



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: 6 FEBRUARY 2005
MEMO TO: MEMBERS OF INTERNATIONAL PUBLIC SECTOR
ACCOUNTING STANDARDS BOARD
FROM: JESSE HUGHES
SUBJECT: **BUDGET COMPARISON DRAFT ED**

ACTION REQUIRED

The Board is asked to:

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

AGENDA MATERIAL:

| | Pages |
|---|------------------------------|
| 10.2 Proposed <i>ED</i> Comparison of Budget and Actual Amounts for the Accrual and Cash Bases of Financial Reporting | 10.4 – 10.30 |
| 10.3 List of PAP members | 10.31 – 10.32 |
| 10.4 Responses from PAP members | 2 nd distribution |

BACKGROUND

Research on Budget Reporting for Governments was initiated in 2002 and a Research Report was published by the PSC in May 2004. At the July 2004 meeting in New York, the PSC agreed to move forward with an Exposure Draft (ED) on financial reporting of budget to actual comparisons. The first draft of the ED was presented at the November 2004 meeting in New Delhi and suggestions were made for changes to the ED. As approved by the PSC, a Project Advisory Panel has been established to review and make comments on the clarity of the draft ED. At this meeting the PSC will consider the second draft of the ED. The comments from the PAP will also be considered at the meeting. Ron Points, the Chair of the Budget Reporting Steering Committee established to support the development of the Research Report, and IPSASB staff have provided input on working drafts of this draft ED during its development.

ISSUES

(i) Separate IPSAS(s) or Revision of IPSAS 1 and Cash Basis IPSAS

It was decided to include proposed requirements for comparison of budget to actual under the accrual basis and the cash basis in one ED to avoid duplication of information in two separate EDs. While a single ED is proposed for issue, decisions will need to be made on disposition of requirements going forward. Staff has been advised some are of the view that a stand-alone ED would be more beneficial than revisions to existing IPSASs in order to highlight the significance of this extremely important area. The PSC needs to consider how this will fit with a separate series of IPSASs for accrual and cash.

(ii) Format of Budget to Actual Comparison in the Notes

The Research Report advanced that an IPSAS should include the original budget, as well as the final budget, for comparison to the actual in order to provide the reader of the financial statements with full disclosure of budgetary information. This has been done; however, the ED does not specify whether the variance between budget and actual should be computed using the original or final budget. The disclosures will enable the reader of the financial statements to determine:

1. How much does the final budget differ from the original budget and what caused any large changes?
2. How much does the actual differ from the budget and what caused any large variances?

To prevent information overload, I felt that the preparer should be given the latitude of using either the original or final budget to compute the variance if they chose to present that information in a separate column. If the preparer chose not to include the variances in the notes, the reader can make those comparisons in which they are most interested.

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

When the budget is on the cash basis and the general purpose financial statements are on the accrual basis, I felt that a reconciliation between the budgetary information and the Statement of Cash Flows would be needed to explain the differences if there were basis, timing, or entity differences between the budgeting and accrual accounting amounts. A reconciliation to the Statement of Financial Position would not be needed since asset or liability balances are not pertinent to the annual or biennial budget. Presently par. 29, IPSAS 2 encourages entities reporting cash flows from operating activities using the direct method to make a reconciliation of the surplus/deficit from ordinary activities reflected in the Statement of Financial Performance with the net cash flow from operating activities reflected in the Cash Flow Statement. Thus, at the present time an entity may choose not to prepare the suggested reconciliation. If a reconciliation to the statement of financial performance was also required, Par. 29 of IPSAS 2 would need to change from a gray letter paragraph (encouragement) to a black letter requirement. If the indirect method is used, the reconciliation between the Statement of Financial Performance and the Cash Flow Statement is already built into the presentation as illustrated in the Appendix to IPSAS 2

If cash accounting is used and there are basis, timing, or entity differences with the budget, I felt that a reconciliation between the budgetary information and the Statement of Cash Receipts and Payments would be needed to explain the differences.

