



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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DATE: 17 FEBRUARY 2004  
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE  
FROM: DR. JESSE W. HUGHES, CPA, COA, CGFM  
SUBJECT: **RESEARCH REPORT ON BUDGETARY REPORTING**

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## **ACTION REQUIRED**

The Committee is asked to:

- **review** the draft Research Report; and
- **approve** the draft Report for publication (subject to any final amendments agreed at the meeting), or identify areas for further revision, in which case the Report will be updated for review and approval at the July PSC meeting.

## **AGENDA MATERIAL:**

	<b>Pages</b>
Draft <i>Research Report on Budget Reporting</i> .	9.3-9.76
Steering Committee comments	9.77-108

## **BACKGROUND**

An initial draft of a Research Report on Budget Reporting was presented to the PSC in Vancouver on 18 July 2003. The PSC decided at that meeting that a potential IPSAS on Budget Reporting was within the PSC mandate and that research toward that end was appropriate. A Budget Reporting Steering Committee (BRSC) was established in August and their comments were incorporated into the revised Research Report to the maximum extent possible prior to the November 2003 PSC meeting in Berlin. The draft Research Report was revised based on comments received at the meeting in Berlin from the PSC members and subsequent comments from BRSC members. Their responses to the latest drafts are included in the material being distributed.

The comments received provided for a sharper focus in the Research Report. Although I attempted to incorporate as many comments into the draft report as I deemed beneficial, the views expressed in the Research Report are mine. Consequently, any omissions or commissions in the Report are strictly my errors in compilation or interpretation. Comments on my views expressed in the Research Report would be greatly appreciated.

## ISSUES

### **(i) Nature of Document**

The research report could be issued as an Occasional paper or an Invitation to Comment (ITC). If considered to be controversial enough to be issued as an ITC, the document will need to be revised into the ITC format. However, I feel that there is enough support for an IPSAS on Budgetary Reporting that the Research Report could be issued as an Occasional paper with request for comments from constituents.

#### ***Recommendation***

I recommend that the Research Report be issued as an Occasional paper and that the BRSC be given the responsibility to discuss the issues raised in the Research Report. In this manner, work can begin immediately on the preparation of an Exposure Draft for consideration by the PSC.

### **(ii) Definition of Budget Reporting**

There was considerable debate among BRSC members as to whether a potential IPSAS should address both ex-ante and ex-post budget reports. Ex-ante budget reports would include those issued to the public pertaining to the approved budget as well as those pertaining to budgetary forecasts of three or more years. Ex-post budget reports would include those issued to the public at the end of the fiscal period comparing the approved budget to the actual revenue and expenditure data.

#### ***Recommendation***

I recommend that all budget reports (both ex-ante and ex-post) issued to the public for transparency and accountability purposes be included in any proposed IPSAS on budget reporting.

### **(iii) Other Issues**

Numerous other recommendations and issues were identified during the research. These are highlighted in the Executive Summary.

#### ***Recommendation***

Each of these recommendations and issues should be discussed and resolved to the extent possible during the PSC meeting. Controversial issues should be referred to the BRSC for a recommendation to the PSC at a future meeting.

**Dr. Jesse W. Hughes**

**Consultant on the Budget Reporting Project**

**DRAFT**

**INTERNATIONAL FEDERATION OF ACCOUNTANTS  
PUBLIC SECTOR COMMITTEE**

**RESEARCH REPORT ON BUDGET REPORTING**

By  
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February 2004

**International Federation of Accountants-Public Sector Committee (IFAC-PSC)**  
**Steering Committee on Budget Reporting**

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Ron Points (Chair)	USA	Manager, Financial Management for East Asia and Pacific Region, World Bank
William L. Dorotinsky	World Bank	Finance Specialist, World Bank
Philippe Dujardin	Belgium	Director, Ministry of Finance - Budget and Management Control
Ludo Goubert (NATO)	FEE	Head of Internal Audit SHAPE (previously Head of Budgets and Finance Western European Union)
Claes-Goran Gustavsson	Sweden	Senior Expert - Swedish National Finance Management Authority
Geoff Harry	Australia	Partner (Assurance) - PricewaterhouseCoopers
Lou Hong	China	Director, Research and Regulation Division, Treasury Department, Ministry of Finance, Peoples Republic of China
Steve Leith	New Zealand	Principal Advisor – Treasury, Budget and Macroeconomic Branch
Alan Mackenzie	South Africa	CFO – Department of Justice
Sophie Mahieux	France	Former head of the Budget Directorate. Currently senior position in public expenditure execution.
Mike Parry	UK- African focus	Chair of IMG (International Management Consultant Group).
Ms. Torun Reite	Norway	Deputy Director General, Norwegian Ministry of Finance
Sietso van der Schaaf	Netherlands	Partner - Deloitte Touche
Christian Iver Svane	Denmark	Ministry of Finance - Special Adviser, Central Government Accounting and Budget
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*Members of the Steering Committee are appointed in their personal capacity rather than as representatives of their nominating body. The views expressed in this study are those of the author, and not those of the members of the Steering Committee, their employers or nominating organization. In arriving at these views, the author has considered input from the Steering Committee members but the views remain those of the author.*

# RESEARCH REPORT ON BUDGET REPORTING

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## Executive Summary

Most governments prepare and issue their annual financial budgets as public documents. Whether there should be an IPSAS that deals with general purpose reporting of the budget as a public document is considered in this Research Report. The objective of the IFAC Public Sector Committee (PSC) is to develop programs aimed at improving public sector financial management and accountability, including developing International Public Sector Accounting Standards (IPSASs) and promoting their acceptance. To meet this objective, the PSC has issued a number of IPSASs which identify the 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, and specify how a wide range of transactions and events are to be accounted for in those financial statements. These statements can 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.

The PSC had identified budget reporting as an important project during the first stage of its standards program. It commissioned the preparation of this Research Report to provide input on whether an IPSAS should be issued on budget reporting. The Project Brief is included as Appendix A. 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 mandate of the PSC;
- 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.

The major findings and recommendations of the Research Report are outlined below.

**Budget Process.** There are three main stages in the budgetary process: (1) During the **formulation** stage, initial budgets are developed and submitted to the legislative bodies for consideration. Spending authority is granted by legislative bodies based on the political priorities and fiscal policies of government. These ex-ante budget reports 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. (2) Implementation of the fiscal policies reflected in these budgets is accomplished during the **execution** stage. (3) Public **reporting** of the ex-ante budgets (both legally approved and prospective budgets) permits the government to identify their financial intentions (transparency). Further, ex-post **reporting** of a comparison between the actual results and the approved budget permits the government to identify their adherence to those budgets by comparing performance against the approved budget (accountability) and providing explanations of significant variances.

**Budget Practice.** This study on budget reporting considers research undertaken and best practices published by many bodies. If the budget is to be effective, it is generally recognized that the budget needs to be comprehensive and encompass all of the expenditures by government for all budget dependent entities. Analysis performed within five African countries indicates that their budgets are prepared on the cash basis and there are varying degrees of transparency in the reporting of budgetary data. Other research has found that some European countries have moved or are in the process of moving toward the accrual basis of accounting but have not expressed significant plans to change from the cash basis of budgeting. Also, a very comprehensive Budget Practices and Procedures survey conducted by the Office of Economic Cooperation

and Development (in collaboration with the IADB, IMF and World Bank) indicates that many countries plan to move toward the accrual basis of accounting. However, some of these countries prepare their budgets on the cash basis and they plan to continue to prepare their budgets on the cash or near cash basis for the foreseeable future although their accounting will be on the accrual basis.

**PSC Mandate.** The objective of the PSC is identified in the Preface to the IPSASs as follows: “Develop programs aimed at improving public sector financial management and accountability including developing accounting standards and promoting their acceptance.” Inclusion of budgetary information and other budget related matter in the accounting system and reporting budgetary data to constituents is crucial to improving public sector financial management (transparency). To assure that government officials are held accountable for their budgetary decisions, it is essential that users be informed on the degree by which their government officials were able to operate within the limits of the approved budget. The best mechanism by which to keep the public informed is through the budget reports (both legally approved and prospective budgets) at the time of their approval as well as the compliance reports issued as a component of the general purpose financial statements. As such, they fall within the PSC mandate identified in the Preface.

**Recommendations.** Based on the research conducted in this study, the following is recommended:

- 1: The PSC should issue an IPSAS on budget reporting since it falls within the mandate identified in the Preface to the PSC.**
- 2: An accounting standard should be issued to require that the Medium Term Fiscal Framework and prospective financial information be reported to their constituents in order to keep them informed on future financial implications of government policy.**
- 3: The accounting standards should require that the legally approved budget be published with the appropriate supporting budget documentation.**
- 4: The accounting standards applicable to ex-ante and ex-post general purpose financial statements should be developed with an awareness of the major features of budgetary accounting systems and should support the integration of budgetary and accounting systems to the maximum extent possible.**
- 5: In relevant studies and guidance, the PSC should acknowledge and encourage the use of commitment accounting procedures to assure that budgetary funds are available prior to release of a purchase order or contract.**
- 6: Ex-post budget reports reflecting budget to actual comparisons should be part of the general purpose financial statements issued at the end of the fiscal period for each reporting entity at each level of government.**
- 7: The Comparative Budget to Actual Statement should include the original budget as approved by the legislative body as well as the final adopted budget.**
- 8: If the budgetary system is on a different basis than the accounting system, a statement should be developed to reconcile key differences between the two systems.**
- 9: Ex-ante and ex-post budget reports should meet the qualitative characteristics (understandability, relevance, reliability, and comparability) of financial reporting specified in IPSAS 1.**
- 10: Budget reporting should be incorporated into the conceptual foundation for IPSASs.**

**Key Issues to be Resolved.** In order to implement the above recommendations, the following key issues need to be resolved:

- 1. A clear definition of budget reporting needs to be developed.**
- 2. A decision on whether to include ex-ante budget reports (legally approved and prospective budgets) in an IPSAS needs to be made.**
- 3. The extent of coverage for budgetary execution and control procedures in an IPSAS needs to be defined.**



- 4. A decision to include ex-post budget comparative statements as part of general purpose financial statements in an IPSAS needs to be made.**
- 5. Where there are differences between the budgetary and accounting bases, the requirement for and format of a reconciling statement needs to be determined.**
- 6. If a decision is made to issue an IPSAS on budget reporting, procedures will need to be identified to assure that qualitative characteristics of financial reporting are met.**
- 7. Budget reporting procedures will need to be included in the Conceptual Foundation for financial reporting of government entities.**

# Research Report on Budget Reporting

## 1. Objective

The primary objective of this Research Report is to determine if an IPSAS should be issued on budget reporting. In its initial strategy papers prepared in 2000 and 2001, the IFAC Public Sector Committee (PSC) identified budget reporting as a key public sector specific issue to be addressed in the second phase of its standards setting program. With the completion of its core 20 accrual IPSASs and the comprehensive cash basis IPSAS, the PSC actioned<sup>1</sup> this research project to identify and make recommendations as appropriate on the various aspects of budget formulation, execution and reporting.

## 2. Scope

This Research Report deals with budgets at all levels of government and for all reporting entities other than Government Business Enterprises. The definition of a reporting entity in the IPSASs may differ from the legislative specification of an entity for budget preparation and presentation purposes.

For purposes of this Research Report, budget reporting includes all budget reports issued to the public for transparency and accountability purposes. This would include the budgets approved by the legislative bodies at local, state, and national levels prior to or near the beginning of the fiscal period as well as prospective or forecast budgetary data (**ex-ante**). In addition, budget reports would include budget to actual comparative statements issued at the end of the accounting period (**ex-post**).

This study addresses 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. The issues to be considered are as follows:
  - The nature and requirements of any IPSAS that might be developed considering budget formulation, execution, and reporting.
  - The application of the recognition and measurement requirements of existing IPSASs in the budget context.

The qualitative characteristics of financial reporting previously identified in IPSAS 1<sup>2</sup> will be considered in this Research Report. These are as follows:

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

<sup>1</sup> See Terms of Reference in Appendix A.

<sup>2</sup> 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 other budget reports.

Management accounting and reporting of financial information in internal or special purpose reports to governments and senior government officials are significant issues that warrant further study. Budget information may be presented in documents other than general purpose financial statements and a cross-reference from general purpose financial statements to such documents may be appropriate, particularly to link budget and actual data to non-financial budget data and actual service achievements. However, management accounting issues are outside the specific objectives and scope of this study. Consequently, they are excluded from this Research Report.

### 3. Definitions

Some terms that are not included in the “Glossary of Defined Terms in IPSAS 1 to IPSAS 18” as published in the Handbook of International Public Sector Accounting Standards, 2003 Edition are in common use in the budget literature. These are identified and explained below and are used with these meanings throughout this paper:

**Allocation**—part of an 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 governmental units. 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 their units.
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.
10. **Supplementary budget**: These are budgets that are enacted during or after the end of the financial year to authorize expenditures not within original budgets. These do not normally represent policy changes, but may be necessary where the original budget did not adequately envisage expenditure requirements (e.g. war, natural disasters, etc.).
11. **Development budget**: Most developing countries worldwide have development and recurrent budgets. Typically the development budget is a collection of projects, whether internally or externally funded. The rest of the budget is then described as a recurrent budget. The development budget frequently includes non-capital items, and the recurrent budget often includes capital items. Some countries may consider that a development budget equates to a capital budget, but this is not presently the case for many countries.
12. **Below the line items**: In some countries, this term is used to refer to asset and liability accounts (accounts that are “below the line” of budget accounts), and also in some cases to monies that are effectively held in trust by government for some special purpose.

### **Budgetary Processes:**

1. **Budget formulation**: the practices and concepts that budget professionals use to create and review a budget until enacted into law.
2. **Budget execution**: the management activities that take place from enactment of the budget into law until the end of the fiscal period.
3. **Budget reporting**: considered to be of two types: **ex-ante**—the external reporting of the budget approved by the legislative body at or near the beginning of the fiscal period as well as external reporting of prospective or forecast budgetary data; and **ex-post**—the external reporting of the financial activities relative to the enacted budget for the fiscal period until the final audit after the end of the fiscal period. The budget to actual comparative statement is generally issued as a component of the historical financial statements.

**Commitment** (also known as an encumbrance)—There is not a generally accepted single definition of this term. It is sometimes considered to be synonymous with obligations as defined below. A commitment is

generally acknowledged as the government's responsibility for a possible future liability based on a contractual agreement. It includes outstanding purchase orders and contracts where goods or services have not yet been received. Some governments consider the term "commitments" to only apply to purchase requests or other such pre-obligation documents. As such, outstanding commitments lapse at the end of the fiscal period. For purposes of this Report, commitments, encumbrances, and obligations are considered to be intended actions which could result in a possible future liability, and are subject to the same accounting treatment.

**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.

**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 firm agreement to pay a vendor for goods or services received.

**Prospective budgetary information**—financial information based on assumptions about events that may occur in the future and possible actions by an entity. It is highly subjective in nature and its preparation requires the exercise of considerable judgment. Prospective financial information can be in the form of a forecast, a projection or a combination of both, for example, a one year forecast plus a five year projection.

**Virements**—the transfer of expenditures between budget heads. Normally, these will be constrained by legislation and/or financial rules. In some countries, virements are so extensive as to make the original budget allocations almost meaningless.

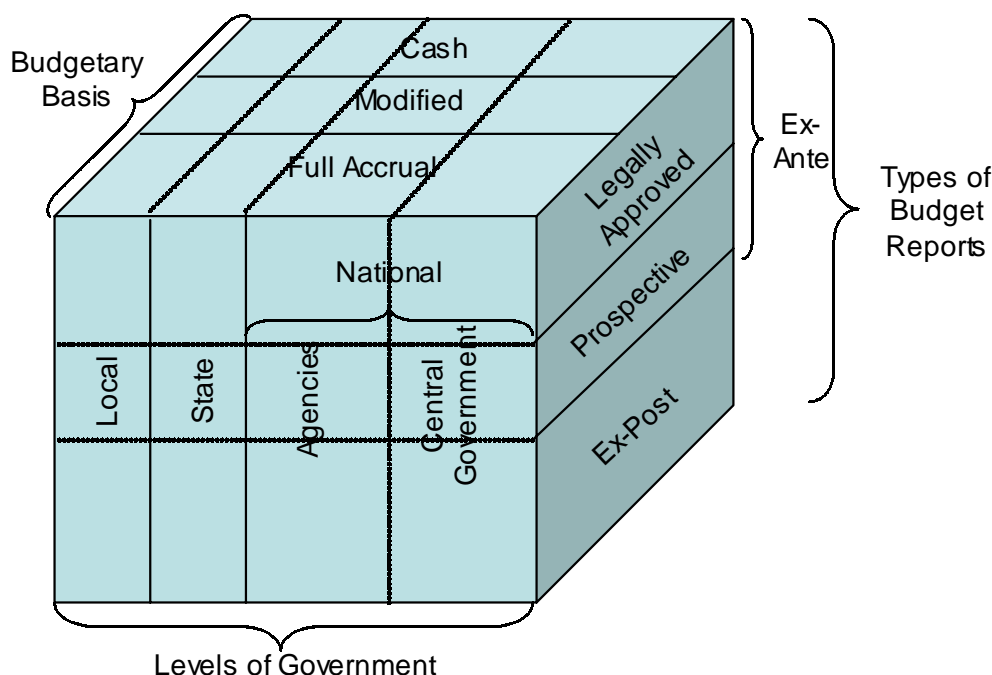
**Warranting**—the three stages of budgeting are identified as formulation, execution and reporting. In some countries, there is a sub-stage within budget execution of "warranting". The budget as approved does not in itself provide authority for expenditure. Rather, expenditure authority has to be warranted under procedures that will be laid down in the financial procedures. It is often used as a mechanism for cash management.

## 4. Budget Overview

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 which may be conducted on a cash or accrual basis at each of the levels of government (local, state, and national): (1) During the **formulation** stage, initial budgets are developed and submitted to the legislative bodies for consideration. Spending authority is granted by legislative bodies based on the political priorities and 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. (2) Adherence to these fiscal policies is accomplished during the **execution** stage. (3) Ex-ante public **reporting** of the initial budgets and forecast budgetary data (important for transparency) permits the government to

identify their financial intentions. In the ex-post **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) and provide explanations of significant variances. The following budget reporting model is used throughout this Research Report to identify this relationship:

**Exhibit 1. Budget Reporting Model**



Note: The modified budgetary basis encompasses both the modified cash and modified accrual bases. It could also apply to the commitments/obligations basis that is referred to by some governments.

