an integral part of the general purpose financial statements published as required by the International Public Sector Accounting Standards (IPSASs).

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. For budgetary control by internal management, many governments prepare budget to actual comparative schedules throughout the fiscal period. The format of these comparative schedules is similar to the following used in Honduras:

Organization	Original Budget	Adjustments	Modified Budget	Actual	Variance
XXXXX	\$XXX,XXX	\$XXX	\$XXX,XXX	\$XXX,XXX	\$XXX

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. The types of budgets are defined in Appendix A.

Budgets may be prepared on the cash or the accrual basis. Most governments will prepare their budgets on the cash basis since such budgetary information is more easily comprehended by users. In addition, it is simple to implement and costs are low due to the lower level of accounting skills required. As governments transition to the accrual basis of accounting, many prepare their budgets on the modified accrual basis of accounting (which includes current assets and liabilities) in order to plan for the use of financial resources. The fund balance at the end of the period reflects the amount available for future appropriation. As the full accrual basis of accounting (which includes total assets and liabilities) is achieved, some governments are moving to the accrual basis of budgeting so that they can plan for the use of total resources.

b. International Public Sector Accounting Standards⁴

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.

In addition, general purpose financial statements can have a predictive or prospective role since they provide information useful to predict the level of resources required for continued operations. Further, these statements provide users with information indicating whether resources were obtained and used in accordance with the

⁴ Sections from the existing IPSASs pertaining to budgets or budget reporting are identified in Appendix D.

legally adopted budget. To assist users in this area, governments are **encouraged** to include in the financial statements a comparison of the actual results of operations with the approved budget for the reporting period.

IPSASs permit the presentation of annual general purpose financial statements on the cash or the accrual basis of accounting. The accrual basis is preferred for the following reasons: improved resource allocation, strengthened accountability over all resources, enhanced transparency on total resource costs of government activities, and more comprehensive view of government's impact on the economy. The cash basis is permitted in those instances where the countries have not yet developed the capability among their accounting staff to prepare their financial statements on the accrual basis. If their statements are prepared on the cash basis, the countries are encouraged to transition to the accrual basis as soon as their accounting staff is adequately trained on the requirements of an accrual accounting system.

c. Consistency in Reporting Between Accounting and Budgetary Systems

At the present time, both the budget and the general purpose financial statements are prepared on a cash or near cash basis in many countries. Some countries are in the process of transitioning to the accrual basis of accounting but prefer to retain the cash basis for budgetary reporting purposes. Consequently, the accounting system must retain the cash basis for budgetary control purposes and use the accrual basis for preparation of the general purpose financial statements. A few countries are in the process of moving the budgetary system from the cash basis to the accrual basis to be consistent with the financial statements that are issued on the accrual accounting basis. However, this transition period can be lengthy in order to assure that control is retained in the budgetary system. If the budgetary system is on a different basis than the accounting system, a means must be developed to reconcile the differences between the two systems.

2. Objectives

Research is needed to determine if an IPSAS should be issued on budget reporting. The objectives of the research should identify the following:

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

To meet these objectives, the qualitative characteristics of financial reporting previously identified in IPSAS 1⁵ will be considered in this Research Report. These are as follows:

- Understandability
- Relevance
- Reliability
- Comparability
- Constraints on Relevant and Reliable Information

⁵ Appendix 2, Presentation of Financial Statements, IPSAS 1 (May 2000).

Some governments prepare tax expenditure budgets. These budgets identify the estimated costs to the tax base due to preferential treatment for specific activities (i.e., deductibility of interest payments on home mortgages to encourage the purchase of homes). However, these tax expenditure budgets are not dealt with in this Research Report since income lost due to preferential tax treatment (i.e., costs) is compiled separately from the general purpose financial statements.

3. The Issues

a. Whether The Public Sector Committee (PSC) Should Deal With Budget Reporting

The IPSASs currently on issue do not fully 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. Where the financial statements and the budget are on the same basis of accounting, the IPSASs encourage the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period.⁶ 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.

(1) 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 as well as political, institutional and cultural systems and processes.

(2) Budget Execution – 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

⁶ Paragraph 22, IPSAS 1.

- 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.

(3) Budget 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.

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
 - (a) 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 Government Finance Statistics (GFS) or similar statistical classifications;
 - (b) whether the budget was prepared on a cash, accrual or other basis; and
 - (c) 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.

4. Budget Formulation

a. Medium Term Fiscal Framework (MTFF)—also known as Medium Term Budget Framework (MTBF)

The MTFF includes both revenue and expenditure forecasts. If the forecasts only deal with expenditures, it is referred to as a Medium Term Expenditure Framework (MTEF). To ensure consistency in taxing and spending policies from one fiscal period to another, it is beneficial to have a planning horizon of at least three years. This planning horizon can be assisted by the work of macroeconomists to assure comparability in reporting from country to country. For example, the level of production within a country is measured by the national income accounting system developed by macroeconomists in the early 1930s.⁷ Gross Domestic Product (GDP) identifies this level of production and is computed by macroeconomists (using the expenditure approach) as follows:

$$\text{GDP} = \text{C} + \text{I} + \text{G} + \text{NX}$$

Where C = Consumption spending by the household sector

I = Private Sector Investment through additions to the physical stock of capital

G = Purchases of goods and services by the government sector

⁷ A more complete explanation of the national income accounting system can be found in most Economics textbooks.

NX = Net Exports = domestic spending on foreign goods and foreign spending on domestic goods

Further, investment (I) can be computed by macroeconomists as follows:

$$I = S - (G + TR - TX) - NX$$

Note that the government budget deficit is represented by $(G + TR - TX)$. $G + TR$ is equal to total government expenditure, consisting of government purchases of goods and services (G) plus government transfer payments (TR). TX is the amount of taxes received by the government. The difference $(G + TR - TX)$ is the excess of the government's spending over its receipts, or its budget deficit. The NX term on the right-hand side is the excess of exports over imports, or the net exports of goods and services. Rearranging the equation shows that the excess of savings over investment ($S - I$) in the private sector is equal to the government budget deficit plus the trade surplus. **Accurate accounting systems** are critical to providing good information to the macroeconomists for computing a country's level of production.

Each country hopes to improve their standard of living over time. Dividing GDP by the population is a good guide to measure living standards. The degree of improvement in the standard of living from year to year is measured by the percentage change in the per capita GDP. Decision makers use this information to develop their taxing and spending policies (i.e., fiscal policy) for future years.

Some countries incorporate this information into a Medium Term Fiscal Framework (MTFF) to assist in preparing future budgets. The objectives of a MTFF (as identified by the World Bank⁸) are as follows:

- improve macroeconomic balance by developing a consistent and realistic resource framework;
- improve the allocation of resources to strategic priorities between and within sectors;
- increase commitment to predictability of both policy and funding so that ministries can plan ahead and programs can be sustained;
- provide line agencies with a hard budget constraint and increased autonomy, thereby increasing incentives for efficient and effective use of funds.

A MTFF is generally prepared for at least a three year period. The stages for the preparation and implementation of a MTFF have been identified as follows by the World Bank:⁹

1. Link economic projections to fiscal targets on what is fiscally affordable and construct a macroeconomic model.
2. Perform sector review of ministry objectives, outputs, and activities with agreement on programs and their costs over a three year period.
3. Conduct series of hearings between the Ministry of Finance and sector ministries to go over the outputs of the sector reviews.
4. Develop strategic expenditure framework to provide the basis for the sector expenditure ceilings for the upcoming budget year as well as the two outer years.
5. Ceilings approved by the main decision-making body in government (i.e., Cabinet) in order to make medium term sectoral resources allocations on the basis of affordability and inter-sectoral priorities.
6. Ministries adjust their budget estimates to make them fit within the approved ceilings.
7. Revised ministerial budget estimates are reviewed again by the Ministry of Finance and presented to the Cabinet and the Parliament for final approval.

⁸ Page 46, Public Expenditure Management Handbook, Poverty Reduction and Economic Management, The World Bank, 1998.

⁹ Ibid, Pages 47-52.

The historical financial information used to develop the MTFF should be extracted from the results of operations as reported in the general purpose financial statements. The elements of historical financial information used in the preparation of a MTFF primarily include revenue and expense data. In some cases, the value of fixed assets and their age is also included in order to compute the anticipated cost for replacement of those assets and to plan for new construction. In addition, the repayment (both principal and interest) of debt is an essential component of the MTFF.

Conclusion—Accounting standards should be broad enough to support the preparation of a MTFF. In this manner, the “predictive or prospective role” provided by the general purpose financial statements can be met and one of the purposes of financial statements specified in IPSAS 1¹⁰ can be achieved.

b. Annual/Biannual Budgets

Budgets are prepared on an annual or biannual basis to permit control of funds within a fiscal period. The United Nations Development Program has identified some of the key factors that contribute to making the budget preparation process effective in practice. These are as follows: transparency, management, decentralization, co-ordination and co-operation, integration, flexibility, discipline, link to medium term framework, accountability and credibility, and comprehensive. (See Appendix E)

OECD (in collaboration with the World Bank, the Inter-American Development Bank, and IMF) has surveyed 30 OECD Member countries and 30 non-OECD countries on their Budget Practices and Procedures. The goal of the survey was to create a database of quantitative measures that will provide a unique and comprehensive resource for various groups to assist them in making well-informed analysis and enable them to compare and contrast national practices. OECD is presently in the process of analyzing the data and will make it available on their website when complete.