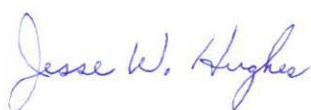
(iv) Revision of First Draft of the ED

In response to a request at the meeting in New Delhi, the ED has been restructured and simplified to clarify the major points. This includes a reduction in the number of illustrations and more clarity illustrated in the note disclosures. At the last meeting in Delhi, the ED presented was structured such that it identified the requirement that the comparison of the budget to actual amounts on a comparable basis be performed first and the reconciliation between the comparable amounts to the actual amounts on the accounting basis be performed second. At the meeting in New Delhi it was proposed that the draft ED for review at this meeting be structured to reverse this sequence such that the ED require that the reconciliation be performed first and that the budget to actual comparison be

performed second. The draft ED attached has been prepared to reflect that direction. However, I have also prepared a version which includes all the decisions made in New Delhi but maintains the previous sequence (that requires the comparison first and then requires the reconciliation – that version is available on request. I have provided both versions to the PAP and will report to the Board on their reaction to each approach.)

(v) Project to Harmonize Public Sector Accounting

In response to a request from the Task Force on Harmonization of Public Sector Accounting, the PSC agreed to develop an IPSAS that allows/encourages entities to disclose financial information in respect of the General Government Sector in general purpose financial statements. Consequently, this ED will need to stay linked with the harmonization project as the proposed IPSAS is developed.



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DRAFT ONLY FOR IPSASB REVIEW MAR 05 - VERSION 2

COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE ACCRUAL AND CASH BASIS
OF FINANCIAL REPORTING, AND RECONCILIATION OF BUDGET TO ACCOUNTING BASIS

Commenting on this Exposure Draft

This Exposure Draft of the International Federation of Accountants was prepared by the International Public Sector Accounting Standards Board. The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being issued in the form of an International Public Sector Accounting Standard.

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

The Technical Director
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INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

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

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

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

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

Due Process and Timetable

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

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

Background

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

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

In 2003, the PSC commissioned the preparation of a Research Report on budget reporting. That Research Report was issued in May 2004. The Report made a number of recommendations including that reporting compliance with budget was a key component of accountability in the public sector. The IPSASB developed this Exposure Draft on reporting comparisons of budgets with actual amounts after consideration of issues identified in that Research Report. Other recommendations pertaining to reporting of budgets for future periods will be considered by the IPSASB at a later date.

Purpose of the Exposure Draft

This Exposure Draft proposes that a Comparison of Budget to Actual Amounts be included as part of the general purpose financial statements for both the accrual and cash basis of accounting. This Exposure Draft specifies the requirements for such a comparison.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by XX 2005. The IPSASB would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the issues in the Exposure Draft. Respondents are also invited to provide detailed comments on any other aspect of the Exposure Draft (including materials and examples contained in appendices) indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the IPSASB if these comments clearly explained the issue and suggested alternative wording with supporting reasoning where this is appropriate.

Specific Matters for Comment

The IPSASB would particularly value comment on:

- (a) the proposal to require disclosure of the initial approved budget as well as the final approved budget in general purpose financial statements which are prepared in accordance with IPSASs;
- (b) whether the IPSAS should require disclosure of the variance between the initial approved and final approved budget amounts arising from policy shifts, natural disasters, or other unforeseen events;
- (c) the proposal to require disclosure by all public sector reporting entities subject to approved budgets as defined, including individual entities as well as governments. The IPSASB would welcome views on whether the disclosure should be required or encouraged for some or all entities;
- (d) the proposal to require disclosure of a comparison between amounts in the approved budgets and actual amounts on a comparable basis as a note to the general purpose financial statements. The IPSASB would also welcome comment on whether such comparison should be required as a separate financial statement;
- (e) whether it is appropriate to require the comparison to be made on the same basis of accounting as adopted for the budget even if that basis is different from that adopted for the general purpose financial statements. That is, for example, to require comparisons to be made between budgetary amounts reported on the cash budget with actual amounts reported on a comparable basis even though the actual amounts reported in the financial statements are on an accrual basis;
- (f) the proposal to encourage certain disclosure when there are differences (due to basis, reporting periods covered or entities included in the budget) between the actual amounts on a comparable basis and actual amounts included in general purpose financial statements prepared in accordance with IPSASs; and
- (g) whether separate standards should be issued for application when the accrual basis and the cash basis of accounting is adopted. The IPSASB would also welcome views on whether, rather than issuing separate standards, the requirements proposed in this ED should be included in:
 - IPSAS 1 for those entities adopting the accrual basis of accounting; and
 - the comprehensive cash basis IPSAS for those entities adopting the cash basis of accounting.