#### **a. The Budget**

Budget documents are usually published and frequently widely commented upon in the mass media. Given the lateness of issue and complexity of historical public accounts in some countries, **the budget documents are often the most important source of publicly available information on public finance**. They reflect the financial characteristics of the government's plans for the forthcoming period and are used to analyze the consequences of those plans on the economy. Making budget data publicly available at the time of approval and subsequently when actual and budget can be compared 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. The parameters for the three stages of budget formulation, execution, and reporting are identified in Exhibit 2 below:

## Exhibit 2: Parameters of Budgetary Process

Stage	Possible areas for discussion
1. Formulation	<p>Budget formulation is a policy process and there are important aspects of the matters in the budget documents that could be addressed by an IPSAS, e.g.</p> <ul style="list-style-type: none"> <li>• Basis on which budget revenues and expenditures are estimated and time periods to which allocated (linked to accounting base for financial reporting)</li> <li>• Information to be included to achieve transparency, including need to facilitate analysis by external stakeholders</li> <li>• Classification of items - linked to chart of accounts</li> <li>• Presentation and aggregation of data - linked to concepts of transparency</li> <li>• Incorporation of non-financial performance targets</li> <li>• Where accrual is the basis for budgeting, inclusion of cash flow data to be able to assess fiscal impact of budget decisions</li> </ul>
2. Execution	<p>This tends to be an “internal” government process and not subject to external reporting as indicated below. However, there is a need to consider how “virements” and supplementary budgets will be reported to external stakeholders</p>
3. Reporting	<p>Ex-ante and ex-post budget reporting should be an important part of financial statements. There are many issues to be considered, e.g.</p> <ul style="list-style-type: none"> <li>• Consistency of definitions between accounting and budget figures</li> <li>• What figures are used as comparators when budgets are adjusted through virements and supplementaries</li> <li>• Incorporation of non-financial information</li> <li>• Achieving transparency and accountability</li> </ul>

Making budgetary information publicly available 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 (both ex-ante and ex-post) are the most important financial statements issued by governments**. In addition to financial information, some countries include performance measures covering effectiveness and efficiency in their budgetary reports. These budgetary documents can become controversial during the political process.

### *(i) Fiscal Transparency*

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. Some countries (i.e. Germany) have special mechanisms for reviewing the realism of underlying economic forecasts, as well as related revenue estimates, to assure that the public is fully informed regarding these projections. Fiscal transparency requires more than just budget (and actual) figures. It also requires information on the assumptions behind budget figures (i.e., economic and other risk factors) that may be subject to review by the Supreme Audit Office. In a globalized environment, fiscal transparency is of considerable importance in demonstrating macroeconomic stability and high-quality growth. However, it is only one aspect of good fiscal management. Attention has to be given 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). The Code recommends the following four key objectives:

- The roles and responsibilities in government should be clear;
- The public should be provided with full information on the past, current, and projected fiscal activity of government in a timely manner;
- 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.

#### *(ii) Financial Management*

Many governments provide various guidance documents on the procedures to be followed as part of the budget process. These include the areas to be considered when developing proposals and new initiatives, capital budgeting and working capital management, setting user charges, and output costing. An example of the range of information that a government might provide is available on the New Zealand Treasury's "Managing the Public Sector" section of their website: <http://www.treasury.govt.nz/publicsector/>.

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 summarized in Appendix C. The following four principles are recommended:

1. Establish broad goals to guide government decision making;
2. Develop approaches to achieve goals;
3. Develop a budget consistent with approaches to achieve goals; and
4. Evaluate performance and make adjustments.

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 periodically within the budgetary period as well as at the end of the fiscal year. The format of these comparative schedules is generally similar to the following:

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

Note: Some countries compute the variance from the original budget and explain the reason (including in-year updates) for subsequent adjustments. Other countries compute the variance from the modified budget and explain significant differences.

#### *(iii) Budget Authorization*

Government budgets are approved by the legislature and compliance is a legal matter. At each level of government, these budgets serve as plans for economic governance and controlled use of resources for the governmental entity. 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. In some cases, spending authority is granted at the same level as the prior year under a continuing resolution if the budget is not passed prior to the beginning of the fiscal year. In addition, some governments permit purchase orders that have not been filled prior to the end of the fiscal period to be carried forward and funded in the next fiscal year.

#### *(iv) Budget Reports*



Each level (local, state, or national) of government will issue budget reports to inform users of their fiscal plans. These budget reports include those that are issued at or near the beginning of a fiscal period to reflect the legally approved budget as well as those reports that identify prospective or forecast data (ex-ante). In addition, budget reports are issued at the end of the fiscal period to reflect the actual use of resources compared to those resources that had been approved by the legislative body (ex-post). The relationship between the types of budget reports and the levels of government are identified below:

Types of Budget Reports		Local	State	National		Whole of Government
				Agencies	Central Govt.	
Ex-Ante	Legal Limits Approved by Legislature					
	Prospective					
	Ex-Post					

Budget reports by type may be prepared on the cash, modified cash or modified accrual (including obligation/commitment), or the accrual basis as reflected in the table below:

Types of Budget Reports		Cash	Modified	Accrual
Ex-Ante	Legal Limits Approved by Legislature			
	Prospective			
	Ex-Post			

#### b. Consistency in Reporting Between Accounting and Budget Systems

Most governments will prepare their budget reports on the cash basis because the cash information is more readily available. In addition, some argue the information is more readily understandable. In addition, it is simple to implement and costs are low due to the lower level of accounting skills required. As some governments transition to the accrual basis of accounting, a few prepare their budget reports on the modified accrual basis (which includes current assets and liabilities) in order to plan for the use of financial resources. If the full accrual basis of accounting (which includes total assets and liabilities) is used, some governments may move to the accrual basis of budgeting so that they can plan for the use of total resources. This relationship is reflected in the table below:

		Budgeting Basis		
		Cash	Modified	Accrual
Accounting Basis	Cash			
	Modified			
	Accrual			

Note: The shaded areas identify those governmental entities where the budgeting system and the accounting system use the same basis.

As countries transition to the accrual basis of accounting, some may prefer to retain the cash basis for budgetary reporting purposes. Consequently, the accounting system would retain the cash or near cash basis for budgetary control 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 in order for the budgetary system to be consistent with the accounts recorded on the accrual accounting basis. However, this transition period can be lengthy in order to assure that control is retained in the budgetary

system. When there is a difference between the budgetary basis and the accounting basis, uninformed readers of the financial statements sometimes get confused between the differences reported as surplus/deficit from operating activities in the accrual accounting reports and net cash flows from operating activities in the cash or modified cash/accrual basis budget report.

## 5. Current Budget and Accounting Practices

### a. Comprehensive Budgets

To be effective, it is generally recognized that the budget needs to be comprehensive and encompass all of the expenditures by government for all budget dependent entities. Since one objective of this Research Report is to identify guidance on best practices in budget formulation, execution, and reporting, it is necessary to develop some criteria for such best practices. The World Bank Public Expenditure Management Handbook<sup>3</sup> suggests three levels of goals for expenditure management. These are linked to criteria in a matrix provided by Michael Parry (International Management Consultants), as indicated in Exhibit 3 below:

**Exhibit 3: Financial Management Goals and Criteria**

GOALS	CRITERIA		
<b><u>Level 1 - fiscal management</u></b> <ul style="list-style-type: none"> <li>➤ Flows - revenues, debt, transfers, capital and recurrent expenditures</li> <li>➤ Balances - internal and external debt, assets</li> <li>➤ Risk - contingent liabilities</li> </ul>	<b><u>Proper use of public resources</u></b> In accordance with constitutional, legal and regulatory requirements Avoidance of corrupt practices ▲ ▲	<b><u>Transparency</u></b> Information for stakeholders in a format that facilitates understanding and analysis ▲	<b><u>Accountability</u></b> Those accountable for the use of public resources made accountable for their actions and stewardship ▲
<b><u>Level 2 - resource allocation</u></b> <ul style="list-style-type: none"> <li>➤ Optimal resource allocation</li> <li>➤ In accordance with government policy priorities</li> </ul>			
<b><u>Level 3 - value for money</u></b> <ul style="list-style-type: none"> <li>➤ Management of public resources in order to achieve efficiency, economy and effectiveness in expenditure</li> </ul>			

In some jurisdictions, budget formulation and execution is a centralized function. In others, it is decentralized. For example, in Europe, some budgets are prepared and reported for the aggregate of three levels of government: national, state or provincial, and local governments. Where it is decentralized, the national government does not control the state or local government.

Extra budgetary funds weaken the budget both as a resource allocation tool, and as a tool of fiscal management. Many systems, especially in developing countries, have the potential for large extra budgetary expenditures. Some examples include the following:

(i) Funds are received by line agencies that are then available for expenditure, without passing through the consolidated fund. There may be merit on occasions for linking expenditures to revenues raised, but these need to be planned and controlled through a central budget process. In most countries, direct use by

<sup>3</sup> Chapter 2, Public Expenditure Management Handbook, 1998 (The World Bank).

agencies of monies they collect is against the Constitution (which requires all monies paid into the consolidated fund) but it still happens. From a managerial perspective, such linkage may be beneficial since it links expenditure to collection efficiency.

(ii) Quasi fiscal activities of state financial institutions exist to subsidize state enterprises. This includes loans at low interest rates without the expectation of repayment.

(iii) Some government entities permit direct access by projects to donor funds. From a project management perspective, it may be desirable to by-pass the bureaucracy and have direct access to donor funds. In some cases, donors encourage such a system. However, this reduces the effectiveness of the budget process to control expenditures.

(iv) Some government entities have multiple funds outside the consolidated fund which are not included in the central budget process. This includes special funds for ongoing expenditures (e.g. road construction, health care projects, etc.), special funds managed by the central budget authority, budgets of autonomous/decentralized agencies, emergency/contingency funds, etc. In such cases, it is difficult to achieve effective control over these funds.

### **b. OECD/World Bank Survey of Current Budgetary Practices**

The Office of Economic Cooperation and Development or OECD (in collaboration with the World Bank, the Inter-American Development Bank, and IMF) developed a very comprehensive survey on Budget Practices and Procedures. They are 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 analyses and enable them to compare and contrast national practices. The OECD/World Bank recently published the results of their Budget Practices and Procedures Survey on their website (see <http://ocde.dyndns.org>). Forty-four of the 60 polled countries responded by December 31, 2003 although not all the questions were answered in full by each of the countries. Responses are in the process of being verified. The countries responding to the survey were as follows:

Algeria	Argentina	Australia	Austria
Belgium	Bolivia	Cambodia	Canada
Chile	Colombia	Czech Republic	Denmark
Egypt	Finland	France	Germany
Greece	Hungary	Iceland	Indonesia
Ireland	Israel	Italy	Japan
Jordan	Kenya	Korea	Mexico
Morocco	Netherlands	New Zealand	Norway
Peru	Portugal	Slovak Republic	Slovenia
South Africa	Spain	Suriname	Sweden
Turkey	United Kingdom	United States	Uruguay

The results of the survey are grouped under these separate and distinct parts:

1. General Information
2. Formulation
3. Budget Execution
4. Accounting, Control and Monitoring Systems
5. Budget Documentation and Performance Management
6. Fiscal Relations Among Levels of Government
7. Special Relationships/Issues

The results of the survey were extremely informative and provided very timely information for use in this Research Report. Selected sections of the survey results that were felt to be especially pertinent to this study are reflected below:

*(i) Budgeting, Accounting, and Financial Reporting*

Section 4.2 of the survey discusses the Budgeting, Accounting and Financial Reporting practices of the countries. The major findings were as follows:

Number with a unified accounting and budget classification system	35
Authority for determining the technical standards for the budget:	
Internally by MOF or Central Budget Authority	26
Formal Advisory Board	9
Authority for determining the technical standards for the financial statements:	
Internally by MOF or Central Budget Authority	17
Formal Advisory Board	9
Cash or obligations/commitments basis of accounting for the budget	
Full accrual basis budgeting to be introduced	5
Additional accrual basis information to be presented	11
Planning to change from cash to obligations/commitment basis	2
Not planning any change from the cash or obligations/commitments basis	16
Number indicating public debt interest as highest chance of being on accrual basis	10
Number providing a partial or full statement of their accounting basis in the budget	28
Consolidated, government-wide annual financial statements:	
Number reporting on a cash, or cash with a few exceptions, basis	20
Number reporting on a full accrual, or full accrual with a few exceptions, basis	7
Number not reporting such a statement	4
Government organization annual financial statements:	
Number reporting on a cash, or cash with a few exceptions, basis	18
Number reporting on a full accrual, or full accrual with a few exceptions, basis	8
Number reporting on full accrual basis that capitalize and depreciate all assets	10
Assets not capitalized and depreciated:	
Military assets	11
Historical buildings	9
Highways	7
Basis for valuation of capital assets with readily identified market values:	
Historical cost	13
Current market value or replacement cost	10
Audited final accounts published and available publicly:	
Within three months of the end of the fiscal year	4
Within three to six months of the end of the fiscal year	13
Generally more than six months of the end of the fiscal year	17
Not published and available	2

*(ii) Types of Data Reported in Budget Documents<sup>4</sup>*

In Section 5.2, the countries were questioned on the Types of Data Reported in Budget Documents. The major findings were as follows:

Time period of budget forecasts:	
Forecast of fiscal aggregates for the budget year plus two years	23
Formal rolling medium-term (3-5 years) estimates of expenditures	20
Formal rolling medium-term (3-5 years) estimates of revenues	17
Audited final accounts submitted to the legislature:	
Within six months	20
Within six to 12 months	13
After more than 12 months or not at all	7
Budget to actual comparative statement prepared:	
Yes, for past year	27
Yes, for past two years or more	6
No	2
Other	5
Budget to actual comparative statement legally required:	
Yes	13
No	27

*(iii) Budget Classification*

Section 5.3 of the survey addresses Budget Classification. The major findings were as follows:

Classification schemes:	
By function	33
By economic class	35
By line-item or object class	21
Capital/current expenditure breakdown	33
By organization or administrative unit	29
By program	22
UN/GFS functional classification used	14

*(iv) Budgeting and Reporting*

Section 6.5, Budgeting and Reporting, asks questions about the fiscal relationships between the various levels of government. The major findings were as follows:

Common standard for budgeting by national and sub-national governments:	
Yes, same budget classification and accounting rules set by national government	18
No, common standards are not used but national government sets standards for both	11
No, common standards are not used and each authority decides own classification	9
Actual general government figures transmitted to legislature:	
Yes, transmitted and discussed at the end of the financial year	8
Yes, transmitted for knowledge purposes at the end of the financial year	17
No, figures are not transmitted at the end of the financial year	10

<sup>4</sup> There was no indication that the budget forecasts were subject to external review. Budget information was included in ex-post comparative financial statements and assumed to be included in the audited final accounts submitted to the legislature.

### **c. Summary of Five African Countries**

In 2002, civil society budget analysis organizations from Ghana, Kenya, Nigeria, South Africa and Zambia published the results of a research project on Budget Transparency and Participation in the Budget Process.<sup>5</sup> The purpose of the study was to evaluate the extent to which these countries provided sufficient budgetary information and access to citizens and civil society organizations so that they can participate effectively in the budget process. The study was intended to create a civil society agenda to demand changes in the budget process.

#### *(i) Research Method*

The research results were derived from semi-structured interviews with respondents in the executive and legislature branches of government, independent organs of state, civil society and the media. The qualitative data derived from these interviews was supplemented by a survey of budget documentation, audit reports, policy papers and legislation. In addition, a peer review group was established in each country to check the congruency and accuracy of the results. The study framework examined three issues. The first dimension examines the four stages of the budget process – the drafting, legislative, implementation and auditing stages. The second dimension examines each of these stages by looking at the availability of information, the clarity of roles and responsibilities between institutions in the budget process, and the systems and capacity to generate budget information. The third dimension focuses on the legal framework supporting transparency and participation in the budget process.

#### *(ii) Results*

Although aspects of budget transparency and participation in the budget process were found to be wanting in each country, there were important distinctions between the countries studied. The results suggest that the countries could be classified into three layers. South Africa scored the highest, Ghana and Kenya occupy a second layer, and Nigeria and Zambia a third layer. South Africa scored “good” on the legal framework and “moderate” on transparency and participation in the budget process. This reflects the comprehensive overhaul of the budget process undertaken since 1994 and the substantial improvements in public availability of information. There is a clearer framework for accountability for public resources and delivery and more transparent management of the wider public sector. The primary concern now is the creation of better access for parliament and citizens, and the development of capacity in these institutions to make good use of the information.

The next layer of countries is Kenya and Ghana. Both countries scored “moderate” on the legal framework and “weak,” but improving, on participation. The Kenyan legal framework was found to be comprehensive, but outdated and in conflict with government policy. Although substantial public information is generated, it is often late, inaccurate and in formats that are hard to use. The budget process in Kenya does not easily accommodate external participation, but both parliament and civil society are increasingly exploiting opportunities to hold the executive accountable. In Ghana, a moderately good legal framework should ensure greater information and participation. However, this potential is compromised by gaps and the official secrets legislation, and is often outdated. Although public information is more available in Ghana than in Zambia and Nigeria, the information that is produced is frequently late, inaccurate and not particularly useful – in many cases the result of poor capacity to produce information. On the positive side, the introduction of the Medium Term Expenditure Framework (MTEF) and increasing participation by civil society is helping to push the country in the right direction.

In the third layer of countries, Zambia and Nigeria were found to have both “weak” legal frameworks and “weak” transparency and participation. The legal framework in Zambia allows for virtually limitless expenditure with approval after the fact and requires very little information to be published. While

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<sup>5</sup>Details of the project may be found at <http://www.internationalbudget.org/resources/africalaunch.htm>.

transparency is hampered by lack of compliance and cash budgeting, civil society and parliament are starting to forge a space for participation with positive effects. In Nigeria, a contradictory and ambiguous legal framework is a large part of the problem, particularly as it impacts on the comprehensiveness of the budget and the audit process. While civil society participation also remains weak, the increasingly active engagement of the legislature is a positive sign.

#### **d. Summary of Nine European Countries and the European Commission (EC)**

“Reforming Governmental Accounting and Budgeting in Europe” was published in late 2003.<sup>6</sup> To facilitate convergence in the accrual-based reforms, this book describes (at national and sub-national levels) the current and prospective forms of financial reporting and budget preparation for nine countries in Europe: Finland, France, Germany, Italy, Netherlands, Spain, Sweden, Switzerland, and the United Kingdom. In addition, a chapter was added on the reform of the EC’s accounting system. The goal of the publication was to spark discussion, highlight areas for action, and present practical solutions. The reform of governmental budgeting and accounting practices was identified as an important and necessary long-term objective.

##### *(i) Research Method*

Research was conducted in each of the countries by one or more nationals of the relevant country in a cooperative effort between academe and practice. The intent of the research was to identify current governmental accounting practices, as well as current budgetary accounting principles and procedures. Workshops were conducted throughout the research period to establish a uniform structure for the country studies, to discuss relevant findings, and to assist in developing cross-country conclusions.