To permit comparisons between countries, the IMF encourages the use of prescribed codes that assist in computing analytic measures for fiscal policy decisions. The reporting system prescribed by the IMF is a statistical system and not an accounting system. The functional classification of expenses is the same as that used by the United Nations in their System of National Accounts. The breakout of the revenue and expense codes are identified in Appendix F¹¹ and are summarized below:

- Classification of Revenue
 - Taxes
 - Social Contributions
 - Grants
 - Other Revenue
- Economic Classification of Expenses
 - Compensation of Employees
 - Use of Goods and Services
 - Consumption of Fixed Capital
 - Interest
 - Subsidies
 - Grants
 - Social Benefits

¹⁰ Paragraph 14, IPSAS 1.

¹¹ Extracted from pages 178-179, 182-183 of the Government Finance Statistics (GFS) Manual 2001, International Monetary Fund.

- Other Expenses
- Functional Classification of Expenses
 - General Public Services
 - Defense
 - Public Order and Safety
 - Economic Affairs
 - Environmental Protection
 - Housing and Community Amenities
 - Health
 - Recreation, Culture, and Religion
 - Education
 - Social Protection

In those countries in which a MTFF is prepared, the initial efforts to formulate the annual budget to set the spending limits is taken from the MTFF for the upcoming budget year. This planning budget is revised, based on input from responsible decision makers (i.e., ministers, etc.), to reflect any major changes in priorities due to changes in economic or political situations. In those countries in which a MTFF is not prepared, a budget call is sent to responsible decision makers in order that they might identify their needs for the upcoming fiscal period.

Historical accounting records are used to identify the revenues received and expenses incurred for each fiscal period. This historical data is critical to assure that proposed budgets are consistent with prior periods and that the proposed budgets might be sustainable in future periods. These records need to be at a sufficiently low level of detail to support establishing spending limits by functional and economic expense classifications.

As soon as the decision makers have identified their needs to the Minister of Finance, a series of meetings and hearings are held to give all concerned parties an opportunity to assist in establishing spending priorities for the upcoming budget year. Depending on the amount of revenue anticipated, spending limits are established and the budget is sent to the legislative body for deliberation (with revisions, as necessary) and approval. Once approved, a law is passed that legally authorizes the expenditure of funds for the upcoming fiscal period. This approved budget is then loaded into the accounting system in order to assure that budget users operate within their authorized budgetary authority and to provide commitment control over expenses.

Conclusion—Accounting standards should support the following:

- Use of revenue and expense codes from the GFS Manual to the maximum extent possible. Although attempts have been made to harmonize these codes with the IPSAS, some differences may exist. In those instances, the procedures prescribed by the IPSAS will be expected to prevail.
- Preparation of an annual budget in sufficient time to establish spending limits prior to the beginning of the fiscal period. It is expected that the annual budget would use the prior year financial statements in the preparation stage of the budget. As stated in paragraph 74, IPSAS 1, “An entity should be in a position to issue its financial statements within six months of the reporting date.”

5. Budget Execution

a. Inter-Relationship Between Accounting And Budgeting Systems

The World Bank has developed a diagnostic tool (called a Country Financial Accountability Assessment or CFAA) to enhance the Bank’s knowledge of public financial management (PFM) arrangements in client

countries.¹² The key issues to be examined in the areas of external fiscal reporting and transparency are identified in Appendix G. The CFAA supports both

- the Bank's fiduciary responsibilities by identifying the strengths and weakness of PFM arrangements so that the likelihood that all public funds, including those provided by the Bank and development partners managed through the country's PFM system, are appropriately managed, and
- the Bank's development objectives, by facilitating a common understanding by the borrower, the Bank, and development partners that leads to the design and implementation of capacity-building programs to improve the country's PFM system.

There is a close relationship between accounting systems and budgetary systems in order to assure that funds are expended in the manner desired by the legislature. This close relationship has been identified in an OECD document on Best Practice for Budget Transparency (See Appendix H.) Consequently, it is essential that these systems be integrated to the maximum extent possible. These integrated systems are sometimes referred to as Government Financial Management (GFM) systems.

The objectives of a well-performing budget resource allocation and management system are to:

- control aggregate spending and the deficit;
- facilitate strategic prioritization of expenditures across policies, programs, and projects for allocative efficiency and equity; and
- encourage better use of budgeted resources to achieve outcomes and produce outputs at the lowest possible cost.

As explained in a World Bank document,¹³ "management of these three objectives is integrated through a perspective that goes beyond the annual budget cycle. This is achieved by linking policy, planning and budgeting in a medium term expenditure framework at both the overall government and sectoral levels. GFM systems provide decision-makers and public sector managers with a set of tools to support these objectives. The architecture of the information systems network is determined by the basic functional processes that public sector managers employ to achieve these objectives and the overall regulatory framework that underpins these processes." (See Appendix I for the basic functional processes.)

The overall regulatory framework for operating the various component modules of the system network consists of the following elements:

- Control Structure—Generally derived from a legislative framework with basic principles laid down in financial provisions in the constitution and laws related to the management of public finances.
- Accounts Classification—The code structure is a methodology for consistently recording each financial transaction for purposes of financial control and costing as well as economic and statistical analysis.

This structure is needed to provide a consistent basis for the following:

- Consolidating government-wide financial information;
- Integrating planning, budgeting and accounting;
- Capturing data at the point of entry throughout the government; and
- Compiling budget allocations as well as program and project costs within and across various government agencies.

¹² Guidelines to Staff, Country Financial Accountability Assessment, Financial Management Sector Board, World Bank (March, 2003).

¹³ Page 9, Information Systems for Government Fiscal Management by Ali Hashim and Bill Allan, The World Bank, 1999.

- **Reporting Requirements**—Generally specified in two areas: (1) external reporting to provide information to the legislature, the public, and other interested parties, and (2) internal management reporting for government policy makers and managers.

Members of the World Bank and the IMF explain the importance of the relationship between accounting and budgetary information as follows:¹⁴

“The Treasury System is used to produce periodic fiscal reports that give a consolidated picture of all receipts and expenditures and progress against budget targets. For these reports to be comprehensive, all items of receipts and expenditure need to be captured. The Government Chart of Accounts is the basis of the fiscal reporting process. These include the Fund, organizational, functional and economic classifications structure of the budget and the classification of account groups, assets and liabilities. . . . On the basis of this data, the MOF can prepare overall fiscal reports that compare actual expenses and receipts with the budget estimates. These reports provide a status report and recommendations and action plans for corrective action during the course of the year.”

The elements of financial information (especially revenue and expenses) used in the accounting system should be the same as that used in the budgeting system in order to compare the results of operations with the approved budget. For maximum benefit, these comparative results should be reported in the general purpose financial statements although such comparative information is not currently required by the IPSASs.

Conclusion—Accounting standards should be broad enough to support the integration of budgetary and accounting systems to the maximum extent possible. Inclusion of the budgetary information in the general purpose financial statements will “meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs.”¹⁵

b. Budgetary Control

To assure that spending limits are not exceeded, the approved budget is generally entered into the accounting system at the beginning of the fiscal period. This budget is entered into the accounting system at the level of control desired (i.e., by economic and functional expense classifications). Then, as actual transactions occur, the actual expenses can be compared to the budgeted expenses in order to provide assurance that the spending limits have not been exceeded.

Compensation of employees (an economic expense classification) is generally the largest recurring expense item in any government. Budgetary funds are set aside in the approved budget to assure that sufficient funds (by functional expense classification) are available for periodic payment of employees. As actual payrolls are processed, the financial managers within each function can monitor this economic expense and be assured that the expense will not exceed the approved levels during the fiscal period.

Repayment (both principal and interest) of debt is often another large outlay of funds. Funds are set aside in the approved budget for this purpose. Fiscal discipline by the financial managers in their respective areas of responsibility is critical in order to assure that sufficient funds are available for payment of debt when due. In this manner, the country is able to maintain a good credit rating that will generally contribute to lower interest payments on future debt.

¹⁴ Page 176, Treasury Reference Model by Ali Hashim (World Bank) and Bill Allan (IMF), <http://www1.worldbank.org/publicsector/pe/trmodel.htm> (3/14/2001).

¹⁵ Paragraph 2, IPSAS 1.

The use of goods and services and expenditures for capital projects are also budgeted at the beginning of each fiscal period. To assure that these spending limits are not exceeded, some countries use “commitment” accounting procedures. This technique permits a financial manager to compare his fund availability to the anticipated expenses for the goods or services or the approved budget for capital projects prior to the release of a purchase order or a contract. Once approved and released, the financial manager can be assured that funds will be available for the payment of the goods or services at the time they are received or the payment on capital projects when due. See Appendix J for a more complete discussion of this technique as explained by IFAC in a previous study.

Conclusion—Accounting standards should support the following using the elements of general purpose financial reporting and the definitions of those elements as identified earlier from IPSAS 1:

- Commitment accounting should be used to assure that funds are available when payment is due, and
- The accounting systems and the budgetary systems should be integrated to the maximum extent possible as explained earlier.

6. Budget Reporting

In a prior IFAC study, the following user needs¹⁶ were noted:

“49. Although the users described above have a range of information needs, and some groups may place a higher or lower priority on certain types of information than other groups, the user groups also have similar information needs. The PSC considers that, taken as a collective group, users expect that governmental financial reports will help them to:

- assess the sources and types of revenues;
- assess the allocation of and use of resources;
- assess the extent to which revenues were sufficient to cover costs of operations;
- predict the timing and volume of cash flows and future cash and borrowing requirements;
- assess the government’s long term ability to meet financial obligations, both short and long term;
- assess the government’s or entity’s overall financial condition;
- provide the public with information concerning those assets held on behalf of taxpayers, specifically information on ownership and control, composition, condition and maintenance;
- assess the financial performance of the government or entity in its use of resources;
- assess the economic impact of the government on the economy;
- evaluate government spending options and priorities;
- **assess whether resources were used in accordance with legally mandated budgets and other legislative and related authorities such as legal and contractual conditions and constraints;** and
- assess the government’s or entity’s stewardship over the custody and maintenance of resources.”