International Public Sector Accounting Standard

IPSAS XX

Comparison of Budget and Actual Amounts for the Accrual and Cash Basis of Financial Reporting, And Reconciliation of Budget to Accounting Basis

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APPENDICES

A. Changes to Existing IPSASs

B. Illustrative Footnote Disclosures

C. Implementation Guidance: Illustrative Statements - Examples

D. Basis for Conclusions

International Public Sector Accounting Standard

IPSAS XX

Comparison of Budget and Actual Amounts for the Accrual and Cash Basis of Financial Reporting, And Reconciliation of Budget to Accounting Basis

The standards, which have been set in bold italic type, shall be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards.” International Public Sector Accounting Standards (IPSASs) are not intended to apply to immaterial items.

Objective

1. The objective of this Standard is to require the disclosure of a reconciliation between the actual amounts on the comparable basis and the actual amounts on the accounting basis. The Standard also requires the disclosure of a comparison of the approved budget to actual amounts on a comparable basis at the end of the reporting period.

Scope

2. ***An entity that prepares and presents general purpose financial statements under the accrual or cash basis of accounting in accordance with International Public Sector Accounting Standards shall apply this standard in disclosing a comparison of budgetary amounts with actual amounts.***
3. ***This Standard applies to government and other public sector entities that are subject to approved budgets, other than Government Business Enterprises (GBEs).***
4. This Standard applies to all entities that have approved budgets, other than GBEs, whether the entity prepares general purpose financial statements in accordance with the cash or accrual basis International Public Sector Accounting Standards (IPSASs). This Standard applies to whole-of-government entities that are subject to approved budgets as well as separate entities and local governments that are subject to approved budgets.

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5. The *Preface to International Financial Reporting Standards* issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. GBEs are defined in paragraph 6. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs. However, the IFRSs and IASs do not address budget reporting. Since some GBEs are required by their controlled entities to operate under approved budgets, they are encouraged to comply with this Standard.

Definitions

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

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

Allocation is that part of an appropriation designated for expenditure by specific organization units and/or for special purposes, activities, or objects.

Annual budget means an approved budget for one year and does not deal with published forward estimates or projections for periods beyond the relevant budget period.

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

Approved budget means the expenditure authority created by the appropriation bills or ordinances and the related budgeted revenues or receipts for the budgetary period.

Biennial budget means an approved budget for two years and does not deal with published forward estimates or projections for periods beyond the relevant budget period.

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

Capital budget means an approved budget of proposed capital outlays and the means to finance them.

Comparable basis means the budgetary basis, entities included, and period covered in the approved budget.

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

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

Final budget is the original budget adjusted for all reserves, transfers, allocations, supplemental appropriations, and other authorized legislative changes applicable to the reporting period.

Original budget is the initial approved budget as authorized by the legislative body at the beginning of the reporting period.

Recurrent budget means an approved budget of proposed funding needed to service the ongoing operations of government.

Note Disclosures on Approved Budget

- 7. *An entity shall disclose in notes to the financial statements the budgetary basis and classification scheme used in the preparation and approval of the budget.***
- 8. The budgetary basis (cash, accrual, or some modification thereof) used in preparation and approval of the budget may differ from that used for preparation and reporting of the general purpose financial statements (the accounting basis) of the government or other entity. This is because the accounting system and the budget system may compile information from different perspectives. If such a situation exists, some governments with significant differences between their budgetary and accounting basis may have difficulty presenting budget to actual comparisons in a comparable manner as that presented in the general purpose financial statements. Consequently, the budgetary basis used needs to be clearly identified.**
- 9. Public sector entities may adopt different formats for the approved budget. An approved budget may classify items by economic nature (e.g. compensation of employees, use of goods or services) or function (e.g.**

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health, education). The budget could also be classified by specific programs (e.g. poverty reduction, control of contagious diseases) or performance (e.g. students graduating, surgical operations performed). Further, a recurrent budget for ongoing operations (e.g. education, public works) may be approved separately from a capital budget for capital outlays (e.g. infrastructure, buildings). Consequently, any differences in the classification scheme between the presentation in the budget and the general purpose financial statements needs to be disclosed.