##### *(ii) Results*

All of the countries covered by the study have embarked on reforms of the accounting reporting systems towards full accrual accounting for their core national or local governments. Whereas all local government systems have been or are being reformed, the reform process has not yet started in the national governments of Germany, Italy, and the Netherlands. Six of the national governments (Finland, France, Spain, Sweden, Switzerland, and United Kingdom) have begun the reform process, as has the EC. Three of them (Finland, Spain, and Sweden) have essentially completed the reform by creating the necessary legal requirements and the new system is in regular operation. This also applies to the United Kingdom except that whole-of-government financial statements are not yet in place. The accounting method used impacts on the budgetary reporting practices, especially relative to comparative budget to actual statements if the budget is on a different basis than the accounting system.

The clear pattern was for the local governments in each country to precede the national governments; in none of the countries was national governmental accounting reformed first. “The norm for budgeting is that the accrual accounting either has no influence on budgeting (which retains its basis of cash or cash plus changes in financial assets and liabilities) or the influence is implicit (the accrual accounting is used to report on realization of the budget but the budget itself does not significantly refer to accruals).”<sup>7</sup>

## **6. PSC Mandate on Budget Reporting and/or Other Budget Related Matters**

### **a. Discussion**

The objective of the PSC is identified in the Preface to the IPSASs as follows: “Develop programs aimed at improving public sector financial management and accountability including developing accounting

<sup>6</sup> Reforming Governmental Accounting and Budgeting in Europe; Klaus Luder and Rowan Jones, editors (Fachverlag Moderne Wirtschaft, Frankfurt, Germany), 2003.

<sup>7</sup> Ibid, p. 55.

standards and promoting their acceptance.”<sup>8</sup> Further, the Preface notes that: “financial statements issued for users that are unable to demand financial information to meet their specific information needs are general purpose financial statements. Examples of such users are citizens, voters, their representatives and other members of the public. The term ‘financial statements’ used in this Preface and in the Standards covers all statements and explanatory material which are identified as being part of the financial statements.”<sup>9</sup>

Inclusion of budgetary information and other budget related matter in the accounting system and reporting budgetary data to constituents is crucial to improving public sector financial management (transparency). To assure that government officials are held accountable for their budgetary decisions, it is essential that users be informed on the degree by which their government officials were able to operate within the limits of the approved budget.

### **b. International Public Sector Accounting Standards<sup>10</sup>**

IPSASs deal with issues related to the presentation of annual general purpose financial statements at each level of government (local, state, and national) and for public sector entities other than GBEs. 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. IPSAS 1 notes that users include tax payers and rate payers, Members of the Legislature, creditors, suppliers, the media, and employees. Elected representatives act on behalf of their constituents and use the financial statements to hold the government and the civil service to account for the resources that they were allocated to provide the agreed level of goods and services. Where the financial information needs of members of government for these purposes differ from the needs of other users, and where governments are dependent on general purpose financial statements for such information, their information needs should dominate.

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 legally adopted budget. Currently, the IPSASs **encourage** governments to include in the financial statements a comparison of the actual results of operations with the approved budget for the reporting period.<sup>11</sup>

The current IPSASs prescribe standards for 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. A Cash Basis IPSAS has been issued to prescribe financial reporting requirements where the countries do not prepare financial statements of public sector entities on the accrual basis. The Cash Basis IPSAS requires an annual Statement of Cash Receipts and Payments. If their financial statements are prepared on the cash basis, the countries are **encouraged** to transition to the accrual basis as soon as proper procedures and systems can be established.<sup>12</sup>

<sup>8</sup> “Preface to International Public Sector Accounting Standards”, Handbook of International Public Sector Accounting Standards (2003 Edition), International Federation of Accountants, p. 18.

<sup>9</sup> Ibid, p. 19.

<sup>10</sup> Sections from the existing IPSASs pertaining to budgets or budget reporting are identified in Appendix D.

<sup>11</sup> Paragraph 22, IPSAS 1, Presentation of Financial Statements (May 2000).

<sup>12</sup> For further guidance, see Study 14—Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities, IFAC Public Sector Committee (December 2003).



**Recommendation #1: The PSC should issue an IPSAS on budget reporting since it falls within the mandate identified in the Preface to the PSC.**<sup>13</sup> An IPSAS on Budget Reporting will provide the structure to keep the public informed on budgetary actions (both legally approved and prospective budgets) at the time of their approval as well as the compliance reports issued as a component of the general purpose financial statements.

## 7. Budget Formulation and Reporting

Budget formulation is the practices and concepts that budget professionals use to create and review a budget until enacted into law. Ex-ante budget reporting includes the external reporting of the budget approved by the legislative body at or near the beginning of the fiscal period as well as prospective or forecast budgetary data. The approved budget and forecast budgetary data are generally issued as separate reports at or near the beginning of the fiscal period.

### **a. Prospective Financial Information and Medium Term Fiscal Framework (MTFF)—also known as Medium Term Budget Framework (MTBF)**

Fiscal targets are now widely accepted as a useful guide to sound public financial management and are increasingly required under such mechanisms as fiscal responsibility/transparency laws. These targets may cover a range of variables (budget balance, net public debt, net worth, etc.) and they are invariably medium term covering more than one year. Just comparing actual and budget revenue and expenditure figures may not be enough. Given that governments have medium term targets (under a MTFF or other documents), governments are encouraged to report on future projections beyond the current year in their budget reports.

A MTFF leads the reader to think about the future since it 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.<sup>14</sup> Gross Domestic Product (GDP) identifies this level of production and is computed by macroeconomists. **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 average 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 MTFF to assist in preparing future budgets. The objectives of a MTFF (as identified by the World Bank<sup>15</sup>) 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; and

<sup>13</sup> At their July 2003 meeting in Vancouver and reiterated at their November 2003 meeting in Berlin, the PSC expressed the view that compliance reporting was in their scope but had different views about an IPSAS on Budgetary Reporting. They agreed not to prejudge the outcome of the research on this subject.

<sup>14</sup> A more complete explanation of the national income accounting system can be found in most Economics textbooks.

<sup>15</sup> Page 46, Public Expenditure Management Handbook, Poverty Reduction and Economic Management, The World Bank, 1998.

- 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:<sup>16</sup>

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 resource 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.

At least one country (New Zealand) requires that prospective financial information be prepared and presented to its constituents.<sup>17</sup> Its objectives are to assist users:

- a. in assessing the entity's prospective financial performance, prospective financial position and prospective cash flows;
- b. by informing them of the entity's actual or future likely compliance with legislation, regulations, common law and contractual arrangements, as these relate to the assessment of the entity's prospective financial performance, prospective financial position and prospective cash flows; and
- c. in making decisions about providing resources to, or doing business with, the entity.

**Recommendation #2: An accounting standard should be issued to require that the MTFF and prospective financial information be reported to their constituents in order to keep them informed on future financial implications of government policy.** Preparation of a MTFF or other prospective financial information so that 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 1<sup>18</sup> can be achieved. However, it was felt that specifying the content of a MTFF or other prospective information in an accounting standard would not be appropriate. The elements of historical financial information used in the preparation of a MTFF and other prospective financial reports 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 and other prospective financial reports. This information is very beneficial to the users in the ongoing debate of government policy. If this recommendation is adopted, issues associated with the recognition and measurement of the data will need to be identified and the extent of external validation by a Supreme Audit Office will need to be determined.

## **b. Annual or Biennial Budget Appropriations**

Funds are appropriated on an annual or biennial 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

<sup>16</sup> Ibid, Pp. 47-52.

<sup>17</sup> Financial Reporting Standard No. 29, Prospective Financial Information, Institute of Chartered Accountants of New Zealand (October 2001).

<sup>18</sup> Paragraph 14, IPSAS 1.

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. Specifically, it recommends that the budget contain information on the previous and current years' expenditures. (See Appendix E)

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 to measure fiscal performance but it is 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 is summarized below:<sup>19</sup>

- 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
  - 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

Note: Countries and regions (i.e. the European System of Accounts) may provide alternative economic and functional classifications. Although the classifications may differ slightly from those specified above, they can generally be converted to the classifications desired by the IMF and the UN.

In those countries in which a MTFF or other prospective financial information is prepared, the initial efforts to formulate the annual budget and set the spending limits is taken from the forecast information 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 or other prospective information is not prepared, a budget

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<sup>19</sup> Summarized from pages 178-179, 182-183 of the Government Finance Statistics (GFS) Manual 2001, International Monetary Fund. See <http://www.imf.org/external/pubs/ft/gfs/manual/> for detailed breakout.

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 are maintained at a sufficiently low level of detail to establish 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. If the financial management system is automated, 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.

As a result of the African study mentioned earlier, numerous reforms were proposed. Across all countries, the study showed growing civil society and legislature demand for transparency, access and better results. Given the shift in the political climate towards democratization, the study argues that now is a fortuitous time for budget reforms, provided that they pay attention to the principles of transparency and participation. Although greater civil society and legislature monitoring of budgets is a relatively recent development, their intervention can contribute to modest first steps on the road to more open systems and can help kick-start a virtuous cycle of transparency, participation and better spending results. In addition to recommendations for each country, the study concludes with the following cross-country recommendations for budget reform:

- The improvement of budget documentation is a critical first step. Budget documentation should include fiscal policy statements, explain the policy base of allocation decisions and be framed in the previous years' actual spending and non-financial information.
- Repeal official secrets legislation and replace it with legislation that guarantees appropriate citizen access to state-held information.
- Entrench the provision of comprehensive and timely information on estimated and actual expenditure and revenues in a budget law that also sets out a clear budget process and clarifies roles and responsibilities.
- External reporting during the spending year should be obligatory, including a cash budgeting system. This should include departmental reporting on achievements. If late audit information makes early annual reports at central government and spending agency level unfeasible, interim mechanisms should be created.
- Extra-budgetary spending should be brought onto budget. If this is difficult, comprehensive and accurate information on these activities should be included with the budget.
- The enhancement of external transparency should coincide with efforts to build internal transparency. Often political decision-makers and their administrative advisors make decisions on very imperfect information.
- The capacity of auditors general should be enhanced. Parliamentary capacity to scrutinize budget proposals and oversee implementation should be institutionalized.

**Recommendation #3: The accounting standards should require that the legally approved budget be published with the appropriate supporting budget documentation.** The following documentation is suggested:

- Clearly identify the assumptions used and their rationale, risks associated with those assumptions, sensitivities, etc.
- Use of asset, liability, net asset/equity, 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 particularly in respect of the reporting entity. In those instances, the procedures prescribed by the IPSAS should prevail. Further, budgets may be prepared on the basis of programs relevant for financial management and service delivery in some jurisdictions and the need to complete statistical returns should not undermine that role of the budget.
- 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.”
- The scope of the budget should be comprehensive including all aid, government business enterprises, revolving funds, income of dedicated funds, etc.

## 8. Budget Execution and Control

Budget execution is the management activities that take place from enactment of the budget into law until the end of the fiscal period. Budget control is assuring that the budget is executed within the legal limits established by the legislative body.

### 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.<sup>20</sup> 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.

The key issues to be examined in the CFAA in the areas of external fiscal reporting and transparency (including the standards to be used in their preparation—GFS, IPSAS or modifications of either) are identified in Appendix F.

There is a close relationship between accounting systems and budgetary systems in order to identify whether funds are expended in the manner desired by the legislature. This close relationship has been identified in an OECD document on Best Practices for Budget Transparency. The Best Practices are in three parts: Part I lists the principal budget reports that governments should produce and their general content. Budget reports identified were as follows: the budget, pre-budget report, monthly reports, mid-year report, year-end report, pre-election report, and long-term report; Part II describes specific disclosures to be contained in the reports; and Part III highlights practices for ensuring the integrity of the reports. The budget is identified as the government’s key policy document and should include a medium-term perspective illustrating how revenue and expenditure will develop during, at least, the two years beyond the next fiscal year. The year-end report is identified as the key accountability document showing compliance with the level of revenue and

<sup>20</sup> Guidelines to Staff, Country Financial Accountability Assessment, Financial Management Sector Board, World Bank (March, 2003).

expenditures authorized by parliament in the budget. The OECD Report recommends that the year-end report be audited by the Supreme Audit Institution and released within six months of the end of the fiscal year. The document further states that “All fiscal reports referred to in these Best Practices should be made publicly available”.<sup>21</sup>

The OECD Report also argues 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,<sup>22</sup> “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 G for the basic functional processes including budget preparation, execution, accounting, and fiscal reporting.)

The overall regulatory framework for operating the various component modules of the GFM system 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 for classification of accounts 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.
- 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:<sup>23</sup>

“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

<sup>21</sup> Par. 3.4, OECD Best Practices for Budget Transparency, 19 September 2000, <http://www.oecd.org>.

<sup>22</sup> Page 9, Information Systems for Government Fiscal Management by Ali Hashim and Bill Allan, The World Bank, 1999.

<sup>23</sup> 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).

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.”

**Recommendation #4: The accounting standards should be broad enough to support the integration of budgetary and accounting systems to the maximum extent possible.** 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. This does not mean that the budgetary system and the accounting system need to be on the same basis. It does mean that the accounting system needs to support the preparation of a comparative statement on the same basis as the budgetary system. For example, if a cash budget is approved by the legislative body and the accounting system is on an accrual basis, the revenue and expenses in the accounting system would need to be reported in the comparative statement on the cash basis in order to be comparable to the budgetary data.

#### **b. Budgetary Control**

To assure that spending limits are not exceeded, the approved budget is entered into the accounting system at the beginning of the fiscal period at the level of control desired (i.e., by economic and functional expense classifications) in a fully integrated financial management system. Then, as 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. For those budgetary systems that are not well integrated with the accounting module, a separate budget or funds control module is often maintained. In addition, a separate cash management module is used to assure that cash is available to compensate employees or pay invoices when payment is due. Consequently, proper cash planning is critical to the overall management process.

Compensation of employees (an economic expense classification in GFSM 2001) is generally the largest recurring expense item in any government. 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.

The use of goods and services, as well as expenditures for capital projects, is 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 budgetary 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 budgetary 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. There is some inconsistency throughout the world in the use of “commitment” accounting procedures. To clarify these procedures and

lessen the confusion over the terminology, see Appendix H for a more complete discussion of this technique as explained by IFAC in a previous study.<sup>24</sup>

**Recommendation #5: Use of commitment accounting procedures should be encouraged to assure that budgetary funds are available prior to release of a purchase order or contract.** Although budgetary control procedures are not typically included in an accounting standard, effective use of commitment accounting procedures will lessen the explanatory notes at the end of the fiscal period when actual expenditures exceed the approved limits. Further, these procedures can be beneficial in a budgetary system for the acquisition of infrastructure and military special assets, as well as the control of government grants.

## 9. Ex-Post Budget Reports

Ex-post budget reporting would include external reporting of the financial activities relative to the enacted budget for the fiscal period until the final audit after the end of the fiscal period. The budget to actual comparative statement is generally issued as a component of the historical financial statements.

### a. Part of General Purpose Financial Statements

In a prior IFAC study, the following user needs<sup>25</sup> 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 user 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, almost all countries prepare and publish “Budget to Actual Comparative Statements”. Differences between the actual expenses and the final (or original) budget are reflected in the comparative 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

<sup>24</sup> Study 11, Government Financial Reporting, May 2000. IFAC Public Sector Committee.

<sup>25</sup> Ibid. Pp. 11-12.



considered law in many countries, explanations are generally required in those instances where expenses exceed budgetary authority. Guidance in the present IPSAS<sup>26</sup> is as follows:

“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 (emphasis added):

- 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.”

The scope of general purpose financial statements is usually clearly designed and defined in the statements (with a list of entities covered by the statements, and the description of the method used to build that list). It is not always the case for budgetary reports, which are not necessarily based on the “control” approach described in IPSAS 6. The budget scope can be broader or shorter than the scope of the financial statements based on the “control” approach, to the extent that the budget reflects the financial relationships between the government and all kinds of national or international entities. Moreover, budgetary reports don’t deal with consolidation aspects. Sometimes national accounting systems are also built on a different basis, concerning the links between governments and other entities. In the event of conflict between the budgetary reporting system and the IPSAS, the IPSAS definition of a reporting entity would be expected to prevail.

**Recommendation #6: Ex-post budget reports reflecting budget to actual comparisons should be part of the general purpose financial statements issued at the end of the fiscal period for each reporting entity at each level of government.** 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.”<sup>27</sup> While it is appropriate to advocate inclusion in general purpose financial statements of comparisons between budget and actual data, it is acknowledged that further guidance is needed in the following areas:

- How budget data should be summarized to avoid information overload. To ensure that reports are not too voluminous, any future IPSAS should specify that only major classes be included in the comparative reports which would include the primary and secondary levels of control identified by the legislature. This would apply to the whole-of-government statements as well as the statements covering general and sub-national governments.
- How an IPSAS should deal with comparisons if the scope of the budget entity and the IPSAS reporting entity differ. The reporting entity needs to be clearly defined so that the budget to actual comparisons relate to the same entity.
- How extra-budgetary funds that may be excluded in government financial statements should be handled. It is essential that comprehensive budgets be presented in order to reflect the actual results of operations as compared to the budgetary authority.
- How an IPSAS should deal with comparisons if different measurement bases were adopted for such items as inventory, investments, and provisions in budget document and financial reports.

## **b. Format of Comparative Statement**

Since budgets are prepared in advance of the current fiscal year, natural disasters, political, 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

<sup>26</sup> Paragraph 14, IPSAS 1, Presentation of Financial Statements.

<sup>27</sup> Paragraph 2, IPSAS 1.

countries, the revisions must be approved by the legislature. In some of those countries where comparative statements are encouraged (see Appendix J 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, revised approved budget.

Guidance in the present IPSASs<sup>28</sup> is as follows:

“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.”

**Recommendation #7: The Comparative Budget to Actual Statement should include the original budget as approved by the legislative body as well as the final adopted budget.** Significant variances should be appropriately identified and justified. This would include comparison of actual expenditure and income with the budgeted amounts agreed by parliament, variances for each line between these two items considering budget assumptions, and explanations for all variances (positive and negative) above a certain significant level (e.g. 5%). Clarification is needed in the following areas:

- Whether comparisons of actual should be made with original and/or revised budgets (and which revision if the budget was revised periodically during the reporting period to reflect changing policies, economic environment and experience);
- What impact a change in policy settings might have if comparisons were to be made against original budgets and how such changes should be dealt with if comparisons were to be made with revised budgets;

### c. Reconciling Budgetary Basis with Accounting Basis

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. A reconciliation is 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 I. An example from the US of a comparative statement is shown in Appendix J and a reconciling statement is shown in Appendix K. In addition, the UK includes the requirement for a “reconciliation of resources to net cash requirement” in their Summary of Resource Outturn Report.<sup>29</sup> The present IPSASs do not specify the action to be taken in those instances where the budget and accounting are on different bases. However, a similar reconciling statement is encouraged in IPSAS 2 when the Cash Flow Statement is prepared using the direct method. An illustrative note

<sup>28</sup> Paragraph 22, IPSAS 1, Presentation of Financial Statements.