(emphasis added)

The present IPSASs encourage comparisons with budget but do not specify any financial reports that would satisfy users needs in assessing “whether resources were used in accordance with legally mandated budgets and other legislative and related authorities such as legal and contractual conditions and constraints”. To fill this void and provide a higher degree of transparency, some countries prepare “Budget to Actual Comparative Statements”. Differences between the actual expenses and the final budget are reflected in the comparative

¹⁶ Extracted from page 11-12, Governmental Financial Reporting, Study 11, May 2000, IFAC Public Sector Committee.

statements in order to assist the user in determining how close the government came to meeting the budget expectations. The budgetary comparisons are generally made at the primary and secondary levels of control as approved by the legislature. Since approved budgets are considered law in many countries, explanations are generally required in those instances where expenses exceed budgetary authority.

Since budgets are prepared in advance of the current fiscal year, natural disasters or economic conditions may dictate a need for revisions to the initially approved budget during the fiscal year. Consequently, most countries identify those procedures necessary for budgetary revisions. In some countries, this authority is delegated to the Minister of Finance (within specified limits) and, in other countries, the revisions must be approved by the legislature. In some of those countries where comparative statements are encouraged (see Appendix K for an illustration from the United States), the initial budget as approved by legislation is expected to be included in the comparative statement along with the final approved budget.

Some countries that have adopted the accrual basis of accounting as their generally accepted accounting principle (GAAP) continue to prepare their budgets on the cash basis. If the accounting basis (i.e., accrual) is different from the budgetary basis (i.e., cash), the comparative statement is generally prepared on the budgetary basis. Then, a reconciliation is generally made so that the reader is informed about the differences between the budgetary and accounting balances in the general purpose financial statements. Some of the more common differences are identified in Appendix L.

Conclusion—As part of the general purpose financial statements, accounting standards should:

- Identify the need for an annual statement comparing actual revenues and expenses to budgeted revenue and expenses at the primary and secondary levels of control (with variances appropriately identified),
- If there are budgetary revisions during the fiscal year, inclusion of the initially approved budget in the comparative statement would be beneficial, and
- If the accounting basis is different from the budgetary basis, a reconciling statement should be prepared.

7. Summary

Current best practices in budget formulation, execution and reporting among international oversight bodies and developed countries indicate a high degree of consistency in those practices. However, it is generally felt that the budget formulation practices reflect significantly different administrative arrangements as well as political, institutional and cultural systems and processes. Consequently, accounting standards for budget formulation would probably not be beneficial except to ensure that data collected will support the preparation of the budget with the financial information desired for comparison to actual performance.

On the other hand, there was a high degree of consensus for an accounting standard on budget execution and reporting. Further, it was believed that such a standard falls within PSC's mandate for general purpose financial statements and that it meets the qualitative characteristics of financial reporting (i.e., understandability, relevance, reliability, comparability, and constraints on relevant and reliable information).

Country specific accounting standard setters (i.e., United States and others—need help from SC to expand on this) encourage the preparation of comparative “budget to actual” financial statements. In addition, such a standard would permit comparability of budget reports over time and between governments. For such comparisons to be beneficial, disclosures in the general purpose financial statements would need to identify the basis of accounting used for the budgetary reports and whether they were in compliance with the cash or accrual

IPSASs. Additional information would be needed to identify the government business enterprises included in the budget, as well as the functions (identified in the GFS Manual) included within general government.

In those instances where the budget is prepared on a basis (i.e., cash) different than the accounting basis (i.e., accrual), the proposed accounting standard should identify the need for a reconciliation between the cash increase/(decrease) projected in the budgetary report and the net surplus/(deficit) reflected in the Statement of Financial Performance. Such a reconciliation would disclose the cause for the differences between the cash and accrual basis of accounting. However, there was no consensus that the budgetary reports should address the recognition and measurement requirements of the existing IPSASs in the budget context.

8. How the Changes Would Improve Financial Reporting

At the present time, paragraph 22 of IPSAS 1 only encourages countries to prepare budget to actual comparative schedules. Many countries routinely prepare such schedules for budgetary control purposes. If the comparative schedules were elevated to the status of a statement subject to external validation, they would become part of the general purpose financial statements. This would provide users of the financial statements with the assurance that the budgetary information is fairly presented and that budgetary authority had not been exceeded unless otherwise annotated.

APPENDIX A—TERMINOLOGY

Some examples of terms that might need to be explained for consistency in application are included below. Other terms can be added as desired by the Steering Committee.

Allocation—a part of a lump-sum appropriation that is designated for expenditure by specific organization units and/or for special purposes, activities, or objects.

Allotment—an internal allocation of funds on a periodic basis usually agreed upon by the department heads and the chief executive.

Appropriated Budget—The expenditure authority created by the appropriated bills or ordinances that are signed into law and the related estimated revenues. The expenditure authority is generally considered the legal limit within which a governing body must operate.

Appropriation—an authorization granted by a legislative body to incur liabilities for purposes specified by the legislature. It is usually limited in amount and time over which it can be expended.

Budgetary Definitions:

1. **Line item (or object class) budget:** This budget is the one used by most governments since it is more easily understood by the users of the budget information. It breaks the budget into natural expenses such as compensation of employees, use of goods and services, etc., as well as the purchase of capital assets.
2. **Program budget:** a budget made up programs as groupings of activities intended to contribute to identifiable government objectives (e.g. poverty alleviation, literacy, control of contagious disease.). In practice it is difficult to identify satisfactory programs because they are often made up of activities controlled by several different ministries. Moreover, the presentation of a program budget may help some users of information but hinder others. Few governments have useful program budgets; most follow the existing organizational structure of ministries.
3. **Performance budget:** a program budget that also presents measures of performance and service delivery (e.g. students graduating, surgical operations performed, tons of cargo unloaded). The concept is excellent; examples of successful adoption are limited due to problems of defining performance and relating it to programs and their cost.
4. **Zero-base budget:** a budget that is justified from zero. Each agency has to justify its whole budget as if it were applying for funding for the first time. The concept is sometimes used selectively.
5. **Biennial budget:** a budget that provides funds for two years instead of one. Budget allocations do not lapse until the end of the second year. It is an attempt to compensate for an artificial assumption of traditional budgeting; that it is sensible to budget for short periods when many decisions are implemented over longer periods.
6. **Multi-year budget:** a budget that takes into account not just the budget year, but two or more subsequent years. Usually lapse of funds occurs at the end of the budget year. Figures for “out years” are indicative. The aim is similar to that of biennial budgeting. Multi-year budgeting has been replaced by the MTFF.
7. **Medium-term fiscal framework (MTFF):** a process for improving government expenditure programs that assists decision-makers to gauge what is affordable in aggregate over the medium-term and to reconcile this with spending policies and their costs over the same period. The aim is similar to that of

multi-year budgeting. It incorporates a performance budgeting approach. It is employed extensively in developed countries but is yet to be proved in practice in developing and transitional countries.

8. **Capital Budget:** a plan of proposed capital outlays, such as for infrastructure, buildings, equipment, and other long-lived assets, and of the means to finance them.
9. **Recurrent Budget:** a plan of proposed funding needed to provide the basic services of government. Such a plan would include compensation of employees, use of goods and services, etc.

Commitment (also known as an encumbrance)—an amount that a governmental unit may be required legally to meet out of its resources at a future date. It includes outstanding purchase orders and contracts where goods or services have not yet been received. A commitment is generally acknowledged as the government's responsibility for a future liability based on a potential contractual agreement. Some governments (US national government) might consider the term "commitments" to only apply to purchase requests or other such pre-obligation documents.

Encumbrance—See definition under "commitment".

Estimated Revenue—an amount anticipated to be collected during the accounting period.

Expenditures—the incurrence of a liability for a capital asset or the disbursement of cash during the fiscal period as used in the cash or modified accrual basis of accounting.

Expenses—the consumption or loss of future economic benefits resulting in the reduction of assets or increases in liabilities as used in the accrual basis of accounting.

Gross Domestic Product—the value of all final goods and services produced in the country within a given period.

Infrastructure Asset—a long-lived asset that normally is stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

Obligation—A liability that may have been generated by a commitment; a firm agreement to pay a vendor for goods or services received.

APPENDIX B. IMF CODE OF GOOD PRACTICES ON FISCAL TRANSPARENCY¹⁷

Countries are encouraged to implement the following Code of Good Practices on Fiscal Transparency. The Code is based around the following key objectives: roles and responsibilities in government should be clear; information on government activities should be provided to the public; budget preparation, execution, and reporting should be undertaken in an open manner; and fiscal information should attain widely accepted standards of data quality and be subject to independent assurances of integrity.

The Code sets out what governments should do to meet these objectives in terms of principles and practices. These principles and practices are distilled from the IMF's knowledge of fiscal management practices in member countries. The Code will facilitate surveillance of economic policies by country authorities, financial markets, and international institutions. Guidelines to the implementation of the Code are provided in a supporting manual, which has been revised in line with the changes in the Code, and updated in a number of areas.

The Code acknowledges diversity across countries in fiscal management systems and in cultural, constitutional, and legal environments, as well as differences across countries in the technical and administrative capacity to improve transparency. Most countries have scope for improvement in some aspects of fiscal transparency covered in the Code. Diversity and differences across countries, however, inevitably imply that many countries may not be able to move quickly to implement the Code. Moreover, it is recognized that there may be a need for technical assistance if existing fiscal management practices are to be changed. The IMF, together with other international organizations, will give some priority to providing technical assistance to those countries that need help and are strongly committed to improving fiscal transparency.

Revised Code of Good Practices on Fiscal Transparency

I. Clarity of Roles and Responsibilities

1.1 The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.

1.1.1 The structure and functions of government should be clearly specified.

1.1.2 The responsibilities of different levels of government, and of the executive branch, the legislative branch, and the judiciary, should be well defined.