<sup>29</sup> Paragraph 12.1.12, Schedule 1 – Summary of Resource Outturn, UK Accounting Manual. Schedule 1 is the parliamentary control schedule comparing outturn with Estimate for both resource expenditure and the overall cash requirement. (See <http://www.accounting-manual.gov.uk>)

(reproduced below) is included in the Appendix to IPSAS 2 and reflects a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities.<sup>30</sup>

### Notes to the Direct Method Cash Flow Statement in the Appendix

*(c) Reconciliation of Net Cash Flows from Operating Activities to Net Surplus/(Deficit) from Ordinary Activities (in thousands of currency units)*

	20X2	20X1
<b>Surplus/(deficit) from ordinary activities</b>	X	X
<b>Non-cash movements</b>	X	X
Depreciation	X	X
Amortization	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in provisions relating to employee costs	X	X
(Gains)/losses on sale of property, plant, and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
Extraordinary item (that falls within the definition of operating activities)	(X)	
<b>Net cash flows from operating activities</b>	X	X

**Recommendation #8: If the budgetary system is on a different basis than the accounting system, a statement should be developed to reconcile the differences between the two systems.** Since the accrual financial reports include cash flow statements, a reconciliation may be achieved by ensuring these cash flow statements articulate with the cash budget. In those instances where the budgetary system is transitioning to accrual budgeting, a separate reconciliation procedure with the accrual financial reports will be necessary. Further guidance is needed on how an IPSAS should deal with comparisons if differences in the basis of accounting were adopted in budget and historical financial reports.

## 10. Qualitative Characteristics of Financial Reporting

Budget reports would be expected to meet the qualitative characteristics of financial reporting specified in IPSAS 1.<sup>31</sup> These are discussed below:

a. Understandability—Budget reports should be clearly and concisely presented in sufficient detail in order for users to comprehend its meaning. Taxing and spending policies of the government should be adequately explained in the budget reports so that the average user, after due study, can apprehend the economic impact of the entity's activities and the environment in which it operates. Complex economic concepts should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

b. Relevance—Information included in the budget reports should be provided in a timely manner and relevant to the decision-making needs of users by helping them evaluate past, present, or future events. To prevent information overload, only the information that is material to the user's needs should be included in

<sup>30</sup> Paragraph 29, IPSAS 2 and Note (c), Appendix, p. 112, Cash Flow Statements.

<sup>31</sup> Appendix 2, IPSAS 1 – Presentation of Financial Statements.

the budget reports. Materiality implies that omission or misstatement of information could influence the decisions of users or assessments made on the basis of the budget reports. For example, information about financial position and past performance is frequently used as the basis for predicting future financial actions in which users are directly interested. The ability to make predictions on budget reports is enhanced, by the manner in which information on past transactions and events is displayed.

c. Reliability—To be reliable, budget reports must be free from material error and bias so that they can be depended on by users to represent faithfully that which they purport to represent. This implies that information in budget reports be complete and presented in accordance with their substance and economic reality; not merely their legal form. Further, the budget reports should be free from bias and presented in such a manner that a user would not be unduly influenced in making a decision or judgment in order to achieve a predetermined result or outcome. In addition, preparers of budget reports do have to contend with the uncertainties that inevitably surround many events and circumstances in which budget forecasts are made. Consequently, prudent judgment needs to be exercised in making the estimates required under conditions of uncertainty.

d. Comparability—Users must be able to compare the budget reports of a governmental entity through time in order to identify trends in their financial position and performance. In addition, users must be able to compare the budget reports of different governmental entities in order to evaluate their relative financial position, performance, and changes in net assets. An important implication of comparability is that users be informed of the accounting policies employed in the preparation of the budget reports, any changes in those policies and the effects of such changes.

e. Constraints on Relevant and Reliable Information—To be useful, budget reports must be presented in a timely manner. All information needed to prepare complete and accurate budget reports may not be available in time for preparation of the budget or legislative action may delay the approval of the budget. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users. In addition, a balance must be maintained between benefit and cost to assure that the benefits derived from the budget reports do not exceed the cost of providing it. Further, professional judgment must be applied to achieve a balance between the qualitative characteristics in order to meet the objectives of the budget reports.

**Recommendation #9: Budget reports should meet the qualitative characteristics (understandability, relevance, reliability, and comparability) of financial reporting specified in IPSAS 1.** In order to assure that these qualitative characteristics are achieved, external validation of the budgetary data by the Supreme Audit Office will be necessary.

## 11. Conceptual Foundation

Some of the characteristics of government budgets, and particularly the characteristics that make government budgets so different from and more significant than commercial entity budgets, are as follows:

- The dominance of the accounting model for commercial entities provides a universal model of business activities. Because many government deal with non-exchange transactions, the accounting model can never fulfill a similar role for governments. Hence, financial measures must be combined with non-financial performance measures to provide a comprehensive model. Budget standards must recognize the importance of such non-financial measures and address how they are to be incorporated within budget reporting.

- The very broad and multi-layered concept of stakeholders, e.g. children are future stakeholders in government activity even though they do not vote.

These and other characteristics could form the basis for identifying issues that need to be addressed in budget reporting standards. The matrix in Appendix L is the beginning of such an exercise.

It is mooted that “budget reporting” is not a simple extension of “financial reporting”. The needs of stakeholders should be researched, as should the realities of supply, in relation to their information needs. It is proposed that participating countries be **encouraged** to give consideration to budget formulation and execution “best practice” as recommended and updated, from time to time. A recommended “reform path” for particular economies (developing, etc.) could be proposed, with options, if necessary, as a guide to participating countries. Such a guide would give leadership, alignment and direction, as well as promote the achievement of the objectives and qualitative characteristics set out earlier in this Research Report.

There are substantial differences between the information needs of public and private sector stakeholders. The current reporting standard on financial position projects the view that the needs of both of these stakeholder groups are similar, i.e. shareholders of private enterprises have common information needs to citizens of a given country. Stakeholders need to know what is funded and what is not funded within the medium term framework. Depending on their point of view, they may wish to promote the collection of further funds. Alternatively, they may wish to see current collections and services, reduced. They may also wish to see a debate on how these needs should be provided. Possible service providers include the public and private sectors as well as Public Private Partnerships. Information needs, on a planned future, are as important as information needs on historical actual to budget performance. The spending level, in itself, does not guarantee service delivery and thus the provision of performance indicators on preset measurable objectives are needed in much the same way as private sector shareholders may look to an Earnings Per Share indicator.

In the private sector, companies face decisions in meeting budget forecasts, including the question of cost containment versus revenue growth. The focus? Probably, profit projections, rather than turnover and cost. The private sector thus often focuses, firstly, on profit (variance) projections before considering the absolute extent of goods and services sold. In the public sector, planned income and expenditure in future years together with information on unfunded current and future priorities is as (if not more) important as historical actual to budget reports. The attainment of projected service delivery, measured against predetermined objectives, is not a safe assumption, even if spending is close to budgeted levels. Productivity in delivering outputs in support of desired outcomes should be and can be measured by setting measurable objectives in advance.

At the present time, 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 required as part of the general purpose financial statements, they would require external validation. 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.

The proposal to require the reporting of financial actual to budget performance is but one aspect of concern to stakeholders on budget matters. Reporting on the planned future is as important as reporting on the past. Budget reporting is not only about finance. It is also about meeting measurable performance promises and about offering choice, in the prioritization of the use of available funding, within the medium term fiscal framework.

The allocation of funding between governmental units is mostly a subjective decision largely driven by policy and political priority on disparate needs, productivity improvements, and functionality growth. Budget reporting on historical and future budget allocations enables stakeholder involvement in exercising choice in the setting of equitable share slices to ministries. The reporting of budget needs, marginal priorities, and unfunded priorities supports the revenue collection decision.

The above clearly falls within the broad category of budget formulation and execution. It is submitted that these processes need to be reported upon. It is suggested that these future financial commitments and financial prioritization decisions may best be reported upon by the presentation of a management report. The nature of the suggested format should be researched but may usefully commence with the reporting of progress against the “Code of Good Practices on Fiscal Transparency” as presented in Appendix B and the “Best Practices in Public Budgeting” as presented in Appendix C of this Research Report.

**Recommendation #10: Budget reporting should be incorporated into the conceptual foundation for IPSASs.** A case study on South Africa has been published by the International Consortium of Governmental Financial Managers<sup>32</sup> to demonstrate the actions taken in one country to move in this direction. The abridged and incomplete case study presents a practical example of the fact that one need not tackle complexity with a complex solution. One can implement and refine over time. The improvement on previously available information levels was much appreciated by stakeholders, even if it was, at first, considered somewhat “disturbing” news.

## 12. Issues to be Resolved

**a. Definition of Budget Reporting.** There was some inconsistency among Steering Committee members as to what was meant by budget reporting. Some members felt that budget reporting included the budgets submitted to and approved by the legislative body during the budget formulation stage. Some members believed that budget reporting included the budget to actual comparisons made during the fiscal period in the budget execution stage. Other members felt that budget reporting only related to the final approved budget as compared to the actual revenues and expenses for the entire budgetary period (the budget reporting stage). During the preparation of an Exposure Draft for an IPSAS on Budgetary Reporting, this position needs to be clarified.

**b. Inclusion of Ex-ante Budget Reports in an IPSAS.** The position taken in this Research Report was that budget reporting referred to the external reporting of the budget approved by the legislative body at or near the beginning of the fiscal period as well as the external reporting of the financial activities relative to the enacted budget for the fiscal period until the final audit after the end of the fiscal period. The approved budget is generally issued as a separate report at or near the beginning of the fiscal period while the budget to actual comparative statement is generally issued as a component of the historical financial statements.

**c. Coverage of Budgetary Execution and Control Procedures.** Current best practices in budget formulation, execution and reporting among international financial institutions and developed countries indicate a high degree of consistency in those practices. However, it is generally felt that the budget formulation and execution practices reflect significantly different administrative arrangements as well as political, institutional and cultural systems and processes. Consequently, accounting standards for budget formulation and execution 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. Further, the use of commitment accounting procedures should be clarified.

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<sup>32</sup> See <http://www.icgfm.org/digest.htm>, Vol. IV, No. 1, 2004 for article by Alan Mackenzie titled “Case Study on South Africa”.

**d. Inclusion of Ex-post Budget Reports in an IPSAS and Format of Comparative Statements.** There was a high degree of consensus for an accounting standard on ex-post budget 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). However, the format of such a statement needs to be clarified.

Country specific laws<sup>33</sup> and accounting standard setters (i.e., Croatia, France, Ghana, Honduras, Nigeria, Sweden, Tanzania, Uganda, United Kingdom, United States and many others) 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.

**e. Reconciling Budgetary Basis and Accounting Basis Where Differences Exist.** 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.

**f. Assuring That Qualitative Characteristics of Financial Reporting Are Met.** The standards will need to be explicit enough in order to provide guidance to preparers of budget reports that will meet the qualitative characteristics identified in IPSAS 1. These budget reports could be subject to external review by the Supreme Audit Office if specified as general purpose financial statements.

**g. Developing a Conceptual Foundation.** It is essential that budget reporting be incorporated into the conceptual foundation for IPSASs to provide future guidance on this extremely critical area. Such a foundation would then provide the guidance needed in the development of future standards pertaining to budgets.

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<sup>33</sup> See Appendix M for highlights of the Budgetary Law in Sweden, Appendix N for Budget Preparation Procedures in Denmark, and Appendix O for Budget Procedures in France.

## APPENDIX A—TERMS OF REFERENCE

### 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:

#### 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:

- 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 1*

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.

#### *Stage 2*

Based on the results of Stage 1 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 are 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 Complete Research Report.

### **Stage 2**

2004 Subject to recommendations of the Research Report, commence development of Exposure Draft. Issue and review responses to Exposure Draft and develop IPSAS.

2005 Issue IPSAS, as appropriate.

## ***Matters to be addressed***

### **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.

In the first instance, the survey countries will be focused based on advice from appropriate sources of instances of "best practice". The first round survey will include the following countries (a selection of countries from the PSC members: USA, UK, France, Norway, Hong Kong, Germany or Netherlands, and Australia or New Zealand. Advice from USAID, OECD etc.) Then one developing country influenced by those models.

## APPENDIX B. IMF CODE OF GOOD PRACTICES ON FISCAL TRANSPARENCY

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

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.

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### 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.

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 extra-budgetary 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 sub-national 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 sub-national 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 extra-budgetary 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 non-government 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 BUDGETING

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

### 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

### 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 (May 2000), 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 (May 2000), prescribes the following:**

*29. Entities reporting cash flows from operating activities using the direct method are also encouraged to provide a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities. This reconciliation may be provided as part of the cash flow statement or in the notes to the financial statement.*

*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.)*

**CASH BASIS IPSAS, Financial Reporting Under the Cash Basis of Accounting (January 2003), prescribes the following:**

*1.3.11. Entities preparing general purpose financial statements in accordance with this Standard may disclose such information in the notes to the financial statements where that information is likely to be useful to users. Where such disclosures are made they should be clearly described and readily understandable. If not disclosed in the financial statements themselves, comparisons with budget may also be included in the notes. Part 2 of this Standard encourages inclusion of information about non-cash assets and liabilities and a comparison with budget in general purpose financial statements.*

*2.1.33. An entity is encouraged to disclose in the notes to the financial statements:*

- (a) information about the assets and liabilities of the entity; and*
- (b) a comparison with budgets.*

*2.1.36. Public sector entities are typically subject to budgetary limits in the form of appropriations or other budgetary authority which may be given effect through authorizing legislation. One of the objectives of financial reporting by public sector entities is to report on whether cash was obtained and used in accordance with the legally adopted budget. In some jurisdictions, this requirement is reflected in legislature. This Standard encourages the disclosure of a comparison of actual with the budgeted amounts for the reporting period. Reporting against budgets may be presented in different ways, including:*

- (a) the preparation of a note 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 payments made without appropriation or other form of authority, then details may be disclosed by way of note to the relevant item in the financial statements.*

## Appendix 2, p. 78, Comparison with budgets (paragraph 2.1.33(b)), Cash Basis IPSAS

<i>(in thousands of currency units)</i>	Actual	Budgeted	Variance
<b>RECEIPTS</b>			
<i><b>Taxation</b></i>			
Income tax	X	X	X
Value-added tax	X	X	X
Property tax	X	X	X
Other tax	X	X	X
	X	X	X
<i><b>Aid Agreements</b></i>			
International agencies	X	X	X
Other Grants and Aid	X	X	X
	X	X	X
<i><b>Borrowings</b></i>			
Proceeds from borrowings	X	X	X
<i><b>Capital Receipts</b></i>			
Proceeds from disposal of plant and equipment	X	X	X
<i><b>Trading Activities</b></i>			
Receipts from trading activities	X	X	X
<i><b>Other receipts</b></i>	X	X	X
<b>Total receipts</b>	X	X	X
<b>PAYMENTS</b>			
<i><b>Operations</b></i>			
Wages, salaries and employee benefits	(X)	(X)	(X)
Supplies and consumables	(X)	(X)	(X)
	(X)	(X)	(X)
<i><b>Transfers</b></i>			
Grants	(X)	(X)	(X)
Other transfers	(X)	(X)	(X)
	(X)	(X)	(X)
<i><b>Capital Expenditures</b></i>			
Purchase/construction of plant and equipment	(X)	(X)	(X)
Purchase of financial instruments	(X)	(X)	(X)
	(X)	(X)	(X)
<i><b>Loan and Interest Repayments</b></i>			
Repayment of borrowings	(X)	(X)	(X)
Interest payments	(X)	(X)	(X)
	(X)	(X)	(X)
<i><b>Other payments</b></i>	(X)	(X)	(X)
<b>Total payments</b>	(X)	(X)	(X)
<b>NET RECEIPTS/(PAYMENTS)</b>	(X)	(X)	(X)

## APPENDIX E: BUDGET PREPARATION PROCESS - KEY FACTORS

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

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"> <li>. the budget documents should provide a clear link between objectives and expenditures;</li> <li>. all participants in the budget process should be clear about their roles and responsibilities;</li> <li>. simple well documented procedures;</li> <li>. well defined basis of budgeting e.g. incremental, zero based etc.</li> <li>. departmental targets and resources allocated, clearly indicated and explained.</li> </ul>
Management	<ul style="list-style-type: none"> <li>. effective budgeting involves more than simply preparing annual budgets; the management and monitoring of the budget is equally important.</li> </ul>
Decentralisation	<ul style="list-style-type: none"> <li>. it is potentially inefficient and may undermine the budget system for all decisions to be made at the center.</li> </ul>
Co-ordination and Co-operation	<ul style="list-style-type: none"> <li>. 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.</li> </ul>
Integration	<ul style="list-style-type: none"> <li>. 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.</li> </ul>
Flexibility	<ul style="list-style-type: none"> <li>. 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.</li> </ul>
Discipline	<ul style="list-style-type: none"> <li>. although the system should provide flexibility, there should also be effective control over expenditures;</li> <li>. any changes to the budget should be carefully analysed and justified;</li> <li>. only limited use of Supplementary Estimates;</li> <li>. penalties for breach of rules and regulations.</li> </ul>

Link to Medium-term Framework (National Development Plan)	<ul style="list-style-type: none"> <li>. link between the resource framework of the National Development Plan and the annual budget;</li> <li>. link between the policies and priorities of the National Development Plan and budget allocations.</li> </ul>
Accountability and Credibility	<ul style="list-style-type: none"> <li>. political involvement: good links between politicians and civil servants;</li> <li>. involvement and accountability of senior managers in all stages of the process;</li> <li>. 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;</li> <li>. budgets should be reliably close to the actual out-turn.</li> </ul>
Comprehensive	<ul style="list-style-type: none"> <li>. the budget process and documents need to include all revenues and expenditures, including all aid funds;</li> <li>. the budget should also contain information on previous year's and current year's expenditures;</li> <li>. measuring the impact of the budget through output performance indicators for recurrent and development expenditures.</li> </ul>

## **APPENDIX F. WORLD BANK COUNTRY FINANCIAL ACCOUNTABILITY ASSESSMENT (CFAA)**

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

### **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?

## APPENDIX G. GOVERNMENT FISCAL MANAGEMENT PROCESSES AND INFORMATION SYSTEMS

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

### 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 assists 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, manpower component, the maintenance and other operating expenses maintained by other components of the GFM systems network.