1.1.3 Clear mechanisms for the coordination and management of budgetary and extrabudgetary activities should be established.

1.1.4 Relations between the government and nongovernment public sector agencies (i.e., the central bank, public financial institutions, and nonfinancial public enterprises) should be based on clear arrangements.

¹⁷ Extracted from IMF website—<http://www.imf.org/external/np/fad/trans/index.htm>.

1.1.5 Government involvement in the private sector (e.g., through regulation and equity ownership) should be conducted in an open and public manner, and on the basis of clear rules and procedures that are applied in a nondiscriminatory way.

1.2 There should be a clear legal and administrative framework for fiscal management.

1.2.1 Any commitment or expenditure of public funds should be governed by comprehensive budget laws and openly available administrative rules.

1.2.2 Taxes, duties, fees, and charges should have an explicit legal basis. Tax laws and regulations should be easily accessible and understandable, and clear criteria should guide any administrative discretion in their application.

1.2.3 Ethical standards of behavior for public servants should be clear and well publicized.

II. Public Availability of Information

2.1 The public should be provided with full information on the past, current, and projected fiscal activity of government.

2.1.1 The budget documentation, final accounts, and other fiscal reports for the public should cover all budgetary and extrabudgetary activities of the central government, and the consolidated fiscal position of the central government should be published.

2.1.2 Information comparable to that in the annual budget should be provided for the outturns of the two preceding fiscal years, together with forecasts of the main budget aggregates for two years following the budget.

2.1.3 Statements describing the nature and fiscal significance of central government contingent liabilities and tax expenditures, and of quasi-fiscal activities, should be part of the budget documentation.

2.1.4 The central government should publish full information on the level and composition of its debt and financial assets.

2.1.5 Where subnational levels of government are significant, their combined fiscal position and the consolidated fiscal position of the general government should be published.

2.2 A commitment should be made to the timely publication of fiscal information.

2.2.1 The publication of fiscal information should be a legal obligation of government.

2.2.2 Advance release date calendars for fiscal information should be announced.

III. Open Budget Preparation, Execution, and Reporting

3.1 The budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks.

3.1.1 A statement of fiscal policy objectives and an assessment of fiscal sustainability should provide the framework for the annual budget.

3.1.2 Any fiscal rules that have been adopted (e.g., a balanced budget requirement or borrowing limits for subnational levels of government) should be clearly specified.

3.1.3 The annual budget should be prepared and presented within a comprehensive and consistent quantitative macroeconomic framework, and the main assumptions underlying the budget should be provided.

3.1.4 New policies being introduced in the annual budget should be clearly described.

3.1.5 Major fiscal risks should be identified and quantified where possible, including variations in economic assumptions and the uncertain costs of specific expenditure commitments (e.g., financial restructuring).

3.2 Budget information should be presented in a way that facilitates policy analysis and promotes accountability.

3.2.1 Budget data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative category. Data on extrabudgetary activities should be reported on the same basis.

3.2.2 A statement of objectives to be achieved by major budget programs (e.g., improvement in relevant social indicators) should be provided.

3.2.3 The overall balance of the general government should be a standard summary indicator of the government's fiscal position. It should be supplemented where appropriate by other fiscal indicators for the general government (e.g., the operational balance, the structural balance, or the primary balance).

3.2.4 The public sector balance should be reported when nongovernment public sector agencies undertake significant quasi-fiscal activities.

3.3 Procedures for the execution and monitoring of approved expenditure and for collecting revenue should be clearly specified.

3.3.1 There should be a comprehensive, integrated accounting system which provides a reliable basis for assessing payment arrears.

3.3.2 Procurement and employment regulations should be standardized and accessible to all interested parties.

3.3.3 Budget execution should be internally audited, and audit procedures should be open to review.

3.3.4 The national tax administration should be legally protected from political direction and should report regularly to the public on its activities.

3.4 There should be regular fiscal reporting to the legislature and the public.

3.4.1 A mid-year report on budget developments should be presented to the legislature. More frequent (at least quarterly) reports should also be published.

3.4.2 Final accounts should be presented to the legislature within a year of the end of the fiscal year.

3.4.3 Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.

IV. Assurances of Integrity

4.1 Fiscal data should meet accepted data quality standards.

4.1.1 Budget data should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.

4.1.2 The annual budget and final accounts should indicate the accounting basis (e.g., cash or accrual) and standards used in the compilation and presentation of budget data.

4.1.3 Specific assurances should be provided as to the quality of fiscal data. In particular, it should be indicated whether data in fiscal reports are internally consistent and have been reconciled with relevant data from other sources.

4.2 Fiscal information should be subjected to independent scrutiny.

4.2.1 A national audit body or equivalent organization, which is independent of the executive, should provide timely reports for the legislature and public on the financial integrity of government accounts.

4.2.2 Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and all underlying assumptions.

4.2.3 A national statistics agency should be provided with the institutional independence to verify the quality of fiscal data.

APPENDIX C. BEST PRACTICES IN PUBLIC BUDGETING¹⁸

Principle I—Establish Broad Goals to Guide Government Decision Making

- Element 1—Assess Community Needs, Priorities, Challenges and Opportunities
 - Practice 1.1—Identify Stakeholder Concerns, Needs, and Priorities
 - Practice 1.2—Evaluate Community Condition, External Factors, Opportunities, and Challenges
- Element 2—Identify Opportunities and Challenges for Government Services, Capital Assets, and Management
 - Practice 2.1—Assess Services and Programs, and Identify Issues, Opportunities, and Challenges
 - Practice 2.2—Assess Capital Assets, and Identify Issues, Opportunities, and Challenges
 - Practice 2.3—Assess Governmental Management Systems, and Identify Issues, Opportunities, and Challenges
- Element 3—Develop and Disseminate Broad Goals
 - Practice 3.1—Identify Broad Goals
 - Practice 3.2—Disseminate Goals and Review with Stakeholders

Principle II—Develop Approaches to Achieve Goals

- Element 4—Adopt Financial Policies
 - Practice 4.1—Develop Policy on Stabilization Funds
 - Practice 4.2—Develop Policy on Fees and Charges
 - Practice 4.3—Develop Policy on Debt Issuance and Management
 - Practice 4.3a—Develop Policy on Debt Level and Capacity
 - Practice 4.4—Develop Policy on Use of One-Time Revenues
 - Practice 4.4a—Evaluate the Use of Unpredictable Revenues
 - Practice 4.5—Develop Policy on Balancing the Operating Budget
 - Practice 4.6—Develop Policy on Revenue Diversification
 - Practice 4.7—Develop Policy on Contingency Planning
- Element 5—Develop Programmatic, Operating and Capital Policies and Plans
 - Practice 5.1—Prepare Policies and Plans to Guide the Design of Programs and Services
 - Practice 5.2—Prepare Policies and Plans for Capital Asset Acquisition, Maintenance, Replacement, & Retirement
- Element 6—Develop Programs and Services That are Consistent with Policies and Plans
 - Practice 6.1—Develop Programs and Evaluate Delivery Mechanisms
 - Practice 6.2—Develop Options for Meeting Capital Needs & Evaluate Acquisition Alternatives
 - Practice 6.3—Identify Functions, Programs, and/or Activities of Organizational Units
 - Practice 6.4—Develop Performance Measures
 - Practice 6.4a—Develop Performance Benchmarks
- Element 7—Develop Management Strategies
 - Practice 7.1—Develop Strategies to Facilitate Attainment of Program and Financial Goals
 - Practice 7.2—Develop Mechanisms for Budgetary Compliance
 - Practice 7.3—Develop the Type, Presentation, and Time Period of the Budget

¹⁸ Extracted from Government Finance Officers' Association website--<http://www.gfoa.org/services/nacslb/budgetmenu.htm>.

Principle III—Develop a Budget Consistent with Approaches to Achieve Goals

- Element 8—Develop a Process for Preparing and Adopting a Budget
 - Practice 8.1—Develop a Budget Calendar
 - Practice 8.2—Develop Budget Guidelines and Instructions
 - Practice 8.3—Develop Mechanisms for Coordinating Budget Preparation and Review
 - Practice 8.4—Develop Procedures to Facilitate Budget Review, Discussion, Modification, and Adoption
 - Practice 8.5—Identify Opportunities for Stakeholder Input
- Element 9—Develop and Evaluate Financial Options
 - Practice 9.1—Conduct Long-Range Financial Planning
 - Practice 9.2—Prepare Revenue Projections
 - Practice 9.2a—Analyze Major Revenues
 - Practice 9.2b—Evaluate the Effect of Changes to Revenue Source Rates and Bases
 - Practice 9.2c—Analyze Tax and Fee Exemptions
 - Practice 9.2d—Achieve Consensus on a Revenue Forecast
 - Practice 9.3—Document Revenue Sources in a Revenue Manual
 - Practice 9.4—Prepare Expenditure Projections
 - Practice 9.5—Evaluate Revenue and Expenditure Options
 - Practice 9.6—Develop a Capital Improvement Plan
- Element 10—Make Choices Necessary to Adopt a Budget
 - Practice 10.1—Prepare and Present a Recommended Budget
 - Practice 10.1a—Describe Key Policies, Plans and Goals
 - Practice 10.1b—Identify Key Issues
 - Practice 10.1c—Provide a Financial Overview
 - Practice 10.1d—Provide a Guide to Operations
 - Practice 10.1e—Explain the Budgetary Basis of Accounting
 - Practice 10.1f—Prepare a Budget Summary
 - Practice 10.1g—Present the Budget in a Clear, Easy-to-Use Format
 - Practice 10.2—Adopt the Budget

Principle IV—Evaluate Performance and Make Adjustments

- Element 11—Monitor, Measure, and Evaluate Performance
 - Practice 11.1—Monitor, Measure, and Evaluate Program Performance
 - Practice 11.1a—Monitor, Measure, and Evaluate Stakeholder Satisfaction
 - Practice 11.2—Monitor, Measure, and Evaluate Budgetary Performance
 - Practice 11.3—Monitor, Measure, and Evaluate Financial Condition
 - Practice 11.4—Monitor, Measure, and Evaluate External Factors
 - Practice 11.5—Monitor, Measure, and Evaluate Capital Program Implementation
- Element 12—Make Adjustments as Needed
 - Practice 12.1—Adjust the Budget
 - Practice 12.2—Adjust Policies, Plans, Programs and Management Strategies
 - Practice 12.3—Adjust Broad Goals, If Appropriate

APPENDIX D. SECTIONS FROM EXISTING IPSASs PERTAINING TO BUDGETS OR BUDGET REPORTING

IPSAS 1, Presentation of Financial Statements, prescribes the following:

2. 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. This Standard does not apply to condensed interim financial information.

13. The objectives of general purpose financial statements are to provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it by:

- (a) providing information about the sources, allocation and uses of financial resources;*
- (b) providing information about how the entity financed its activities and met its cash requirements;*
- (c) providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;*
- (d) providing information about the financial condition of the entity and changes in it; and*
- (e) providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments.*

14. General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:

- (a) indicating whether resources were obtained and used in accordance with the legally adopted budget; and*
- (b) indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.*

*22. Public sector entities are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which may be given effect through authorizing legislation. General purpose financial reporting by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget. **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.** (Emphasis added). Reporting against budgets 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 variances from the budget or appropriation may also be presented, for completeness; and*
- (b) a statement by the individual(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.

IPSAS 2, Cash Flow Statements, prescribes the following:

*64. Where appropriations or budget authorizations are prepared on a cash basis, the cash flow statement may assist users in understanding the relationship between the entity's activities or programs and the government's budgetary information. **Refer to IPSAS 1 for a brief discussion of the comparison of actual and budgeted figures.** (Emphasis added.)*

APPENDIX E: BUDGET PREPARATION PROCESS - KEY FACTORS

Some of the key factors, which contribute to making the budget process effective in practice, are outlined in this Appendix.

Transparency	<ul style="list-style-type: none"> . the budget documents should provide a clear link between objectives and expenditures; . all participants in the budget process should be clear about their roles and responsibilities; . simple well documented procedures; . well defined basis of budgeting e.g. incremental, zero based etc. . departmental targets and resources allocated, clearly indicated and explained.
Management	<ul style="list-style-type: none"> . effective budgeting involves more than simply preparing annual budgets; the management and monitoring of the budget is equally important.
Decentralisation	<ul style="list-style-type: none"> . it is potentially inefficient and may undermine the budget system for all decisions to be made at the center.
Co-ordination and Co-operation	<ul style="list-style-type: none"> . between all those involved in the budget process is required to ensure links between recurrent and development budgets and the remainder of the processes of the financial management system.
Integration	<ul style="list-style-type: none"> . of recurrent and development budgets: the recurrent costs arising from development projects need to be built into recurrent expenditure planning and the trade-offs between recurrent and development expenditure considered.
Flexibility	<ul style="list-style-type: none"> . the system should allow responses to changing circumstances: these responses should be built into the system, so that implications of any changes are sufficiently analysed and still fit within government's overall objectives and priorities.
Discipline	<ul style="list-style-type: none"> . although the system should provide flexibility, there should also be effective control over expenditures; . any changes to the budget should be carefully analysed and justified; . only limited use of Supplementary Estimates; . penalties for breach of rules and regulations.

Link to Medium-term Framework (National Development Plan)	<ul style="list-style-type: none"> . link between the resource framework of the National Development Plan and the annual budget; . link between the policies and priorities of the National Development Plan and budget allocations.
Accountability and Credibility	<ul style="list-style-type: none"> . political involvement: good links between politicians and civil servants; . involvement and accountability of senior managers in all stages of the process; . if ministries do not believe that they will be held to their ceilings, or if they can easily bypass normal procedures, the whole process of budgeting can be undermined; . budgets should be reliably close to the actual out-turn.
Comprehensive	<ul style="list-style-type: none"> . the budget process and documents need to include all revenues and expenditures, including all aid funds; . the budget should also contain information on previous year's and current year's expenditures; . measuring the impact of the budget through output performance indicators for recurrent and development expenditures.

Based on The United Nations Development Program, Appendix 3, *The Draft Country Assessment in Accountability & Transparency Report*, February 1997 at <http://magnet.undp.org/Docs/efa/CONTAC~1.htm>.

APPENDIX F. GOVERNMENT FINANCE STATISTICS (GFS) MANUAL 2001

A. CLASSIFICATION OF REVENUE

1 REVENUE 11 Taxes 111 Taxes on income, profits, and capital gains 1111 Payable by individuals 1112 Payable by corporations and other enterprises 1113 Unallocable 112 Taxes on payroll and workforce 113 Taxes on property 1131 Recurrent taxes on immovable property 1132 Recurrent taxes on net wealth 1133 Estate, inheritance, and gift taxes 1134 Taxes on financial and capital transactions 1135 Other nonrecurrent taxes on property 1136 Other recurrent taxes on property 114 Taxes on goods and services 1141 General taxes on goods and services 11411 Value-added taxes 11412 Sales taxes 11413 Turnover and other general taxes on goods and services 1142 Excises 1143 Profits of fiscal monopolies 1144 Taxes on specific services 1145 Taxes on use of goods and on permission to use goods or perform activities 11451 Motor vehicles taxes 11452 Other taxes on use of goods and on permission to use goods or perform activities 1146 Other taxes on goods and services 115 Taxes on international trade and transactions 1151 Customs and other import duties 1152 Taxes on exports 1153 Profits of export or import monopolies 1154 Exchange profits 1155 Exchange taxes 1156 Other taxes on international trade and transactions 116 Other taxes 1161 Paid solely by business 1162 Paid by other than business or unidentifiable	12 Social contributions [GFS] 121 Social security contributions 1211 Employee contributions 1212 Employer contributions 1213 Self-employed or nonemployed contributions 1214 Unallocable contributions 122 Other social contributions 1221 Employee contributions 1222 Employer contributions 1223 Imputed contributions 13 Grants 131 From foreign governments 1311 Current 1312 Capital 132 From international organizations 1321 Current 1322 Capital 133 From other general government units 1331 Current 1332 Capital 14 Other revenue 141 Property income [GFS] 1411 Interest [GFS] 1412 Dividends 1413 Withdrawals from income of quasi-corporations 1414 Property income attributed to insurance policyholders 1415 Rent 142 Sales of goods and services 1421 Sales by market establishments 1422 Administrative fees 1423 Incidental sales by nonmarket establishments 1424 Imputed sales of goods and services 143 Fines, penalties, and forfeits 144 Voluntary transfers other than grants 1441 Current 1442 Capital 145 Miscellaneous and unidentified revenue
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[GFS] indicates that this item has the same name but different coverage in the 1993 SNA.

APPENDIX F. GFS MANUAL 2001 (continued)

B. ECONOMIC CLASSIFICATION OF EXPENSE

<p>2 EXPENSE</p> <p>21 Compensation of employees [GFS]</p> <p>211 Wages and salaries [GFS] 2111 Wages and salaries in cash [GFS] 2112 Wages and salaries in kind [GFS]</p> <p>212 Social contributions [GFS] 2121 Actual social contributions [GFS] 2122 Imputed social contributions [GFS]</p> <p>22 Use of goods and services</p> <p>23 Consumption of fixed capital [GFS]</p> <p>24 Interest [GFS] 241 To nonresidents 242 To residents other than general government 243 To other general government units</p> <p>25 Subsidies</p> <p>251 To public corporations 2511 To nonfinancial public corporations 2512 To financial public corporations</p> <p>252 To private enterprises 2521 To nonfinancial private enterprises 2522 To financial private enterprises</p> <p>26 Grants</p> <p>261 To foreign governments 2611 Current 2612 Capital</p> <p>262 To international organizations 2621 Current 2622 Capital</p> <p>263 To other general government units 2631 Current 2632 Capital</p>	<p>27 Social benefits [GFS]</p> <p>271 Social security benefits 2711 Social security benefits in cash 2712 Social security benefits in kind</p> <p>272 Social assistance benefits 2721 Social assistance benefits in cash 2722 Social assistance benefits in kind [GFS]</p> <p>273 Employer social benefits 2731 Employer social benefits in cash 2732 Employer social benefits in kind</p> <p>28 Other expense</p> <p>281 Property expense other than interest 2811 Dividends (public corporations only) 2812 Withdrawals from income of quasi-corporations (public corporations only) 2813 Property expense attributed to insurance policyholders [GFS] 2814 Rent</p> <p>282 Miscellaneous other expense 2821 Current 2822 Capital</p>
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[GFS] indicates that this item has the same name but different coverage in the 1993 SNA .