#### 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 is 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.



## Government Fiscal Management Processes

### Cash 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 government's 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 Support

### Cash 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 assists 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 H. COMMITMENT ACCOUNTING PROCEDURES

Page 123, Government Financial Reporting, Study 11, May 2000, IFAC Public Sector Committee

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.

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 I. COMMON DIFFERENCES BETWEEN GAAP AND BUDGETARY BASIS OF ACCOUNTING**

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>

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.

## APPENDIX J. ILLUSTRATIVE BUDGETARY COMPARISON STATEMENTS FOR STATE AND LOCAL GOVERNMENTS IN THE UNITED STATES

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)

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>
<b>Budgetary Fund Balance, January 1</b>			
<b>Resources (inflows)</b>			
<b>Charges to appropriations (outflows)</b>			
<b>Budgetary Fund Balance, December 31</b>			

**Sample City**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances—Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2002**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Budget to GAAP</u>	<u>Actual Amts</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Over(Under)</u>	<u>GAAP Basis</u>
Revenues					
Expenditures					
Other Financing Sources (Uses)					
Special Item					
Fund Balances—beginning					
Fund Balances—ending					

## APPENDIX K. EXAMPLE OF DIFFERENCES BETWEEN BUDGETARY AND GAAP BASIS OF REPORTING

Adapted from Exhibit 2c, Statement No. 41 of the Governmental Accounting Standards Board (US), Budgetary Comparison Schedules—  
Perspective Differences, pp. 18-19 (May 2003)

### Budgetary Comparison Schedule Notes to RSI

**Note A—Explanation of Differences between Revenues, Expenditures, and Other Financing Sources (Uses) for Budgetary Funds on a Budgetary Basis and GAAP General Fund and Major Special Revenue Funds on a GAAP Basis (in thousands)**

#### Budgetary Funds

<b>Financial Statement</b>	<b>General</b>	<b>State Special</b>	<b>Highway Special</b>
<b><u>Major Funds</u></b>	<b><u>Fund</u></b>	<b><u>Revenue Fund</u></b>	<b><u>Revenue Fund</u></b>
<b>Revenues</b>			
Actual amounts (budgetary basis) “revenues” from the budgetary comparison schedules	\$21,682,808	\$8,056,061	\$ -
Reclassifications:			
Budgetary general revenue fund and special state fund revenues are reclassified to the highway special revenue fund for GAAP reporting	(128,436)	(58,690)	187,126
The state reports amounts in the budgetary general revenue fund and special state fund that are reported in non-major funds for GAAP reporting	<u>(435,017)</u>	<u>(912,226)</u>	<u>-</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$21,119,355</u>	<u>\$7,085,145</u>	<u>\$187,126</u>
<b>Expenditures</b>			
Actual amounts (budgetary basis) “expenditures” from the budgetary comparison schedules	\$20,874,631	\$7,672,577	\$ -
Adjustments:			
The state budgets for compensated absences on the cash basis, rather than on the modified accrual basis	32,080	6,803	-
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for GAAP reporting	<u>(186,690)</u>	<u>(32,497)</u>	<u>-</u>
Total expenditures for the general revenue fund and special state fund on a GAAP basis of accounting	20,720,021	7,646,883	-
Reclassifications:			
Budgetary general revenue fund and special state fund expenditures are reclassified to the highway special revenue fund for GAAP reporting	(56,440)	(54,682)	111,122
The state reports amounts in the budgetary general revenue fund and special state fund that are reported in non-major funds for GAAP reporting	<u>(163,548)</u>	<u>(483,483)</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$20,500,033</u>	<u>\$7,108,718</u>	<u>\$111,122</u>
<b>Other financing sources (uses)</b>			
Actual amounts (budgetary basis) “other financing sources and uses” from the budgetary comparison schedules	\$(534,157)	\$(5,105)	\$ -
Reclassifications:			
Budgetary general revenue fund transfers in are reclassified to the highway special revenue fund for GAAP reporting	(2,187)	-	2,187
The state reports amounts in the budgetary general revenue fund and special state fund that are reported in non-major funds for GAAP reporting	<u>(148,587)</u>	<u>10,846</u>	<u>-</u>
Total other financing sources and uses as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$(684,928)</u>	<u>\$ 5,741</u>	<u>\$2,187</u>

## APPENDIX L: GOVERNMENT BUDGET CHARACTERISTICS

Prepared by Michael Parry (International Management Consultants) in an initial effort to develop a conceptual framework.

Characteristic	Consequent features	Relevance for budget standards
1 Constitutional and legal status	<p>1.1 Generally, there is a constitutional/legal requirement for an annual budget, and frequently the format is to some extent specified by law</p> <p>1.2 Budgets are laws, and must be passed through the legislature in accordance with prescribed procedures</p> <p>1.3 Budgets provide legal authority for the executive to incur expenditure within specified ceilings and according to laid down procedures</p> <p>1.4 Budgets provide legal authority to raise revenues</p>	Budget reporting standards should set out model legal requirements for budget documents as presented to the legislature and made available to the public
2 Political significance	<p>2.1 Budgets, define the fiscal stance of government, borrowing and taxation policies, and spending priorities. These decisions are the essence of politics. A government budget is not just a management tool; it is also a political statement.</p>	Budget reporting standards should require transparent information that enables informed political discussion



Characteristic	Consequent features	Relevance for budget standards
3 Multiple purposes	<p>3.1 Budgets are fiscal tools used for economic management. This is linked to, but separate from the government's need to manage its own revenues and expenditures. Fiscal policy often conflicts with operational and social objectives.</p> <p>3.2 Budgets are the tool by which policies and plans are translated into operational activities.</p> <p>3.3 Budgets are the management tool for allocating resources in accordance with such plans, policies and the ongoing requirements to fund a substantial government machine.</p> <p>3.4 Budgets are a management tool to achieve operational efficiency and value for money in the execution of government activities</p> <p>3.5 These multiple purposes are reflected in the need to develop budget classification methodologies that meet multiple analytic requirements</p>	<p>Budget reports need to reflect the multiple purposes of budgets. Comments are linked to the points in the preceding column:</p> <p>3.1 Budget documents that provide transparent information on fiscal impact of budget</p> <p>3.2 Budget documents in a format suitable for translation into activities, e.g. provide expenditure information in a format that accords with government structures and responsibilities</p> <p>3.3 Budget documents to transparently identify resource allocation decisions, for example to programmes, geographic regions, by gender or social group</p> <p>3.4 Budget documents particularly to facilitate ex-post evaluation of value for money</p> <p>3.5 A published budget classification document that enables multi dimensional analysis. Budget information available in formats (spreadsheets, XBRL), that facilitates analysis</p>

Characteristic	Consequent features	Relevance for budget standards
4 Budget as driver of the financial management process	<p>4.1 Because of the legal, political and multi dimensional nature of the government budget, it drives the whole financial management process. This contrasts with commercial budgets, which are little more than forecasts, and where reported results tend to be the driver.</p> <p>4.2 This the structure of the accounting system, and especially the chart of accounts, is driven by the budget classification.</p> <p>4.3 Budgets drive the business activities of governments - the term "budget execution" describes the process. Hence the difficulty of achieving a demand driven customer focus in government activities.</p>	<p>This has a number of implications:</p> <p>Financial reports must compare incurred to budgeted expenditure</p> <p>Need to be able to track budgets as they change, e.g. through virements or supplementary budgets. What should be comparator in financial reports, original or modified (flexed) budget?</p> <p>Chart of accounts must be based on budget classification</p>
5 Unrequited revenues and expenditures	<p>5.1 There is no automatic link between revenues raised and funds expended - these are separate policy decisions, i.e. they are unrequited.</p> <p>5.2 Hence the budget/accounting model is not an input-output model in the way it is for commercial entities - this is a primary reason why financial management has not historically had the significance in government that it has in commerce.</p> <p>5.3 The public sector has sought to address this issue through the development of non-financial performance measures.</p>	<p>Budgets need to clearly identify separate revenue raising and expenditure decisions - these should not be "netted off" because this obscures the separate decisions involved</p> <p>There is an issue of the extent to which performance measures should be linked to, or incorporated in, the budget process and reports</p>
6 Budget time periods	<p>6.1 For most countries the legal budget process is linked to the government fiscal year</p> <p>6.2 The recent recognition to move to a medium term budget framework is typically not recognised in law. The issue arises of the legal status of medium term budget reports.</p>	<p>Reporting standards need to recognise possible alternative scenarios for relationships between, and legal status of, annual and medium term budget documents.</p> <p>Might recommend alternative approaches or just allow alternatives</p>

Characteristic	Consequent features	Relevance for budget standards
<p>7 Cash based budget most easily linked to fiscal impact and budget execution process</p>	<p>7.1 Cash budgets directly measure the fiscal impact of the budget, and can be directly translated into cash ceilings for budget execution and expenditure management</p> <p>7.2 This in part explains why cash budgeting has persisted despite the clear inadequacies of cash accounting as a financial management tool, and even in some cases budgets continue to be cash based when accounting has moved to an accrual basis</p> <p>7.3 Hence an important need for standard setting is to address how accrual budgeting can meet the requirement for cash based information</p> <p>7.4 Cash based budgets make meaningful balance sheets impossible, but nevertheless much of the balance sheet information on assets and liabilities is essential for effective financial management. How can this discrepancy be addressed?</p>	<p>This is a very fundamental issue, which is at the heart of much of the debate about the use of cash accounting for government. Indeed, it is difficult to see how for any country this can be adequately addressed without starting from the budget perspective.</p> <p>For budget standards there are a number of issues:</p> <p>Will the standards accept a different basis (cash or accrual) for budget from accounting?</p> <p>If accrual based, what additional reports are required to (i) measure fiscal impact, and (ii) translate budgets into expenditure ceilings?</p> <p>If cash based, what budget reports are required on assets and liabilities (and contingent liabilities)</p>
<p>8 Multiple stakeholders</p>	<p>8.1 The concept of stakeholders for government financial information can be seen as a multi-dimensional matrix.</p> <p>8.2 Levels of stakeholders can be seen in terms of proximity to information - the executive, legislature, government officials, citizens with direct fiduciary relationships with government (taxpayers, suppliers), voters, all citizens of the country</p> <p>8.3 External stakeholders, e.g. international organisations (European Commission for EU countries, IMF, etc)</p> <p>8.4 Specific interest groups, e.g. poor people, women, disabled</p>	<p>The concept of transparency means the legitimate information needs of all stakeholders needs to be recognised and information provided in a manner that facilitates their ability to interpret and analyse financial transactions</p>

## APPENDIX M. SWEDISH STANDARDS REGARDING ACTUAL TO BUDGET REPORTING

The Swedish standard setting procedures are very much linked to the legal framework. Basically there has to be stipulations in law. There are no stipulations regarding accounting in the constitution. For central government there are basic stipulations in the State Budget Act. These concern the governments reporting obligations. GAAP shall be the basis for the accounts. As regards agencies there are stipulations in a government ordinance. The Financial Management Authority has issued supplementary regulations to the ordinances. Thus, the standards have the form of regulations and are bound to specific formats.

With regards to regional and local governments, there is a basic law (Local Governments Accounting Act) where GAAP is prescribed to be followed. The law also states that in case the accounts diverge from standards given by a standard setting body for the local government sector that shall be stated as well as the reasons for the divergence. As a consequence there is a standard setting body established called the Local Governments' Accounting Standards Council.

### **Local Government Accounting Act**

The law states: "The report of the directors will contain a statement of the outcome related to the budget established for the running activities". There are no further standards issued by the council.

### **State Budget Act**

Follow-up, forecasts and outcome

...

38 §

On at least two occasions in the course of the fiscal year, The Government shall submit forecasts to Parliament concerning the outcome of state budget revenue and appropriations, and state debt. The Government shall explain significant discrepancies between budget amounts and estimated outcome.

39 §

At the latest four months after the end of the fiscal year, the Government shall submit a report to Parliament on the preliminary outcome of state budget revenue and appropriations. The Government shall explain significant discrepancies between budgeted amounts and the preliminary outcome.

40 §

As soon as possible, but no later than nine months after the concluded fiscal year, the Government shall have an annual report presented to Parliament. The annual report shall contain a statement of financial performance, a statement of financial position and a cash flow statement. It shall also contain the final outcome of state budget revenue and appropriations.

### **Ordinance concerning the Annual Reports and Budget Documentation**

#### **Section 2. General provisions relating to the annual report**

Art 1. The agency shall submit an annual report to the Government for the preceding financial year no later than February 22 each year.

Art 4. The annual report shall consist of

- a performance report,
- a statement of financial performance,
- a statement of financial position,
- an appropriation report,
- a cash flow statement, and
- notes.

The agency's annual report shall also contain a summary of important information from the statement of financial performance, the statement of financial position and the appropriation report. The summary shall also contain information on the loan limit, appropriation credit and certain key indicators. In its annual report the agency shall also provide information on other circumstances of significance for the Government's follow-up and appraisal of operations.

### **Section 6 Appropriation report and cash flow statement**

Art 1. In the appropriation report the agency shall report on the outcome of the appropriations that the agency has at its disposal and the income headings that the agency shall report on in accordance with the breakdown made in the Government approval document or other decisions of the Government, or the agency that has delegated the right of disposal. The outcome shall be compared with the amount allocated or delegated per appropriation or appropriation item and with the estimated amount for each income heading. An analysis shall be made of discrepancies.

The appropriation report shall also show the extent to which the agency, on the basis of special authority granted to it, has ordered goods or services or approved grants, compensation, loans or the like that will entail expenditure in following financial years but which are not covered by appropriations at the disposal of the agency. The appropriation report shall also show how the agency has complied with other financial conditions laid down by the Government.

In **supplementary regulations from the National Financial Management Authority**, the format of the Appropriation Report is prescribed:

Appropriation	Starting carry over amount	Budget allocation	To others allocated amounts	From government reallocated amounts	Used part of admitted exceeding	Withdrawals	Total disposable amount	Expenditures	Revenues	Final carry over amount
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(Notice a carry over system greatly influences the format. Notice also that revenues are rare. They normally are not accounted for against appropriations but in the statement of financial performance.)

## APPENDIX N. BUDGET PREPARATION IN DENMARK

1. The Budget cycle
2. Institutions in the Budget Process
3. Establishing Budget preconditions
4. Setting up overall Budget targets

### 1. The Budget cycle

The Budget Preparation Process in Denmark follows generally the same pattern every year. In the following this is illustrated through the Preparation of the Budget for the year 2004.

The Preparation of the Budget for 2004 began in early 2003, shortly after the Parliament in December 2002 approved of the Budget for 2003, and while the spending ministries are putting their final hand to the fiscal accounts for 2002.

This indicates that from the first preparations of the Budget Proposal it takes about 1 year before the Parliament decides on the Budget and about 2½ years before the fiscal accounts can be presented to Parliament.

In addition to this multi-year Budget, estimates for the fiscal year have been presented in the appendixes to the previous three years Budgets.

The overall schedule is illustrated in the following table:

January	Ministry of Finance examines Budget preconditions and proposes overall Budget targets
Early February	Break down of overall Budget targets to ceilings for consumption and income transfers for each ministry
Early May	Line ministries give their draft Budget Proposals to The Ministry of Finance
May - June	Ministry of Finance performs technical scrutiny of the Budget Proposal and holds discussions with line ministries on the financing of new initiatives etc.
August	Last minute estimates of the economic situation and the influence on the Budget Proposal
End of August	Presentation of the Budget Proposal
Early September	First Parliamentary discussion on the Budget Proposal
Early November	End to political negotiations on the Budget Proposal
Mid November	Minister of Finance proposes the Governments amendments and changes to the Budget Proposal (including the result of the political negotiations).
End of November	Minister of Finance presents amendments due to a final estimate of the economic situation and the influence on the Budget Proposal
Mid December	Third and final Parliamentary discussion on the Budget Proposal

### 2. Institutions in the Budget Process

The Preparation of the central Government Budget in Denmark is done in co-operation between several levels of Government. The different authorities play their own special role - not only in the preparation of the Budget Proposal, but also in implementing the Budget, and controlling the outcome.

- The authorities and the functions they perform can be found in every country. A closer study will however show differences with regard to Procedures used in the Budget preparation and appropriation Process, and during Budget implementation, follow-up and control.
- Actual influence that the different authorities have at different occasions during the Process.

This presentation will give an introduction to the authorities and their role in the Danish Budget and appropriation system.

### **Parliament**

The Parliament is the central appropriation authority. According to the Danish constitution no expenditure may be paid without a prior appropriation from the Parliament, and no tax may be collected if it is not decided in a law.

As for the Budget procedures the Danish constitution states that the Budget Proposal must be presented to Parliament at the latest four month prior to the beginning of the fiscal year.

The Parliament cannot make its own Budget Proposal, but it is entitled to decide changes to the Governments Budget Proposal before finally adopting the Budget.

The Parliaments Finance Committee functions as the appropriation authority during the fiscal year. It is also in the Finance Committee discussions on the detailed contents of the Governments Budget Proposal are taken. Usually the Parliamentary debate on the Budget Proposal follows a broader perspective on the economic policy.

When the Budget Proposal has been adopted by Parliament and the fiscal year has begun, changes to the appropriations in the Budget can be implemented through applications to the Parliaments Finance Committee. Such applications must contain a full explanation to why a change is necessary, how it will be financed e.g. through cuts in other appropriations or reserves. Furthermore an application must be approved by the Ministry of Finance before it can be sent to the Finance Committee.

This procedure makes the Danish appropriation system very flexible because most applications to the Finance Committee are passed within 1-2 weeks. As a special Danish practice all applications passed by the Finance Committee during the fiscal year are combined in one supplementary appropriation-act by the end of the fiscal year.

### **Government**

At Cabinet-level only a few general economic discussions are taken during the year. Generally most economic discussions in the Government including Finance Policy and Economic Programmes are taken in the Cabinets Economic Committee (a group of 6 ministers where the Minister for Finance presides). In specific matters this Committee can call on other ministers.

In January the Cabinets Economic Committee decides on ceilings for the coming year (i.e. spending limits for each ministry). This discussion also includes a broader economic discussion on the global economic targets.

In June the Cabinet discusses the result of the Budget Preparation Process and decides on the Budget Proposal for presentation to Parliament.

## **Ministry of Finance**

The Ministry of Finance are coordination the Budget Process. It is the Minister of Finance who presents the Budget Proposal to Parliament on behalf of all cabinet ministers.

Under the Danish system no cabinet minister can contact the Parliament or its Budget committee in appropriation issues without a prior acceptance from the Minister of Finance.

The functions of the Ministry of Finance in the Budget Process can be divided into four major tasks.

- To make Guidelines and Directions to be used by the spending ministries when drafting the Budget.
- To collect draft Budget Proposals from the ministries and combine these to the final Government Budget Proposal.
- To follow-up on Government revenue and spending and make economic forecasts and calculations as preparation for Government decisions on economic policy.
- Through the Agency for Economic Management to ensure the accounting in the agencies and to present the fiscal accounts after the end of the fiscal year.