APPENDIX F. GFS MANUAL 2001 (continued)**D. CLASSIFICATION OF OUTLAYS BY FUNCTIONS OF GOVERNMENT**

7	TOTAL OUTLAYS		
701	General public services	70434	Other fuels
7011	Executive and legislative organs, financial and fiscal affairs, external affairs	70435	Electricity
70111	Executive and legislative organs	70436	Nonelectric energy
70112	Financial and fiscal affairs	7044	Mining, manufacturing, and construction
70113	External affairs	70441	Mining of mineral resources other than mineral fuels
7012	Foreign economic aid	70442	Manufacturing
70121	Economic aid to developing countries and countries in transition	70443	Construction
70122	Economic aid routed through international agencies	7045	Transport
7013	General services	70451	Road transport
70131	General personnel services	70452	Water transport
70132	Overall planning and statistical services	70453	Railway transport
70133	Other general services	70454	Air transport
7014	Basic research	70455	Pipeline and other transport
7015	R&D General public services	7046	Communication
7016	General public services n.e.c.	7047	Other industries
7017	Public debt transactions	70471	Distributive trades, storage, and Warehousing
7018	Transfers of a general character between different levels of government	70472	Hotels and restaurants
702	Defense	70473	Tourism
7021	Military defense	70474	Multipurpose development projects
7022	Civil defense	7048	R&D Economic affairs
7023	Foreign military aid	70481	R&D General economic, commercial, and labor affairs
7024	R&D Defense	70482	R&D Agriculture, forestry, fishing, and hunting
7025	Defense n.e.c.	70483	R&D Fuel and energy
703	Public order and safety	70484	R&D Mining, manufacturing, and construction
7031	Police services	70485	R&D Transport
7032	Fire protection services	70486	R&D Communication
7033	Law courts	70487	R&D Other industries
7034	Prisons	7049	Economic affairs n.e.c.
7035	R&D Public order and safety	705	Environmental protection
7036	Public order and safety n.e.c.	7051	Waste management
704	Economic affairs	7052	Waste water management
7041	General economic, commercial, and labor affairs	7053	Pollution abatement
70411	General economic and commercial affairs	7054	Protection of biodiversity and landscape
70412	General labor affairs	7055	R&D Environmental protection
7042	Agriculture, forestry, fishing, and hunting	7056	Environmental protection n.e.c.
70421	Agriculture	706	Housing and community amenities
70422	Forestry	7061	Housing development
70423	Fishing and hunting	7062	Community development
7043	Fuel and energy	7063	Water supply
70431	Coal and other solid mineral fuels	7064	Street lighting
70432	Petroleum and natural gas	7065	R&D Housing and community amenities
70433	Nuclear fuels	7066	Housing and community amenities n.e.c.

Table concluded on the following page

APPENDIX F. GFS Manual 2001 (concluded)**D. CLASSIFICATION OF OUTLAYS BY FUNCTIONS OF GOVERNMENT (concluded)**

707	Health	709	Education
7071	Medical products, appliances, and equipment	7091	Pre-primary and primary education
70711	Pharmaceutical products	70911	Pre-primary education
70712	Other medical products	70912	Primary education
70713	Therapeutic appliances and equipment	7092	Secondary education
7072	Outpatient services	70921	Lower-secondary education
70721	General medical services	70922	Upper-secondary education
70722	Specialized medical services	7093	Postsecondary nontertiary education
70723	Dental services	7094	Tertiary education
70724	Paramedical services	70941	First stage of tertiary education
7073	Hospital services	70942	Second stage of tertiary education
70731	General hospital services	7095	Education not definable by level
70732	Specialized hospital services	7096	Subsidiary services to education
70733	Medical and maternity center services	7097	R&D Education
70734	Nursing and convalescent home services	7098	Education n.e.c.
7074	Public health services		
7075	R&D Health	710	Social protection
7076	Health n.e.c.	7101	Sickness and disability
		71011	Sickness
708	Recreation, culture, and religion	71012	Disability
7081	Recreational and sporting services	7102	Old age
7082	Cultural services	7103	Survivors
7083	Broadcasting and publishing services	7104	Family and children
7084	Religious and other community services	7105	Unemployment
7085	R&D Recreation, cultural, and religion	7106	Housing
7086	Recreation, culture, and religion n.e.c.	7107	Social exclusion n.e.c.
		7108	R&D Social protection
		7109	Social protection n.e.c.

n.e.c. = not elsewhere classified

R&D = research and development

APPENDIX G. WORLD BANK COUNTRY FINANCIAL ACCOUNTABILITY ASSESSMENT (CFAA)¹⁹

Annex B. Key Issues to Examine

(i) External Fiscal Reporting and Transparency

Do the central budget office and spending ministries receive timely and accurate information to enable them to monitor budget implementation? Do they act on this information?

Is this information provided according to the same classification as the budget construction?

Is there regular external reporting on budget implementation?

What is the quality and timeliness of the government's annual external fiscal statements? Do they reflect budgets results, extra-budgetary operations, information on assets and liabilities? Do they exclude or not identify any significant parts of government activity?

What standards are used in their preparation – GFS, IPSAS or modifications of either? Are they applied consistently?

Are the statements used for any accountability or decision-making purposes?

How reliable is the published information? Are the statements audited? Are any suspense accounts reconciled/closed before end of the year? Is there a reconciliation between fiscal and monetary data?

¹⁹ Explained on World Bank website—<http://www1.worldbank.org/publicsector/cfaa.htm>.

APPENDIX H. OECD BEST PRACTICES FOR BUDGET TRANSPARENCY²⁰

Office for Economic Co-operation and Development
Public Management Service
Public Management Committee
PUMA/SBO(2000)6/REV1
19 September 2000

Background

1. Sound governance arrangements are essential for strengthening pluralistic democracy, promoting economic prosperity and social cohesion, and for maintaining confidence in public administration. Transparency -- openness about policy intentions, formulation and implementation -- is a key element of good governance. The budget is the single most important policy document of governments, where policy objectives are reconciled and implemented in concrete terms. Budget transparency is defined as the full disclosure of all relevant fiscal information in a timely and systematic manner.
2. OECD Member countries are at the forefront of budget transparency practices. At its 1999 annual meeting, the OECD Working Party of Senior Budget Officials asked the Secretariat to draw together a set of Best Practices in this area based on Member countries' experiences.
3. The Best Practices are in three parts. Part I lists the principal budget reports that governments should produce and their general content. Part II describes specific disclosures to be contained in the reports. Part III highlights practices for ensuring the integrity of the reports.
4. The Best Practices are designed as a reference tool for Member and non-member countries to use in order to increase the degree of budget transparency in their respective countries.

The Best Practices define "government" in line with the System of National Accounts (SNA). This definition encompasses the non-commercial activities of government. Specifically, the activities of state-owned enterprises are excluded from this definition. Although the SNA definition focuses on general government, i.e. consolidating all levels of government, these Best Practices should be seen to apply to the national government.

1. Budget Reports

1.1 The Budget

- The budget is the government's key policy document. It should be comprehensive, encompassing all government revenue and expenditure, so that the necessary trade-offs between different policy options can be assessed.
- The government's draft budget should be submitted to parliament far enough in advance to allow parliament to review it properly. In no case should this be less than 3 months prior to the start of the fiscal year. The budget should be approved by parliament prior to the start of the fiscal year.

²⁰ Extracted from OECD website—<http://www.oecd.org>.

- The budget, or related documents, should include a detailed commentary on each revenue and expenditure programme. Non-financial performance data, including performance targets, should be presented for expenditure programmes where practicable.
- The budget should include a medium-term perspective illustrating how revenue and expenditure will develop during, at least, the two years beyond the next fiscal year. Similarly, the current budget proposal should be reconciled with forecasts contained in earlier fiscal reports for the same period; all significant deviations should be explained.
- Comparative information on actual revenue and expenditure during the past year and an updated forecast for the current year should be provided for each programme. Similar comparative information should be shown for any non-financial performance data.
- If revenue and expenditures are authorised in permanent legislation, the amounts of such revenue and expenditures should nonetheless be shown in the budget for information purposes along with other revenue and expenditure.
- Expenditures should be presented in gross terms. Ear-marked revenue and user charges should be clearly accounted for separately. This should be done regardless of whether particular incentive and control systems provide for the retention of some or all of the receipts by the collecting agency.
- Expenditures should be classified by administrative unit (e.g., ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.
- The economic assumptions underlying the report should be made in accordance with Best Practice 2.1 (below).
- The budget should include a discussion of tax expenditures in accordance with Best Practice 2.2 (below).
- The budget should contain a comprehensive discussion of the government's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practice 2.3-2.6 (below).

1.2 Pre-Budget Report

- A pre-budget report serves to encourage debate on the budget aggregates and how they interact with the economy. As such, it also serves to create appropriate expectations for the budget itself. It should be released no later than 1 month prior to the introduction of the budget proposal.
- The report should state explicitly the government's long-term economic and fiscal policy objectives and the government's economic and fiscal policy intentions for the forthcoming budget and, at least, the following two fiscal years. It should highlight the total level of revenue, expenditure, deficit or surplus, and debt.

- The economic assumptions underlying the report should be made in accordance with Best Practice 2.1 (see below).

1.3 Monthly Reports

- Monthly reports show progress in implementing the budget. They should be released within 4 weeks of the end of each month.
- They should contain the amount of revenue and expenditure in each month and year-to-date. A comparison should be made with the forecast amounts of monthly revenue and expenditure for the same period. Any in-year adjustments to the original forecast should be shown separately.
- A brief commentary should accompany the numerical data. If a significant divergence between actual and forecast amounts occurs, an explanation should be made.
- Expenditures should be classified by major administrative units (e.g., ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.
- The reports, or related documents, should also contain information on the government's borrowing activity (see Best Practice 2.3 below).

1.4 Mid-Year Report

- The mid-year report provides a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the current fiscal year and, at least, the following two fiscal years. The report should be released within six weeks of the end of the mid-year period.
- The economic assumptions underlying the budget should be reviewed and the impact of any changes on the budget disclosed (see Best Practice 2.1).
- The mid-year should contain a comprehensive discussion of the government's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practices 2.3 - 2.6 (below).
- The impact of any other government decisions, or other circumstances, that may have a material effect on the budget should be disclosed.

1.5 Year-End Report

- The year-end report is the government's key accountability document. It should be audited by the Supreme Audit Institution, in accordance with Best Practice 3.3 (below) and be released within six months of the end of the fiscal year.
- The year-end report shows compliance with the level of revenue and expenditures authorised by parliament in the budget. Any in-year adjustments to the original budget should be shown separately. The presentation format of the year-end report should mirror the presentation format of the budget.

- The year-end report, or related documents, should include non-financial performance information, including a comparison of performance targets and actual results achieved where practicable.
- Comparative information on the level of revenue and expenditure during the preceding year should also be provided. Similar comparative information should be shown for any non-financial performance data.
- Expenditure should be presented in gross terms. Ear-marked revenue and user charges should be clearly accounted for separately.
- Expenditure should be classified by administrative unit (e.g., ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.
- The year-end report should contain a comprehensive discussion of the government's financial assets and financial liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practices 2.3 - 2.6 (below).

1.6 Pre-Election Report

- A pre-election report serves to illuminate the general state of government finances immediately before an election. This fosters a more informed electorate and serves to stimulate public debate. Optimally, this report should be released no later than 2 weeks prior to elections.
- The report should contain the same information as the mid-year report.
- Special care needs to be taken to assure the integrity of such reports, in accordance with Best Practice 3.2 (below).

1.7 Long-Term Report

- The long-term report assesses the long-term sustainability of current government policies. It should be released at least every 5 years, or when major changes are made in substantive revenue or expenditure programmes.
- The report should assess the budgetary implications of demographic change, such as population ageing and other potential developments over the long term (10-40 years).
- All key assumptions underlying the projections contained in the report should be made explicit and a range of plausible scenarios presented.

2. Specific Disclosures

2.1 Economic Assumptions

- Deviations from the forecast of the key economic assumptions underlying the budget are the government's key fiscal risk.
- All key economic assumptions should be disclosed explicitly. This includes the forecast for GDP growth, the composition of GDP growth, the rate of employment and unemployment, the current account, inflation and interest rates (monetary policy).
- A sensitivity analysis should be made of what impact changes in the key economic assumptions would have on the budget.
- An assessment of alternative economic scenarios should be made and what impact they would have on the budget.

2.2 Tax Expenditures

- Tax expenditures are the estimated costs to the tax base of preferential treatment for specific activities.
- The estimated cost of key tax expenditures should be disclosed as supplementary information in the budget. To the extent practicable, a discussion of tax expenditures for specific functional areas should be incorporated into the discussion of general expenditures for those areas in order to inform budgetary choices.

2.3 Financial Liabilities and Financial Assets

- All financial liabilities and financial assets should be disclosed in the budget, the mid-year report, and the year-end report. Monthly borrowing activity should be disclosed in the monthly reports, or related documents.
- Borrowings should be classified by the currency denomination of the debt, the maturity profile of the debt, whether the debt carries a fixed or variable rate of interest, and whether it is callable.
- Financial assets should be classified by major type, including cash, marketable securities, investments in enterprises and loans advanced to other entities. Investments in enterprises should be listed individually. Loans advanced to other entities should be listed by major category reflecting their nature; historical information on defaults for each category should be disclosed where available. Financial assets should be valued at market value.
- Debt management instruments, such as forward contracts and swaps, should be disclosed.
- In the budget, a sensitivity analysis should be made showing what impact changes in interest rates and foreign exchange rates would have on financing costs.

2.4 Non-Financial Assets

- Non-financial assets, including real property and equipment, should be disclosed.

- Non-financial assets will be recognised under full accrual based accounting and budgeting. This will require the valuation of such assets and the selection of appropriate depreciation schedules. The valuation and depreciation methods should be fully disclosed.
- Where full accrual basis is not adopted, a register of assets should be maintained and summary information from this register provided in the budget, the mid-year report and the year-end report.

2.5 Employee Pension Obligations

- Employee pension obligations should be disclosed in the budget, the mid-year report and the year-end report. Employee pension obligations are the difference between accrued benefits arising from past service and the contributions that the government has made towards those benefits.
- Key actuarial assumptions underlying the calculation of employee pension obligations should be disclosed. Any assets belonging to employee pension plans should be valued at market value.

2.6 Contingent Liabilities

- Contingent liabilities are liabilities whose budgetary impact is dependent on future events which may or may not occur. Common examples include government loan guarantees, government insurance programmes, and legal claims against the government.
- All significant contingent liabilities should be disclosed in the budget, the mid-year report and the annual financial statements.
- Where feasible, the total amount of contingent liabilities should be disclosed and classified by major category reflecting their nature; historical information on defaults for each category should be disclosed where available. In cases where contingent liabilities cannot be quantified, they should be listed and described.

3. Integrity, Control and Accountability

3.1 Accounting Policies

- A summary of relevant accounting policies should accompany all reports. These should describe the basis of accounting applied (e.g., cash, accrual) in preparing the reports and disclose any deviations from generally accepted accounting practices.
- The same accounting policies should be used for all fiscal reports.
- If a change in accounting policies is required, then the nature of the change and the reasons for the change should be fully disclosed. Information for previous reporting periods should be adjusted, as practicable, to allow comparisons to be made between reporting periods.

3.2 Systems and Responsibility

- A dynamic system of internal financial controls, including internal audit, should be in place to assure the integrity of information provided in the reports.
- Each report should contain a statement of responsibility by the finance minister and the senior official responsible for producing the report. The minister certifies that all government decisions with a fiscal impact have been included in the report. The senior official certifies that the finance ministry has used its best professional judgement in producing the report.

3.3 *Audit*

- The year-end report should be audited by the Supreme Audit Institution in accordance with generally accepted auditing practices.
- Audit reports prepared by the Supreme Audit Institution should be scrutinised by parliament.

3.4 *Public and Parliamentary Scrutiny*

- Parliament should have the opportunity and the resources to effectively examine any fiscal report that it deems necessary.
- All fiscal reports referred to in these Best Practices should be made publicly available. This includes the availability of all reports free of charge on the Internet.
- A public commitment to the exact date on which each fiscal report will be released should be made at the beginning of the year (“advance release calendar”).
- The finance ministry should actively promote an understanding of the budget process by individual citizens and non-governmental organisations.

APPENDIX I. GOVERNMENT FISCAL MANAGEMENT PROCESSES AND INFORMATION SYSTEMS²¹

Government Fiscal Management Processes

Macro Economic Forecasting

This process assists expenditure and resource planning by developing a macroeconomic framework linking the growth of national income, savings, investment and balance of payments to public expenditures and revenues. The process helps in the development of: aggregates of the government budget, notably revenues, expenditures, and the overall fiscal deficit and its financing; the balance between the capital and recurrent components of the budget; composition of expenditures by the main sector spending agencies; revenue forecasts consistent with macro-economic assumptions; forecasts of non-tax revenues based on macroeconomic projections; estimates of resources available from domestic and external borrowings; projections of current expenditure.

Budget Preparation

The process of budget preparation starts with the development of a budget circular indicating economic prospects, broad policy objectives, how the budget is expected to attain them, and sectoral allocations/ceilings consistent with the macroeconomic framework. The next step is the preparation and analysis of line agency expenditure proposals and revenue forecasts and their consolidation into an annual budget document after a series of discussions at cabinet level, between line ministries, the MOF, the budgetary committees of parliament and approval by the legislature. These discussions focus on how the budget proposals would meet the policy objectives outlined in the budget circular, on inter-se priorities of the various proposals, the validity of the resource requirements contained in these proposals and how they can best be accommodated in the overall budgetary envelope.

Budget Execution, Accounting, and Fiscal Reporting

This set of processes covers the functions associated with implementing the budget, including the procurement of goods and services in accordance with budget estimates, the recording and accounting of all government transactions, and development of periodic reports to monitor the overall flow of spending or use of appropriations. over the course of the year, highlighting major deviations from the planned budget and suggesting corrective measures.

Information Systems Support

Information Systems to Support Macro Economic Forecasting

This group of systems assist the MOF with macro fiscal forecasting and development of the macroeconomic framework. This is in turn used by the MOF to advise cabinet on aggregate budget parameters and guidelines for budget agencies to submit budget estimates. These systems require data from external economic databases, and the assumptions regarding GNP, inflation rates, and the central government deficit. In addition they require information on programs and projects the government intends to implement over the period of the MTEF, data on estimates of tax and non-tax revenues, data on domestic and external borrowings, for example, maintained by other components of the GFM systems network.. Manpower component, the maintenance, and other operating expenses.

Information Systems to Assist in Budget Preparation and Approval

The Budget preparation systems receive details of ongoing and planned programs and projects from the various line agencies, consolidate them, and produce from them the documents that form the basis of the negotiations between the line agencies and central agencies (MOF). After finalization of the budget by cabinet, the systems produce the approved budget estimates. The systems record and maintain the budgetary proposals and income estimates of all government agencies and record any changes during the budget preparation, approval and amendment processes. To assist in the evaluation of the budget proposals the system should be able to access and generate the baseline data on the manpower component, the maintenance, and other operating expenses from the relevant past-year databases. Examination of the capital expenditures requires data on the status (physical and financial) of government-approved projects, (both locally and foreign-funded). The budget preparation systems need to be supplemented with tools (such as those for cost-benefit analysis, evaluation, and performance measurement) that assist the sector and core agencies in deciding between alternative program proposals.

Information Systems for Budget Execution, Accounting and Fiscal Reporting

These systems are the centerpiece of the GFM systems network, the primary repository of financial data, and serve as the basis of the governments Financial Management Information System (FMIS). These systems are used to perform the processes associated with budget execution, monitoring and control to obtain the status of actual expenditures on ongoing projects. These systems also monitor and evaluate the overall budget implementation processes and produce the necessary fiscal reports. In addition, these systems would provide useful financial information to the line ministries, and spending units (in their respective areas) to enable them to better manage their work programs. Systems support is focused on four main systems (1) budget and warrant control; (2) accounts payable; (3) accounts receivable; and (4) the treasury general ledger system (TLS). Together they constitute the government's Core Accounting System. The first of these is concerned with maintaining data on spending authority. These systems maintain data on approved budgeted appropriations (both capital and recurrent), sources of financing for programs and projects, budget transfers, and supplementary allocations, fund releases (warrants) against budgetary allocations over the course of the year. The second and third group of systems are used to process transactions electronically as they occur, and record data on commitments and actual expenditures against budgeted allocations. The TLS is used for compilation of summary records for control and analysis.