The first three functions are necessary to ensure that the Minister of Finance has the background to present a coherent economic policy based on actual projections of the Fiscal Balance for the Central Government.

Due to practical considerations the functions of accounting are placed with the Agency for Economic Management. This is to ensure the best possible use of computer technology, but also due to financing considerations. In Denmark the Ministry of Finance does not make money transfers to spending agencies. The agencies have access to draw directly on the Central Bank. The accounting and payment systems gives the agencies regularly updated reports on how much have been spent of the appropriation. These reports are also sent to the relevant ministry.

## **Spending ministries**

All Government administration in Denmark is based on the law of responsibility of each cabinet minister. The law determines that the minister are politically responsible for all decisions taken within his area, but does not prohibit a delegation of decision-power to lower levels within the ministry.

This implies that all appropriations decided by Parliament are given to a minister. From this also follows that every spending decision in the agencies are taken on the Ministers responsibility.

The spending ministries therefore have two major functions in the Budget Process.

- They have to present a draft Budget Proposal for the ministry and all its agencies to the Ministry of Finance.
- They have to follow-up on the actual Budget and take action if an agency has difficulties to keep the given appropriations.

If a spending ministry during the Budget follow-up finds it necessary to apply for a change to an appropriation, the application and the financing must be approved by the Ministry of Finance before it can be submitted to Parliament.

## **Spending agencies**

The spending agencies are where the actual spending of the appropriations decided by Parliament is done. In the Danish Budget system they are involved in several parts of the Budget Process.



As mentioned above they operate on behalf of the relevant minister and on his responsibility. The amount of decision-power delegated from the minister to the agencies can differ from ministry to ministry. This also applies to spending decisions.

In most cases the Budget Process within a ministry starts with the minister asking the different agencies for draft Proposals to the Budget for their operations. Later in the Budget Process agencies usually are asked to help in the Process of giving priority to marginal spending reductions or expansions.

During the fiscal year the spending agencies have to control spending and follow-up on the allocated appropriations. If this follow-up shows that the given appropriations are about to be exceeded the agency must either take actions to reduce spending or apply for a raise of the appropriation. Such an application cannot be sent directly to the Parliament Finance Committee, but must go through the relevant minister and approved by the Ministry of Finance.

### **3. Establishing Budget preconditions**

As mentioned in the first section the Budget Process begins approximately one year prior to the beginning of the fiscal year.

Before the actual drafting of the Budget Proposal can be set in work, several preconditions have to be determined. These preconditions are all based on an economic analysis of the Danish economy.

This analysis is first of all used to see what will happen if no policy-actions are taken. In other words the analysis determines the statistical basis for the Budget preparation.

As an appendix to the Budget for the current year, multi-year budget estimates are presented to Parliament.

In the multi-year budget estimates activity-based factors have already been implemented. Among these are factors are demographic developments such as the number of old-age pensioners and the number of students at higher education's, but also other factors e.g. results of political agreements on the number of police officers and the level of expenditure to foreign aid programmes are implemented.

Furthermore the results of the latest economic analysis regarding cyclical expenditure i.e. unemployment benefits and some social welfare programmes also are included in the multi-year budget estimates.

What the new economic analysis provides are new estimates with regard to cyclical expenditure and forecasts of the inflation.

As the multi-year Budget estimates are provided in the same price-level as the Budget for the current fiscal year. It is important to have an estimate of the inflation to determine the price-level for the coming fiscal year. Furthermore it is important that the same forecast of the inflation is used in all ministries and agencies during the Budget preparation to ensure the consistency of the Budget Proposal.

The economic analysis is the basis for forecasts of the inflation on

- Salaries and wages
- Working expenses
- Construction expenditure
- Entitlement expenditures (income transfers)
- Tax basis (for collecting income-tax, VAT etc.)
- Revenues (other than taxes)

The Ministry of Finance distributes these forecasts to all Government agencies from the beginning of the Budget Process. Later on these Budget preconditions are only changed if an economic analysis shows large and important deviations.

#### **4. Setting up overall Budget targets**

Since the mid-eighties the Budgetary Process in Denmark has been under reform and the expenditure control strengthened. The general framework of the Budget Process is the setting of ceilings for each spending ministry, within which they have to present their Budget Proposal to the Ministry of Finance.

The system of ceilings consists of two spending limits. One for consumption and one for income transfers. Beneath the spending limit for consumption there is a special limit for salaries, and beneath the limit for income transfers is a sub-limit for discretionary expenditure programmes.

An important part of the system with ceilings is that the allocation of the spending limit lies with the spending ministries. The Ministry of Finance controls the overall spending limits and whether the spending ministries keep their ceilings.

The Budget Process starts in the beginning of January with an evaluation of the latest economic of the Danish economy with the purpose of establishing an acceptable overall expenditure level.

In the beginning of February the ceilings for the individual spending ministries are decided by the Cabinets Economic Committee.

During the 1980s the main fiscal objective was to reduce and eliminate the deficit and at the same time hold the non-cyclical expenditure at the same level in real terms. Due to demographic changes this implied a strong fiscal policy. Since 1993 the fiscal objective has been re-evaluated. Growth in non-cyclical expenditures must be beneath the growth in the economy and priority has been given to deficit reduction and in the latest years with surplus to debt reduction.

It is to ensure that these fiscal objectives are in line with the proposed overall spending limit, that the economic analysis are evaluated by the Ministry of Finance before the ceilings are prepared and proposed to cabinet.

But apart from the economic analysis of the economy the Ministry of Finance also evaluates the Budget for the current year with respect to technical aspects as:

- Expected change in expenditure due to demographic conditions
- Actual spending in the preceding year
- New estimates for income transfers

In this Evaluation Process the Ministry of Finance also takes into account the expected expenditure development in the different spending programmes as presented in the multi-year Budget estimates.

Furthermore the Budget for the spending ministries is evaluated aiming at finding spending programmes, where cuts can be proposed. Targeted cuts proposed by the Ministry of Finance will however only become effective if the relevant spending ministry adopts them.

However the Ministry of Finance does incorporate the Proposals in the ceilings presented to the Cabinets Economic Committee. This commits the spending ministries to incorporate the cuts, come up with other Proposals or negotiate a raise to their ceilings.

Finally an important part of the evaluation Process is to find the level of total expenditure that can be accepted with the overall target of a growth in Government expenditure that is below the growths in the economy in mind.

Based on the above-mentioned considerations and evaluations The Ministry of Finance prepares a decision paper for the discussion in the Cabinets Economic Committee with Proposals of ceilings for the different spending ministries.

A part of this decision paper is the allocation of possible targeted spending reductions or proposed analysis of spending programmes.

The Cabinets Economic Committee decides to the decision paper in the beginning of February. After deciding on the ceilings the spending ministries are given approximately three month to prepare their draft Budget Proposal within the decided ceilings.

Upon receiving the draft Budget Proposals from the ministries the Ministry of Finance will make analysis and technical scrutiny of the requests. A part of this Process is to make sure that Budgets are kept within the ceilings.

## **APPENDIX O. INFORMATION ABOUT THE FRENCH BUDGET**

In France, like in other jurisdictions, the Government's budget is primarily a document issuing financial authorizations (revenue authorization, expenditure authorization), with corresponding estimated amounts on the revenue side, or maximum amounts on the expenditure side.

Therefore, that legal document cannot be only considered as a prevision document, presenting projections of revenue and expenses in the future, as it can be the case for a public or private company.

The French budget's structure is supported by two major presentations of the authorized expenditures:

- expenditures are presented by functions (defence, culture, foreign affairs, etc...),
- expenditures are also presented by nature (personal, equipment, etc...).

The French budget covers the whole of central government. Other levels of government, and the social security system, present their own budgets, based on different legal rules. In the French case, central government means central administration and local branches of the central administration. That also means that the budget is a "general budget", melting all the government's revenue and all the government's expenditure in the same document, with some minor exceptions.

The French budget is based both on the cash basis and on the commitments basis (formulation and execution stages). For reporting purposes, the financial statements are based on the accrual basis, and present a reconciliation chart between budgetary cash execution and general purpose financial statements, and between these elements and national income accounting charts.

The French budget is adopted on an annual basis, but a special report presents a multi-year projection of expenditures and revenues. Changes in the budgetary scope are explicitly presented each year.

During the year, the Supplementary Budget presents details on all the changes in appropriations since the initial Budget Act.

Finally, the Budget Review Act shows the final outturn of the budget, compared with the initial budget.

Performance indicators are to be in the budget step by step from now on to 2006.

## STEERING COMMITTEE COMMENTS

<b>From:</b>	<b>Received</b>	<b>Type of Comment</b>	<b>Page Nos</b>
Andy Wynne, ACCA	4.12.2003	Marked up extracts	9.77-9.97
Andy Wynn, ACCA	2.12.2003	Email	9.98
C Gustavsson, ESV	17.12.2003	Email	9.99
S Leith, NZ Treasury	21.12.2003	Email	9.100
G Ludo, FEE	30.1.2004	Email	9.101
M Parry, IMCL, UK	9.1.2004	Email	9.102
M Parry, IMCL, UK	9.1.2004	Marked up extracts	9.102-9.106
C I Svane, Ministry of Finance, Copenhagen	22.12.2003	Email	9.107-9.108

**DRAFT**

**COMMENTS BY ANDY WYNNE.**

**MY COMMENTS ARE IN UPPERCASE and my suggested changes to the text are generally in lower case.**

**INTERNATIONAL FEDERATION OF ACCOUNTANTS  
PUBLIC SECTOR COMMITTEE**

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

SPECIAL EFFORT NEEDS TO BE MADE TO ENSURE THAT ANY IPSAS ON THIS SUBJECT IS WRITTEN TO PROVIDE GUIDANCE ON THE CONTENT OF GENERAL PURPOSE FINANCIAL REPORTS WHICH ARE PRODUCED TO PROVIDE INFORMATION ON THE BUDGET PROCESS (IN CONTRAST TO GUIDANCE ON GOOD PRACTICE FOR BUDGETING). THIS WILL INCLUDE PUBLIC DOCUMENTS PRODUCED AT THE FOLLOWING 3 MAIN POINTS:

- AGREEMENT BY PARLIAMENT TO THE MEDIUM TERM FINANCIAL FRAMEWORK (AND/OR PRE-BUDGET REPORT)
- THE ANNUAL BUDGET AGREED BY PARLIAMENT
- AND
- THE BUDGET OUT-TURN REPORT.

THE REFERENCES SHOULD BE EXTENDED TO INCLUDE:

- The DfID PREM Manual – “Understanding and reforming public expenditure management, Guidelines for DFID governance advisors and economists” (Department for International Development (UK) December 2000)

IT MAY BE WELL WORTH LOOKING AT THE GLOSSARY AND REFERENCES FOR THIS DOCUMENT – I HAVE AN E-COPY I CAN SEND YOU.

- [The OECD book for transition countries – “Managing Public Expenditure: A Reference Book for Transition Countries \(OECD 2001\)”](#)  
[AGAIN A GOOD SET OF REFERENCES/FURTHER READING AND USEFUL CHECKLIST. AN ECOPY IS AVAILABLE FOR FREE DOWN-LOAD \(BUT NOT PRINT\) FROM THE OECD SITE.](#)

- [THE WEBSITE FOR THE IMF GFS MANUAL IS:](#)  
[http://www.imf.org/external/pubs/ft/gfs/manual/index.htm.](http://www.imf.org/external/pubs/ft/gfs/manual/index.htm)

By  
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November 2003

## Executive Summary

Most governments prepare and issue their annual financial budgets as public documents. Such documents may be issued at one or more of the following stages:

- when the medium term financial (or fiscal) framework or the pre-budget statement has been formulated and agreed
- when the annual budget has been agreed by parliament
- when accounts of the actual levels of payments and receipts (or income and expenditure) have been prepared (budget out-turn report).

The financial statements issued at any of the above stages may be independently reviewed or audited. This is particularly the case for the third stage, the budget out-turn report. This was traditionally the financial statement issued by government which is audited by the auditor general.

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 objective of the [IFAC Public Sector] Committee is to develop programs aimed at improving public sector financial management and accountability including developing accounting standards and promoting their acceptance." (Paragraph 4 of the Preface to International Public Sector Accounting Standards).

International Public Sector Accounting Standards (IPSASs) have been issued to set standards of best practice for 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 should 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. The Committee agreed that research is being should be 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. THIS PARAGRAPH DESCRIBES THE BUDGETARY PROCESS RATHER THAN THE VARIOUS BUDGET RELATED REPORTS WHICH MAY BE ISSUED BY GOVERNMENTS AND PUBLIC SECTOR ENTITIES TO MEET THE NEEDS OF GENERAL PURPOSE USERS (SEE PARAGRAPH 8 OF THE PREFACE TO IPSASs. THE PROCESS OF BUDGET FORMULATION WOULD BE OUTSIDE THE REMIT THE COMMITTEE HAS SET FOR ITSELF, BUT STANDARDS FOR FINANCIAL STATEMENTS (INCLUDING MTF AND/OR PRE-BUDGET STATEMENTS) IS CLEARLY WITHIN THE REMIT.

In the area of budget **formulation** (both for the Medium Term Fiscal Framework – and pre-budget report - 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 a Comparative Statement as well as the statistical reports desired by the International Monetary Fund (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 as long as there is sufficient coordination between the cash manager and the budget users. The execution stage is enhanced when integrated financial management information systems are used. However, the means by which the budget is executed would be encouraged but would not be required in an IPSAS.~~

THIS PARAGRAPH IS NOT ABOUT PROVIDING GENERAL PURPOSE INFORMATION, BUT THE BUDGETARY PROCESS.

In the area of budget **reporting** BETTER TO TALK ABOUT OUT-TURN AS GOVERNMENTS MAY REPORT AT EACH OF THE STAGES OF THE BUDGETARY CYCLE], the international ~~oversight bodies~~ financial institutions (IMF and World Bank) recommend that governments annually prepare a comparative budget to actual financial statement. Many standard setters within governments throughout the world also recommend comparative statements. However, there are some differences between these budgetary reporting recommendations as to what information to include in the comparative statements.

Analysis performed within five African countries indicates that their budgets are prepared on the cash basis and there is no indication that they plan to move to the accrual basis of accounting in the near future. However, many-some European countries have moved or in the process of moving toward the accrual basis of accounting. Also, a survey conducted by Office of Economic Cooperation and Development (OECD) indicates that many countries (at

least in OECD or South America) plan to move toward the accrual basis of accounting. However, some of these countries prepare their budgets on the cash basis and they plan to continue to prepare their budgets on the cash basis for the foreseeable future even though-if their accounting will be on the accrual basis.

The research found that there was general 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. Also, the original budget should be included (along with the final-approved supplementary (or revised) budget) to provide the users of the statement with comparative budgetary information. 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).

## 1. Background

Budget documents are ~~widely distributed and promoted~~ usually published and frequently widely commented upon in the mass media. Given the lateness and complexity of historical public accounts in some countries, the budget documents are often the most important source of information on public finance. 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. The IFAC Public Sector Committee agreed that research ~~is was~~ needed to determine if an IPSAS should be issued on budget reporting. The objectives of the research ~~should was 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;
- 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. The issues to be considered are as follows:
  - The nature and requirements of any IPSAS that might be developed considering budget formulation, execution, and reporting.
  - The application of the recognition and measurement requirements of existing IPSASs in the budget context.

To meet these objectives, the qualitative characteristics of financial reporting previously identified in IPSAS 1<sup>1</sup> will be considered in this Research Report. These are as follows:

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

### GOOD PLAN – BUT HAVE WE ACTUALLY ACHIEVED THIS?

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.

## 2. Budget Overview

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Distribution of budgetary information enables the government to communicate to its constituents the extent to which performance and plan coincide and to explain any differences

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<sup>1</sup> Appendix 2, Presentation of Financial Statements, IPSAS 1 (May 2000).

therein. In many respects, and for many external users, **the budget documents are the most important financial statements issued by governments**[\[WHICH – PRESUMABLY THE PROPOSED/AGREED ANNUAL BUDGET\]](#). In addition to financial information, some countries include performance measures covering effectiveness and efficiency in their budgetary reports. These budgetary documents can become controversial during the political process as noted in the following news release:<sup>2</sup>

.....

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. Some countries (i.e., Germany) have special mechanisms for reviewing the realism of underlying economic forecasts, as well as related revenue estimates in particular. Fiscal transparency requires more than just budget (and actual) figures. It also requires information on the assumptions behind budget figures (i.e., economic and other risk factors) [which may be subject to review by the auditor general – eg in the UK](#). In a globalized environment, fiscal transparency is of considerable importance ~~to achieving~~[in demonstrating](#) macroeconomic stability and high-quality growth. However, it is only one aspect of good fiscal 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 C). 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.

.....

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

Note: Some countries compute the variance from the original budget and explain the reason (including in-year updates) for subsequent adjustments. Other countries compute the variance from the modified budget and explain significant differences. [Explaining differences from the original budget is more complete and thus to be preferred.](#)

~~Government budgets are approved by the legislature and compliance is a legal matter. These budgets serve as national plans for economic governance and controlled use of resources for the country. 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. In some cases, spending authority is granted at the same level as the prior year under a continuing resolution if the budget is not passed prior to the beginning of the fiscal year. In addition, some governments permit purchase orders that have not been filled prior to the end~~

<sup>2</sup> 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>.

~~of the fiscal period to be carried forward and funded in the next fiscal year. The types of budgets are defined in Appendix A.~~

THIS PARAGRAPH JUST PROVIDES GUIDANCE ON THE BUDGET PROCESS NOT GENERAL PURPOSE FINANCIAL REPORTS.

Budgets may be prepared on the cash, obligation/commitment, 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 some governments have transitioned to the accrual basis of accounting, many a few now 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. IfAs the full accrual basis of accounting (which includes total assets and liabilities) is achieved~~used~~, some ~~some~~ governments are ~~may~~ moving to the accrual basis of budgeting. ~~so that they can plan for the use of total resources.~~

### **b. 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-most countries. Some countries are in the process of transitioning to the accrual basis of accounting but prefer to have retained the cash basis for budgetary reporting purposes. Consequently, the accounting system must retain the cash basis for budgetary control 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. TWO MUCH REPETITION WITH THE LAST PARAGRAPH.

Since the objective is to enhance best practices in budget reporting, it will be necessary to develop some criteria. The World Bank Public Expenditure Management Handbook<sup>3</sup> suggests three levels of goals for expenditure management. These are linked to criteria in a matrix, as indicated in **Error! Reference source not found.** below.

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## **3. Current Budget ~~and Accounting~~ Practices**

### **a. OECD/World Bank Survey of Current Budgetary Practices**

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 (mainly from South America) 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. The OECD/World Bank recently published the results of their Budget Practices and Procedures Survey on their website (see

<sup>3</sup> Chapter 2, Public Expenditure Management Handbook, 1998 (The World Bank).  
<http://www1.worldbank.org/publicsector/handbooks.htm>

<http://ocde.dyndns.org>). Forty-one of the 60 polled countries responded by mid-August, 2003 although not all the questions were answered in full.

(i). *Budgeting, Accounting, and Financial Reporting*

Section 4.2 of the survey discusses the Budgeting, Accounting and Financial Reporting practices of the countries. The major findings were as follows:

Number with a unified accounting and budget classification system	36
Authority for determining the technical standards for the budget:	
Internally by MOF or Central Budget Authority	27
Formal Advisory Board	8
<del>Authority for determining the technical standards for the financial statements:</del>	
<del>— Internally by MOF or Central Budget Authority</del>	<del>18</del>
<del>— Formal Advisory Board</del>	<del>7</del>
Cash or obligations/commitments basis of accounting for the budget	24
Number planning to change to full accrual	5
Number planning to add additional accrual information	10
Number planning to change from cash to obligations/commitment basis	2
Number not planning any change from the cash or obligations/commitments basis	18
<del>Number indicating public debt interest as highest chance of being on accrual basis</del>	<del>11</del>
<del>Number providing a partial or full statement of their accounting basis in the budget</del>	<del>28</del>
<del>Consolidated, government-wide annual financial statements:</del>	
<del>— Number reporting on a cash, or cash with a few exceptions, basis</del>	<del>21</del>
<del>— Number reporting on a full accrual, or full accrual with a few exceptions, basis</del>	<del>10</del>
<del>— Number not reporting such a statement</del>	<del>4</del>
<del>Government organization annual financial statements:</del>	
<del>— Number reporting on a cash, or cash with a few exceptions, basis</del>	<del>19</del>
<del>— Number reporting on a full accrual, or full accrual with a few exceptions, basis</del>	<del>11</del>
<del>— Number not reporting such a statement</del>	<del>5</del>
<del>Number reporting on full accrual basis that capitalize and depreciate all assets</del>	<del>11</del>
<del>Assets not capitalized and depreciated:</del>	
<del>— Military assets</del>	<del>10</del>
<del>— Historical buildings</del>	<del>9</del>
<del>— Highways</del>	<del>7</del>
<del>Basis for valuation of capital assets with readily identified market values:</del>	
<del>— Historical cost</del>	<del>12</del>
<del>— Current market value or replacement cost</del>	<del>10</del>
<del>Audited final accounts published and available publicly:</del>	
<del>— Number within three months of the end of the fiscal year</del>	<del>4</del>
<del>— Number within three to six months of the end of the fiscal year</del>	<del>11</del>
<del>— Number generally more than six months of the end of the fiscal year</del>	<del>19</del>
<del>— Number not published and available</del>	<del>2</del>

(ii). *Types of Data Reported in Budget Documents*

In Section 5.2, the countries were questioned on the Types of Data Reported in Budget Documents. The major findings were as follows:

Time period of budget forecasts:	
Number with a forecast of fiscal aggregates for the budget year plus two years	21
Number with formal rolling medium-term (3-5 years) estimates of expenditures	19
Number with formal rolling medium-term (3-5 years) estimates of revenues	16



<del>Audited final accounts submitted to the legislature:</del>	
<del>— Number within six months</del>	<del>19</del>
<del>— Number within six to 12 months</del>	<del>13</del>
<del>— Number after more than 12 months or not at all</del>	<del>7</del>
Budget to actual comparative statement prepared:	
Yes, for past year	26
Yes, for past two years or more	8
No	2
Other	5
Budget to actual comparative statement legally required:	
Yes	12
No	27

~~DELETE AS SHOWN ABOVE DATA NOT RELATING TO BUDGET REPORTING~~

(iii). *Budget Classification*

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### c. Summary of Nine European Countries and the European Commission (EC)

~~THIS SUBSECTION SHOULD BE MUCH REDUCED AS THE BOOK IS PRIMARILY ABOUT FINANCIAL RATHER THAN BUDGET REPORTING.~~

In 2003, a book was published on “Reforming governmental accounting and budgeting in Europe”.<sup>4</sup> To facilitate convergence in the accrual-based reforms, this book describes (at national and sub-national levels) the current and prospective forms for nine countries in Europe: Finland, France, Germany, Italy, Netherlands, Spain, Sweden, Switzerland, and the United Kingdom. In addition, a chapter was added on the reform of the EC’s accounting system. The goal of the publication was to spark discussion, highlight areas for action, and present practical solutions. The reform of governmental budgeting and accounting practices was an important and necessary long-term objective.

~~Accrual accounting is now the norm in the national~~ ~~THIS IS NOT CONSISTENT WITH ABOVE DATA – 1 OUT OF 3 IS NOT THE NORM~~ and local governments (and the EC)

included in the study except for the federal government of Germany. The clear pattern was for the local governments in each country to precede the national governments; in none of the countries was the national governmental accounting reformed first. “The norm for budgeting is that the accrual accounting either has no influence on budgeting (which retains its basis of cash or cash plus changes in financial assets and liabilities) or the influence is implicit (the accrual accounting is used to report on realization of the budget but the budget itself does not significantly refer to accruals).”<sup>5</sup>

## 4. PSC Mandate on Budget Reporting

~~THIS SECTION COULD BE INCREASED AND/OR INTEGRATED WITH PAGES 20-22 (SECTION 7).~~

<sup>4</sup> Reforming Governmental Accounting and Budgeting in Europe; Klaus Luder and Rowan Jones, editors (Fachverlag Moderne Wirtschaft, Frankfurt, Germany), 2003.

<sup>5</sup> Ibid., p. 55.

### a. Discussion

The objective of the PSC is identified in the Preface to the IPSASs as follows: “Develop programs aimed at improving public sector financial management and accountability including developing accounting standards and promoting their acceptance.” Further, IPSAS 1 on the Presentation of Financial Statements states “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.” Inclusion of budgetary information in the accounting system is crucial to improving public sector financial management and to assure that government officials are held accountable for their budgetary decisions. Consequently, it is essential that users be informed on the degree by which their government officials were able to operate within the limits of the approved budget. The best mechanism by which to keep the public informed is through the general purpose financial statements.

### b. International Public Sector Accounting Standards<sup>6</sup>

IPSASs deal with issues related to the presentation of annual general purpose financial statements at each level of government (national and sub-national). Users of general purpose financial statements include “taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees” ([IPSAS 1 paragraph 2](#)) – [A MUCH BETTER LIST IS CONTAINED IN THE PREFACE TO INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS PARAGRAPH 8](#) – “Examples of such users are citizens, voters, their representatives and other members of the public.”. In democracies, political accountability of government to the electorate should take precedence. Their elected representatives act on their behalf and use the financial statements to hold the government and the civil service to account for the resources that they were allocated to provide the agreed level of goods and services. 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.

.....

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 are not yet ready to prepare their financial statements on the accrual basis or the costs are prohibitive. Even then, the Cash Basis IPSAS requires an annual Statement of Cash Receipts and Payments. If their statements are prepared on the cash basis, the countries are encouraged to transition to the accrual basis as soon as proper procedures and systems can be established.<sup>7</sup> [THIS BIT COULD BE MADE MORE POSITIVE ABOUT CASH ACCOUNTING](#)

.....

<sup>6</sup> Sections from the existing IPSASs pertaining to budgets or budget reporting are identified in Appendix E.

<sup>7</sup> For further guidance, see Study 14—Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities, IFAC Public Sector Committee (April 2002).



## 5. Budget Formulation

### a. Prospective Financial Information and Medium Term Fiscal Framework (MTFF)—also known as Medium Term Budget Framework (MTBF)

Fiscal targets are now ~~universally widely~~ accepted as ~~critical-a useful guide to~~ sound public financial management and are increasingly required under such mechanisms as fiscal responsibility/transparency laws. These targets may cover a range of variables (budget balance, net public debt, net worth, etc.) and they are invariably medium term covering more than one year. Just comparing actual and budget revenue and expenditure figures may not be enough. Given that governments have medium term targets (under an MTFF or other documents), governments are encouraged to report on future projections beyond the current year in their budget reports.

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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 ( $S$ ) over investment ( $I$ ) in the private sector is equal to the government budget deficit plus the trade surplus. ~~NOT RELEVANT~~ ~~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 ~~average~~ 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.

.....

~~THIS PARAGRAPH WAS ABOUT CONSTRUCTING A MTFF NOT REPORTING IT. 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.~~

.....

~~THIS WAS ABOUT THE PROCESS NOT FINANCIAL REPORTING. In those countries in which a MTFF is prepared, the initial efforts to formulate the annual budget and 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 establish 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. If the financial management system is automated, 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.~~

### c. Conclusions

Although it was felt that budget formulation should not be included in an accounting standard, the accounting standards should encourage the following:

- Use of asset, liability, net asset/equity, revenue and expense codes from the Government Finance Statistics (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. THIS IS UNLIKELY. The GFS will take precedence.
- 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.”
- Preparation of a MTFF so that 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 1<sup>8</sup> can be achieved. However, it was felt that specifying the content of a MTFF in an accounting standard would not be appropriate.
- The scope of the budget should be comprehensive including all:
  - Aid
  - State operating enterprises
  - Revolving funds
  - Income of dedicated funds etc

## 6. Budget Execution

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<sup>8</sup> Paragraph 14, IPSAS 1.

### 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.<sup>9</sup> The key issues to be examined in the areas of external fiscal reporting and transparency (including the standards to be used in their preparation—GFS, IPSAS or modifications of either) are identified in Appendix H. 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 [MOVE TO PAGE 6/7](#) OECD document on Best Practices for Budget Transparency (See Appendix I). 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; and Part III highlights practices for ensuring the integrity of the reports. The year-end report is identified as the key accountability document showing compliance with the level of revenue and expenditures authorized by parliament in the budget. It is recommended that the year-end report be audited by the Supreme Audit Institution and released within six months of the end of the fiscal year.

### THESE PARAGRAPHS ARE NOT ABOUT FINANCIAL REPORTING

~~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,<sup>10</sup> “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

<sup>9</sup> Guidelines to Staff, Country Financial Accountability Assessment, Financial Management Sector Board, World Bank (March, 2003). [ADD WEB REFERENCE FOR THESE](#)

<sup>10</sup> Page 9, Information Systems for Government Fiscal Management by Ali Hashim and Bill Allan, The World Bank, 1999.

underpins these processes.” (See Appendix J for the basic functional processes including budget preparation, execution, accounting, and fiscal reporting.)

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.
- 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:<sup>11</sup>

“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.”

#### MOVE THESE PARAGRAPHS TO PAGES 6/7

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.

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### **c. Conclusions**

Although it was felt that the degree of interaction between accounting and budgetary systems should not be included in an accounting standard, the accounting standards should be broad enough to support the integration of budgetary and accounting systems to the maximum

<sup>11</sup> Page 176, Treasury Reference Model by Ali Hashim (World Bank) and Bill Allan (IMF), [http://www1.worldbank.org/public\\_sector/pe/trmodel.htm](http://www1.worldbank.org/public_sector/pe/trmodel.htm) (3/14/2001).

extent possible. Further, the use of commitment accounting procedures should be encouraged to assure that funds are available prior to release of a purchase order or contract. NOT FINANCIAL (OR BUDGET) REPORTING 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.”<sup>12</sup> This would include comparison of actual expenditure and income with the budgeted amounts agreed by parliament, variances for each line between these two items considering budget assumptions, THIS MAY BE A SIGNIFICANT PROBLEM – HOW TO GUIDE THE LEVEL OF REPORTING TO BE ADOPTED? and explanations for all variances (positive and negative) above a certain significant level (e.g., 5%).

## 7. Budget Reporting

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The present IPSASs encourage comparisons with budget but do not specify any financial reports that would satisfy user 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~~ almost all countries prepare and publish “Budget to Actual Comparative Statements”. Differences between the actual expenses and the final (or original) budget are reflected in the comparative 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 WHAT DOES THIS MEAN? – AND SEE BELOW 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 BUT ALSO FOR UNDERSPENDING AND SIGNIFICANT VARIATIONS TO REVENUE. Guidance in the present IPSAS<sup>13</sup> is as follows:

.....

The reporting entity needs to be clearly defined so that the budget to actual comparisons relate to the same entity. To ensure that reports are not too voluminous, any future IPSAS should specify that only major classes should be included in the comparative reports??. This would include the whole-of-government statements as well as the statements covering only general and sub-national governments. In addition, many countries have extra-budgetary funds that may be excluded in government financial statements. It is essential that comprehensive budgets be presented in order to reflect the actual results of operations as compared to the budgetary authority. WE SHOULD HAVE A WHOLE SECTION ON THIS – SCOPE OF BUDGET

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### b. Issue 2—Format of Comparative Statement

Since budgets are prepared in advance of the current fiscal year, natural disasters or economic (or political) conditions may dictate a need for revisions to the initially approved budget

<sup>12</sup> Paragraph 2, IPSAS 1.

<sup>13</sup> Paragraph 14, IPSAS 1, Presentation of Financial Statements.

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 M 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, revised approved budget.

Guidance in the present IPSASs<sup>14</sup> is as follows:

“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.”

THE FIRST SHOULD BE THE PREFERRED APPROACH. THE SECOND APPROACH DOES NOT REPORT UNDERSPENDING WHICH MAY BE JUST AS RELEVANT FOR SOME USERS OF THE ACCOUNTS.

### c. Issue 3—Reconciling Budgetary Basis With Accounting Basis

~~Some~~ Most of the few 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. An example from the US of a comparative statement is shown in Appendix M and a reconciling statement is shown in Appendix N. In addition, the UK includes the requirement for a budget to actual comparative statement in their Accounting Manual to include a reconciliation to the cash basis. (See Appendix O for an extract from their Manual.) The present IPSASs do not specify the action to be taken in those instances where the budget and accounting are on different bases. However, a similar reconciling statement is encouraged in IPSAS 2 when the Cash Flow Statement is prepared using the direct method. An illustrative note (reproduced in Appendix E) is included in the Appendix to IPSAS 2 and reflects a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities.<sup>15</sup>

.....

<sup>14</sup> Paragraph 22, IPSAS 1, Presentation of Financial Statements.

<sup>15</sup> Paragraph 29, IPSAS 2 and Note (c), Appendix, p. 112, Cash Flow Statements



## 8. Summary

Current best practices in budget formulation, execution and reporting among international [oversight bodies](#) [financial institutions](#) and developed countries indicate a high degree of consistency in those practices. However, it is generally felt that the budget formulation and execution practices reflect significantly different administrative arrangements as well as political, institutional and cultural systems and processes. Consequently, accounting standards for budget formulation and execution 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 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). [Such a standard should cover the three main stages of reporting budgetary information:](#)

- [MTFF and pre-budget reports](#)
- [Annual report agreed by parliament](#)
- [Budget out-turn report.](#)

Country specific laws<sup>16</sup> and accounting standard setters (i.e., Croatia, France, Ghana, Honduras, Nigeria, Sweden, Tanzania, Uganda, United Kingdom, United States and many others) 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. [DOES THIS MEAN THAT ACCRUAL ACCOUNTING WAS NOT ACCEPTED FOR BUDGET REPORTS?](#)

Some of the particular characteristics of government budgets, and particularly the characteristics that make government budgets so different from, and more significant than, commercial entity budgets are as follows:

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<sup>16</sup> See Appendix P for highlights of the Budgetary Law in Sweden, Appendix Q for Budget Preparation Procedures in Denmark, and Appendix R for Budget Procedures in France.

- The dominance of the accounting model for commercial entities is because it provides a universal model of business activities. Because many governments deal with non-exchange transactions, the accounting model can never fulfill a similar role for governments. Hence, financial measures must be combined with non-financial performance measures to provide a comprehensive model. Budget standards must recognize the importance of such non-financial measures and address how they are to be incorporated within budget reporting.
- The very broad and multi-layered concept of stakeholders, e.g. children are future stakeholders in government activity even though they do not vote.

These and other characteristics could form the basis for identifying issues that need to be addressed in budget standards. The matrix in Appendix S is the beginning of such an exercise.

It is mooted that “budget reporting” is not a simple extension of “financial reporting”. The needs of stakeholders should be researched, as should the realities of supply, in relation to their information needs. It is proposed that participating countries be **encouraged** to give consideration to budget formulation and execution “best practice” as recommended and updated, from time to time by a standing PSC. A recommended “reform path” for particular economies (developing, etc.) should be proposed, [ARE WE REALLY SAYING DIFFERENT GOOD PRACTICE FOR DEVELOPING COUNTRIES?](#) with options, if necessary, as a guide to participating countries. Such a guide would give leadership, alignment and direction, as well as promote the achievement of the objectives and qualitative characteristics set out earlier in this research report.

There are substantial differences between the information needs of public and private sector stakeholders. The current reporting standard on financial position projects the view that the needs of both of these stakeholder groups are similar, i.e. that shareholders of private enterprises have common information needs to citizens of a given country. Stakeholders need to know what is funded and what is not funded within the medium term framework. Depending on their point of view, they may wish to promote the collection of further funds. Alternatively, they may wish to see current collections, and services, reduced. They may also wish to see a debate on how these needs should be provided. Possible service providers include the public and private sectors as well as Public Private Partnerships. Information needs, on a planned future, are as important as information needs on historical actual to budget performance. **The spending level, in itself, does not guarantee service delivery and thus the provision of performance indicators on preset measurable objectives are needed in much the same way as private sector shareholders may look to, say, an Earnings Per Share indicator.** [THIS NEEDS MUCH MORE EXPLANATION – OR TO BE OMITTED.](#)

~~In the private sector, companies face decisions in meeting budget forecasts, including the question of cost containment versus revenue growth. The focus? Probably, profit projections, rather than turnover and cost. The private sector thus often focuses, firstly, on profit (variance) projections before considering the absolute extent of goods and services sold. In the public sector planned income and expenditure in future years together with information on unfunded current and future priorities is as (if not more) important than historical actual to budget reports. The attainment of projected service delivery, measured against predetermined measurable objectives, is not a safe assumption, even if spending is close to budgeted levels. Productivity in delivering outputs in support of desired outcomes should be and can be measured by setting measurable objectives in advance.~~



THIS PARAGRAPH IS NOT ABOUT BUDGET REPORTING.