²¹ Pages 6-7, Information Systems for Government Fiscal Management by Ali Hashim and Bill Allan, The World Bank, 1999.

APPENDIX I. GOVERNMENT FISCAL MANAGEMENT PROCESSES AND INFORMATION SYSTEMS (CONTINUED)

Government Fiscal Management ProcessesCash Management

This includes the processes of developing agency and central cash flow forecasts, the release of funds to spending agencies, the monitoring of cash flows and expected cash requirements, the issue and redemption of government securities for financing government programs.

Debt Management

This process defines the tasks associated with maintenance of records on all contracted public debt on an individual loan basis and classified according to source and type of loan. This process also assists economic and policy analysis by determining, for example, the debt implications of different fiscal and deficit financing policies by preparing projections of debt service commitments under existing and anticipated contracts.

Revenue Administration

The process deals with formulation and administration of tax policies and covers the actual levy and collection of revenues including taxes and duties as laid down in these policies, and the valuation and collection of non tax revenues, such as stamp duties, user fees, charges for services etc.

Personnel Administration

This covers the activities associated with the development and maintenance of governments human resource policies including manpower planning, complement control, civil service pay and pension policies, the fiscal impact of these policies and their administration.

Auditing

The process deals with the analysis and scrutiny of public, financial, and other transactions to ensure the compliance with government policies and procedures and to ensure cost-effective use of public funds in accordance with overall government priorities.

Information Systems SupportCash Management System

The cash management system assists Government to maintain an up-to-date picture of the government's liquidity position and cash requirements. It obtains information on actual agency expenditures and cash balances in government (including agency) accounts from the general ledger. Revenue inflows, borrowing, loan disbursements, treasury bills, government bonds, and cash deposit maturities are obtained either from the general ledger or from the specific systems for these areas, for example, the debt management system. Using this information, the government can decide on (a) budget ceilings and fund releases to line agencies; and (b) the timing of the issues and redemptions of government securities to provide short-term financing for shortfalls.

Debt Management System

These systems maintain information on public domestic and external borrowings. This includes information contained in loan documents and transactions and issues of government securities. In addition to accounting information, these systems also provide important information required in the formulation of fiscal policy such as forecasts of drawdown and debt-servicing liabilities, and debt implications of various fiscal and deficit financing policies. Payments related to government borrowings are carried out by the central system based on the data in the debt management system. Loan receipts recorded in government accounts are processed by the central accounting system and then used to update the debt database maintained by the debt management system.

Systems for Revenue Administration

This group of systems assist the government in the processes associated with formulating tax and tariff policies and the subsequent collection of tax and non tax revenue. A number of separate systems are involved in this group: for example, those supporting the administration and collection of income taxes, customs duties or VAT, and those supporting the collection of various types of non-tax revenues, such as stamp duties. The revenue administration systems provide summary information on revenue collections to the Core Accounting Systems as shown in the diagram. Revenues collected by the tax and customs administration departments would be recorded at an aggregate level in the TLS, and would be reconciled with deposits made in the banking system.

Systems to Assist in Fiscal Aspects of Personnel Management

The aspects of personnel management which are relevant from the point of view of GFM are the processes associated with post management and complement control and with payroll and pension payments. The corresponding systems modules therefore form important elements in the GFM network of information systems as shown in the diagram. The payroll, pensions and employee advances systems periodically post summaries to the central system.

Systems to Support Auditing

Auditing takes place at two levels: internal audit at line ministries during the course of the FY and external audit by the auditor general through random checks and on the final accounts for the FY. These systems assist the internal and external audit agencies in their functions.

APPENDIX J. COMMITMENTS²²

490. A commitment is generally acknowledged as the government's responsibility for a future liability based on an existing contractual agreement. Although there may be a contractual agreement, the contract does not yet give rise to a present obligation. This is because no exchange has yet taken place or, in the case of a non-reciprocal transaction, the payment is not yet due. The obligation, and therefore the liability, normally arises on delivery of the goods and services. For example, when an entity enters into a commitment to purchase or construct a capital asset in the future, an obligation normally arises only when the asset is delivered or the entity enters into an irrevocable agreement to acquire the asset. The difference between commitments and liabilities is usually clear for contractual obligations. Classification may be more difficult when obligations are embodied in legislation and some judgment may be required.

491. Commitments differ from contingent liabilities in that there is generally certainty that the liability will occur, but the present obligation will not occur until a future reporting period. The obligation is not dependent upon the outcome of an uncertain future event. At the point at which the present obligation does occur, the item ceases to be a commitment and is recognized as a liability.

492. Commitments may be disclosed in the notes or in a separate schedule. They are not accrued as liabilities in the financial statements. Various international accounting standards require the disclosure of commitments. IAS 1, Presentation of Financial Statements requires business enterprises to disclose amounts committed for future capital expenditure. IAS 17, Leases is an example of a standard that expands on the general disclosure requirement in IAS 1. It requires the disclosure of commitments for minimum lease payments under finance leases and under non-cancelable operating leases with a term of more than one year in summary form, showing the amounts and periods in which the payments will become due.

493. Governments can readily report the types of commitments that businesses report such as those related to purchase of goods and services to be provided as set out in existing contracts, agreements or legislation.

494. An argument can be made that a government's entire budget, once approved, can be considered an expenditure commitment by the government. But disclosure of that "commitment" would be of little use in the government's financial statements. The amounts allowed for in a government's annual budget would be recognized as expenses by the end of the annual reporting period.

495. Generally obligations arising from ongoing social programs would not be disclosed as commitments as there is no legal obligation to make the payments in the future (although this may vary between jurisdictions). Information on the government's future obligations under ongoing social programs is needed to assess future borrowing requirements and taxation levels and the resulting impact on the economy; the long-term viability of social programs; and policy options available to control or reduce spending or deficit levels. This information may be disclosed in budget documents and/or financial statements.

496. Another alternative is to disclose information about only those commitments that are abnormal in relation to the government's financial position or normal course of "business", or that will have a significant effect on the need for revenue in the future.

²² Extracted from p. 123, Government Financial Reporting, Study 11, May 2000, IFAC Public Sector Committee.

497. Information about employment agreements is not disclosed as a commitment because such agreements are in the normal course of business. Similarly, it could be argued that ongoing social programs are in the normal course of the government's business and need not be highlighted unless there is a new program commitment or a significant change to expand existing programs.

498. Some governments (e.g., the U.S. federal government) are required by law to project future expenditure levels on the basis of existing policy and disclose this information.

APPENDIX K. ILLUSTRATIVE BUDGETARY COMPARISON STATEMENTS FOR STATE AND LOCAL GOVERNMENTS IN THE UNITED STATES²³

Budgetary comparison schedules should be presented as required supplementary information (RSI) for the general fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule should present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the government's budgetary basis. A separate column to report the variance between the final budget and actual amounts is encouraged, but not required. Governments also may report the variance between original and final budget amounts. Governments may elect to report the budgetary comparison information in a budgetary comparison *statement* as part of the basic financial statements, rather than RSI.

Sample City Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2002

<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Positive (Negative)</u>
Budgetary Fund Balance, January 1			
Resources (inflows)			
Charges to appropriations (outflows)			
Budgetary Fund Balance, December 31			

²³ Extracted from p. 267-273, GASB 34 Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, June 1999 (United States)

APPENDIX L. COMMON DIFFERENCES BETWEEN GAAP AND BUDGETARY BASIS OF ACCOUNTING²⁴

The timing of revenue and expenditures may be different under the GAAP basis of accounting than under the budgetary basis of accounting. For example, in GAAP accounting revenues are recognized in governmental funds as soon as they are both “measurable” and “available” whereas revenue recognition under the budgetary basis of accounting may be deferred until amounts are actually received in cash.

Encumbered amounts are commonly treated as expenditures under the budgetary basis of accounting while encumbrances are never classified as expenditures under the GAAP basis of accounting.

Budgetary revenues and expenditures may include items classified as “other financing sources” and “other financing uses” under the GAAP basis of accounting.

Under the GAAP basis of accounting, changes in the fair value of investments generally are treated as adjustments to revenue, which commonly is not the case under the budgetary basis of accounting.

Under the GAAP basis of accounting, expenditure is recognized for the net present value of minimum lease payments at the time a government enters into a capital lease involving a governmental fund. No such expenditure typically is recognized under the budgetary basis of accounting.

There may be differences between the fiscal year used for financial reporting and the budget period (e.g., the use of lapse periods in connection with encumbrances, project-length budgets, grant budgets tied to the *grantor's* fiscal year).

The fund balance used in GAAP financial statements may differ from the fund structure used for budgetary purposes (e.g., debt service payments may be accounted for in the general fund for budgetary purpose, but reported in a debt service fund in the GAAP financial statements).

The government's budget document may not include all of the component units and funds incorporated into the GAAP financial statements (e.g., a school district included in the GAAP financial statements may not be incorporated into the budget).

Under the GAAP basis of accounting used in proprietary funds, the receipt of long-term debt proceeds, capital outlays and debt service principal payments are not reported in operations, but allocations for depreciation and amortization expense are recorded. Often the opposite is true under the budgetary basis of accounting.

²⁴ Extracted from “Relationship Between Budgetary and Financial Statement Information (1999)” published by the Government Finance Officers Association of America on their website, <http://www.gfoa.org>.