## 9. 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.

The proposal to require the reporting of financial actual to budget performance is but one aspect of concern to stakeholders on budget matters. **Reporting on the planned future is as important as reporting on the past.** THIS OPENS A WHOLE CAN OF WORMS – LEAVE OUT. ‘REPORTING’ ON THE FUTURE IS VERY DIFFERENT, FOR EXAMPLE, THEIR RELIABILITY WILL BE SIGNIFICANTLY LESS THAN FINANCIAL REPORTING ON PAST RESULTS. Budget reporting is not only about finance. It is also about meeting measurable performance promises and about offering choice, in the prioritization of the use of available funding, within the medium-term expenditure framework.

At a national level the allocation of funding as between ministries is mostly a subjective decision largely driven by policy and political priority on **desperate** IS THIS WORD REALLY NEEDED OR SHOULD IT BE DISPARATE ? needs, productivity improvements and functionality growth. A formula is unlikely to unpack allocations to sports, education, health, defense etc. Budget reporting on historical and future budget allocations enables stakeholder involvement in exercising choice in the setting of equitable share slices to ministries. The reporting of budget needs, marginal priorities and unfunded priorities informs the revenue collection decision.

.....

## APPENDIX A—TERMINOLOGY

Some examples of terms that might need to be explained for consistency in application are included below.

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

.....

~~11..~~ **Development budget:** Most ~~low-income~~ developing countries worldwide have development and recurrent budgets. Typically the development budget is a collection of projects, whether internally or externally funded. The rest of the budget is then described as a recurrent budget. The development budget frequently includes non-capital items, and the recurrent budget often includes capital items. Some countries may consider that a development budget equates to a capital budget, but this is not presently the case for many countries.

....

### Budgetary Processes:

1. ....
2. ....
3. **Budget out-turn reporting:** the external reporting of financial activities relative to the enacted budget for the fiscal period until the final audit after the end of the fiscal period.

.....

**Warranting**—The three stages of budgeting are identified as formulation, execution and reporting. In some countries, there is a sub-stage within budget execution of “warranting”. The budget as approved does not in itself provide authority for expenditure. Rather, expenditure authority has to be warranted under procedures that will be laid down in the financial procedures. ~~It is often used as a mechanism for cash management.~~

From: Wynne Andy <andy.wynne@accaglobal.com>

Date: 02/12/2004 10:14 AM GMT

Just started to go through this and I have a couple of concerns about the executive summary:

\* on the budget process I think that mention should also be made of the government's political priorities, it currently sounds as if its fiscal policies should form the basis of the budget; also adherence to the budget is not everything - the budget is a financial plan and there may be very good reasons why it was not implemented as expected, thus an explanation of significant variances is also important; in addition, should explicit mention be made of medium term expenditure frameworks and their public reporting?

\* budget practice: I think that this paragraph exaggerates the number of countries planning to move to accrual accounting. As a balance, Germany and Italy have no plans and the Dutch Government has decided not to proceed with its plans for central government ministries; one reasons for this is that the costs are significant and the benefits not easily identified or achieved, for example the UK NAO recently commented (10 years after the decision to move to accruals in UK) that:

In most cases it is too soon to identify any discernible benefits from better resource management in terms of contributing to improved public services from for example, enhanced efficiency. (Page 31, [http://www.nao.gov.uk/publications/nao\\_reports/03-04/030461.pdf](http://www.nao.gov.uk/publications/nao_reports/03-04/030461.pdf) <[http://www.nao.gov.uk/publications/nao\\_reports/03-04/030461.pdf](http://www.nao.gov.uk/publications/nao_reports/03-04/030461.pdf)>

\* recommendations:

o 4: IFAC Public Sector Committee has in practice restricted its self to producing standards on public financial reporting this is a significant extension into good practice on financial management; funds do not need to be available when the order is raised - only a reasonable expectation that they will be when invoice needs paying

o 6: care is need with the wording of this issue to ensure we mean the original budget passed by parliament etc not the budget proposed by the executive; the final budget is the last revised etc budget agreed later in the year

I feel that the executive summary needs some editing to reflect the above points.

All best wishes

Andy Wynne

Head of Public Sector Technical Issues

Association of Chartered Certified Accountants (ACCA)

29 Lincoln's Inn Fields London WC2A 3EE United Kingdom

From: "Claes-Göran Gustavsson" <Claes-Goran.Gustavsson@esv.se>

Date: 12/17/2003 04:07 PM CET

Dear Dr. Hughes,

I find the research report very informative and I agree with the main conclusions. There are however a few remarks I need to do and questions to make.

On page 10 there I s said that "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." That is the case with Sweden. However the purpose of the shift is not primarily to reach consistence with the financial statements. That is a positive effect of the shift (or almost an effect as the budget in some aspects has to deviate from the financial statements in order to fit the management purposes of the budget). The reason for the shift is the wish to better link financial and results management and to avoid the complexity of using cash and costs side by side. Perhaps it is better from that point of view to write something like: ?basis that make the budgetary system consistent with the accounts based on the accrual accounting basis.

On page 24, passage c. Conclusions, there is a passage about encouragement of the use of commitment accounting. That system is more or less linked to a cash budget system, at least when it comes to running costs. It is nevertheless a great administrative tool also in an accrual budget system when it comes to acquisition of infrastructure, military special assets, Government grants etc. If used for running costs there is a risk of conflicting restrictions.

On page 28 there is a passage that, suddenly, mentions budget formulation and execution "best practice" as recommended and updated, from time to time by a standing PSC. There have not been any suggestions before that in the field. In my opinion it is very doubtful to make implications on such a solution. Best practice issued by international organisations where the countries participate could be a good way to conduct that kind of business as it has been so far. Instead the passage might come to a conclusion that there is a need for further research on the practices that could be conducted by the PSC.

Sincerely  
Claes-Goran Gustavsson

From: "Steve Leith" <Steve.Leith@treasury.govt.nz>

Date: 12/21/2003 04:02 PM

Morning Jess

Overall, I think it is in good shape overall and agree with all the recommendations. I only had a few comments and questions:

\* Is the paper clear about what the next steps are for the PSC and for other parties (eg, does the PSC need to amend any existing IPSASs once the budget reporting IPSAS is developed)? I'm not sure if it is (or does it even need to).

\* Are we clear enough about what level the recommendations apply at (eg, whole-of-Govt entity and/or individual departments)? I think the recommendations on the need for a budget to actual comparison apply to all levels of reporting, whereas others can only apply to whole-of-Govt.

\* I agree with the recommendation to require a reconciliation between budget results prepared on a cash basis to the accrual result reported ex post. But have we given enough consideration to requiring variance explanations between the ex ante cash budget and ex post cash flow, rather than just a reconciliation?

A final point. I agree with the recommendations in part 5 on Budget formation. However, do they go far enough? I think we need to ensure that the IPSAS to be developed covers off requirements about being clear about assumptions used, their rationale and risks associated, sensitivities, etc. Or is this covered off elsewhere and I've just missed it?

I did have a question for you in regards to New Zealand systems and

structures. Are you familiar with the fiscal policy and budgetary systems New Zealand central and Local Government employ? Are you interested in how it all works down here? If you are I'm happy to pull together a short summary of New Zealand's accountability framework (eg, all budget reports at an individual entity level and whole-of-Govt level are prepared using GAAP and required to be comprehensively reported against ex post with variance explanation - the economic forecasts underpinning the whole-of-Government fiscal forecasts are prepared independently by The Treasury using its best professional judgement with comprehensive discussion on the basis for assumptions and the risks surrounding them, etc - linked to this is the requirements of Financial Reporting Standard 29 on prospective financial information).

Happy to discuss further

Regards

Steve

From: Ludo Goubert <Ludo.Goubert@pandora.be>

Date: 01/30/2004 09:42 AM CET

Jesse, Paul, Ron,

I have been following the effort on this report in detail and have read all comments carefully; I have to congratulate you for the effort. Personally, I did not send comments for two reasons:

- \* Being heavily involved in NATO moving to accrual accounting, time constraints have limited my activities
- \* The result counts: Seeing that the effort goes into the right direction: a standard on budget reporting, I do not want to interfere in a process that goes well.

As Ron will remember, this requirement has been stressed during the meetings where the proposals were made to adopt accrual accounting in NATO. As a result of the meetings, the requirement has been included in the decision by NATO Council on 17 July 2002 to have accrual accounting adopted by NATO. NATO and mainly its accounting entities financial statements hence should include:

- \* Statement of financial position
- \* Statement of financial performance
- \* Cash flow statement
- \* Changes in the net assets
- \* Budget execution statement
- \* Notes to the financial statements

The presentation of the budget figures in the meantime has been changed from a mixed presentation of economic expense categories and activity/purpose related to a pure economic presentation as is the case for expenses in the financial statements. Compliance with IPSAS (except PPE) is mandatory from fiscal year 2006.

In my opinion the standard on budget reporting is mainly required for the following reasons:

- \* *completeness of reporting*: even more than companies, governmental activities are driven by budgets and as such a financial report on governmental activities cannot be complete without a budget execution statement
- \* *transparency*: if there is no link at all, from a presentation or contents point of view between a budget and the annual financial statements, citizens cannot judge their governments and cannot have an idea on the wealth of their nations
- \* *understanding*: since IPSAS is close to IAS, and the latter is commonly studied at schools and universities, known and understood by the public, a budget report linked to IPSAS will get a broader understanding by the community. As such it can only help improving our world.

Could you also please pay attention to the following:  
At this moment I am mentioned as follows in the study:

Ludo Goubert (NATO)  
FEE

From: "Mike Parry" <mparry@imcl.biz>

Date: 01/09/2004 05:35 PM GMT

Dear Jesse

Best wishes for 2004. Very belatedly, I am attaching my comments. Incidentally, I have seen no other comments, or have I missed them?

I must say I was rather daunted by the size of the files, but when I opened them I was impressed to find a very tightly written report of just 27 pages, with a large number of extremely interesting annexes.

I attach a paper with my comments in detail, but really just four points:

1 I think if we believe (as I do) that budget reporting standards are critically important, then we must be bold in promoting this view.

2 Linked to this is the reality that the only useful information for decisions is predictive information. Historic information is only useful in so far as it can improve predictions.

3 It would be very useful to have in one place a simple summary of the arguments for and against budget reporting standards

4 I am not sure that we have as yet developed a clear conceptual framework or model for budget standards and what we are trying to achieve.

These points are further developed in the attached paper.

Regards,

Mike

Sent by Michael Parry, Chairperson  
International Management Consultants Ltd. (IMCL)  
23/25 London Street  
Andover SP10 2NU  
Hampshire, UK

## **Comments on the Research Report to the Steering Committee on Budget Reporting November 2003**

**Michael Parry, January 2004**

### **Introduction**

The following is repeated from my covering e-mail:

- 1 I think if we believe (as I do) that Budget Reporting Standards are critically important, then we must be bold in promoting this view.
- 2 Linked to this is the reality that the only useful information for decisions is predictive information. Historic information is only useful in so far as it can improve predictions.
- 3 It would be very useful to have in one place a simple summary of the arguments for and against budget reporting standards
- 4 I am not sure that we have as yet developed a clear conceptual framework or model for budget standards and what we are trying to achieve.

The comments that follow are based around these four points.

### **1 Advocating Budget Reporting Standards**

I am strongly of the view that to formulate International Public Sector Accounting Standards but to ignore the need for budget standards is to fly in the face of reality. Government financial management is about budget management. The great danger is that as technicians we may become so involved in the detail of accountings standards that we ignore this reality.

Therefore, I think this Report should provide at an early stage, and certainly as part of the Executive Summary, a strong statement of the case for budget standards. The box on the next page provides an example of the sort of statement I think we should make. I would not suggest this is definitive, but rather a starting point for a statement that should be included.



### **Why Budget Standards?**

There is a very strong, indeed overwhelming, case for the development and application of common standards for budget reporting by national governments. Key arguments are summarised below:

- Governments now operate in a global environment, raising and lending money in global markets. Their national budget, and performance against budget, is a critical financial performance indicator. Common standards are required to enable meaningful comparison between budget reports.
- Many governments operate in a “sandwich” environment, in which they are part of a larger entity (e.g. the EU) and with various levels of federal or sub-national governments underneath them. Budget reporting standards are essential to ensure rules are appropriately applied, e.g. EU budget deficit rules require common measurement standards.
- Within any country, the government budget is the dominant financial and fiscal tool. Governments are judged, and fall, by their budgets and performance against budgets. This significance of the budget requires high and consistent standards of budget reporting.
- The budget is any government’s major resource allocation tool. It provides the opportunity for the Executive to make explicit its policy commitments, and for stakeholders to make judgements on those policies.
- Budgets determine who will pay for government activities, how the funds will be raised, and the extent and management of the budget surplus or deficit. Budget standards are essential to be able to identify useful information and compare across governments and over time.
- Budget reporting standards are essential to achieve the high standards of fiscal transparency and accountability of politicians and public officials that are essential in a properly functioning democracy
- In the absence of budget standards it will be easier for governments to hide policies and unpopular decisions, and such actions are to the detriment of the democratic process.

In summary, budgets are a key element in government management and the democratic process. Budget reporting standards are needed, now more than ever, to enable budgets to properly fulfil their role.

## **2 The only useful information is predictive**

I remember teaching this to trainee accountants, but it remains an important statement. Historic accounting information is of great interest to historians, and to those who want to imprison or otherwise punish those who have misused public money, but it has no value in itself for making fiscal or any other decisions. The only real value of historic information is because without it making predictions is almost impossible.

This is recognised in the public sector through the dominance of the budget process, and the concern with future revenues and expenditures. If the objective is to make a contribution to public sector financial management, then it would be a nonsense to ignore the major predictive financial report - another argument for budget reporting standards.

### 3 Summary of the arguments for and against budget reporting standards

Since there is obviously some difference of views, it would be very useful to have a summary table, on the lines indicated below.

**Exhibit 1: Summary of arguments for and against budget standards**

Against budget standards	For budget standards
1. Budgets are part of the political process and as such out of the realm of financial managers	Budget policies are political; the manner in which that information is communicated is a technical issue very properly the concern of financial managers
2. Budgets and their contents are specified in the constitution and/or legislation of individual countries and cannot be varied by an international body	The same argument could be used for accounting and auditing, but this has not stopped the move to international standards
3. Budgets are concerned with matters outside the realm of accountants, more to with economists	This is a very narrow view of financial management
4.	Budget reporting standards are essential to enable meaningful comparison of budget performance between countries
5.	Budget make explicit government policies on resource allocation, raising of taxes and surplus or deficit financing, and budget reporting standards enhance transparency of such policies and the accountability of politicians and officials for such policies
6.	Budget reporting standards make it harder to hide policies and unpopular decisions, and hence are an essential element in the democratic process
7.	Budgets are the legal instrument authorising governments to raise taxes and spend public money. As such there is a need for budget information to be reported to the highest international standards
8.	Because the outcomes of public expenditure are typically service delivery that is not directly measure din money, budgets provide the only opportunity to link expenditures to policy objectives. This linkage is critical to the public financial management process, and the format in which it is made should be specified in budget reporting standards

It will be noted that I find significantly more arguments for than against budget reporting standards!

## 4 Conceptual framework or model for budget standards

I am concerned that we do not have a conceptual framework for budget reporting standards. For example, what are the objectives, what are the issues being addressed, what are the broad parameter of budget standards. I think the table reproduced in Annex S of the report is based on an attempt I made in the last submission to address this issue. I do not think this table is definitive, but it might be a starting point - or does anyone else have an idea on how we could develop a conceptual framework.

## 5 Other detailed comments on report

Page 6 and penultimate paragraph and elsewhere - the issue of accrual accounting and cash budgeting. I believe this is a fundamental issue that needs to be addressed. There is no logic in moving accounts to an accrual basis and continuing to budget on a cash basis, nor do I think that a reconciling statement is an adequate approach to addressing these issues.

Exhibit 1 on page 10 - this is actually mine from IMCL training material, it is not in any World Bank publication, so could I get an attribution please!

Page 11, survey table point 1 - we find a common problem is that the Development Budget projects (where there is a separate development budget) do not follow a standard classification.

**Michael Parry**  
**mparry@imcl.biz**

22 December 2003

CIS

### **Research report to the steering committee on budget reporting**

Thank you very much for the draft research report on budget reporting.

When dealing with budget formulation, execution and reporting across a broad variety of nations a lot of interesting issues emerge.

1. I agree that the subject of public (financial) insight and control over the budget process regarding planning, distribution, allocation and use of public means is of significant importance. This is on the other hand fundamentally a question of legislature and the existence of democratic institutions (pluralism).

In case of a lack of a necessary legislative tradition I agree that a practice for fiscal transparency (standards) regarding the creation of relevant information on the budget process and relevant budget reporting should constitute some guarantee for securing the “stakeholder” information needs.

On the other hand it is my opinion that to improve the stakeholder position (including the democratic dimension), particularly in the OECD-countries regarding the budgeting process and – reporting one have to focus more on expanding the concept of fiscal transparency to non-financial budgeting and – reporting matters.

2. When dealing with the subject of cash versus accrual basis of accounting and budgeting I find it important to distinguish between internal management reporting and external reporting.

Notwithstanding the general difficulties in comprehending the operational differences between these accounting principles, it is my opinion that accrual budgeting and reporting is more relevant in a managerial framework (the agency level). On the other hand accrual information *supplements* cash- or commitment oriented accounting information on a “macro”level too.

In a fiscal transparency context I therefore agree that relevant budgeting and reporting is not a question of choosing between the two (or more) accounting principles but to design information to include both principles (the stakeholder issue).

It is important that it is possible to compare the budget and the budget reporting. If not I agree one should give a “translation” between the accounting principles.

3. Although accruals in some circumstances is the relevant managerial subject, it is important, that the budget itself is possible “to grasp”. There exists in these circumstances a trade-off between the “relevant” and the “rational” information. This is an educational subject, not only regarding the policy makers but regarding the general stakeholder issue. This is another way of viewing the issue of decision making (p 15) in circumstances of imperfect information.

4. Although appropriations often are on a one-year basis, I find it relevant that the budget formulation include MTFF or some term of forecasts regarding more than the budget year. In the long run such information contribute to fiscal transparency, and the distinction between accrual and cash basis of accounting and budgeting tends in these circumstances to be of lesser significance.

5. The significance of the *original budget* is of minor significance in relation to the danish budgetary system, since in general the supplementary budget act covers only an insignificant proportion of the total state budget and since there exists formalised carry-over procedures. Of course there could be circumstances where the lack of a necessary institutional framework could demand the comparison of the original, the final and the realised budget.

6. In the danish system, the Parliament in general lack the administrative capacity to scrutinize the government budget. The danish society is on the other hand in general characterized by pluralism, with a lot of NGOs and other organizations which have the capacity to act “on behalf” of the Parliament. Under other institutional circumstances it would be of significance I agree to underpin the significance of Parliamentary administrative capacity regarding the “watch-dog” role.

Yours sincerely

Christian Iver Svane

Special Adviser  
Agency for Governmental Management  
Ministry of Finance

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