10. ***An entity shall disclose in notes to the financial statements the period covered by the approved budget.***
11. The approved budget establishes the expenditure authority for the specified items. The expenditure authority is generally considered the legal limit within which a governing body must operate. The appropriation is usually limited in amount and time over which it can be expended. Entities may approve budgets for an annual or a biennial period. Disclosure of the period covered by the approved budget and any timing differences (e.g. continuing appropriations) will assist the user of the general purpose financial statement in a better understanding of the comparative data.
12. ***An entity shall disclose in notes to the financial statements the entity covered by the approved budget.***
13. Budgets may be prepared for a different reporting entity than the reporting entity on which the general purpose financial statements have been prepared. The budget for a national government may include off-budget entities with autonomy for their own budget approval process or a lower level of government that generates its own rates. IPSASs require that consolidated financial statements be prepared in respect of the reporting entities that consolidate and report all resources controlled by the entity. With regard to a government, the IPSAS mandated reporting entity would encompass budget dependant and self-funding entities controlled by the government including GBEs. However, approved budgets for such entities may not encompass operations of the government that are provided on a fee for service basis. Budget to actual comparisons need to relate to the same entity. Identification of the budget entity will enable users to determine the extent to which the reporting entity and its activities are subject to an approved budget and how it differs from the reporting entity in the general purpose financial statements.

**Note Disclosures of Actual Amounts on a Comparable Basis And
Actual Amounts in the General Purpose Financial Statements**

14. *Those entities that have differences between the actual amounts on a comparable basis and the actual amounts reflected in the general purpose financial statements shall provide by way of note disclosure a reconciliation of budget amounts to amounts recognized in the general purpose financial statements.*

15. When making the reconciliation, entities are encouraged to disclose the major sources of differences between the actual amounts on the comparable basis and the actual amounts on the accounting basis. Differences between the actual amounts identified consistent with the comparable basis and the actual amounts recognized in the general purpose financial statements can usefully be classified into the following: (1) Budgetary basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. An example is where the budget is prepared on the cash basis but the financial statements are prepared on the accrual basis. (2) Timing differences, which occur when the budget accounting period differs from the reporting period reflected in the general purpose financial statements. Examples of reconciling items due to timing differences may include continuing appropriations and biennial budgeting. (3) Entity differences, which occur when the budget omits programs or entities that are part of the reporting entity for which the general purpose financial statements are prepared. These reconciling items are shown in the layout below:

| | |
|--|------------|
| Actual Amounts on Comparable Basis | XXX |
| Plus/(Minus) Differences between Budgetary Basis and Accounting Basis | XXX |
| Plus/(Minus) Differences between Reporting Periods | XXX |
| Plus/(Minus) Entity Differences | <u>XXX</u> |
| Actual Amounts on Accounting Basis | XXX |

16. For those entities using the accrual basis for budgeting and accounting, reconciliation between the actual amounts on the comparable basis and the actual amounts reflected in the general purpose financial statements will be prepared. If the accrual budget comprises only a budgeted Statement of Financial Performance, any reconciliation would only be made to that statement in the general purpose financial statements. However, accrual budgets encompass capital and recurring budgets so additional budget

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

17. For those entities using the cash basis for budgeting and the accrual basis for accounting, the reconciliation between the actual amounts on the comparable basis to the actual amounts on the accounting basis would be to the Cash Flow Statement. The elements to be included in the reconciliation are not prescribed. The reconciliation may be to the major subtotals: net cash flows from operating activities; net cash flows from investing activities; and net cash flows from financing activities, or may be more detailed. IPSAS 2 encourages, but does not require, entities to report cash flows from operating activities using the direct method. If the direct method is adopted, the reconciliation between surplus/(deficit) from ordinary activities as reported in the Cash Flow Statement and in the budget documents may be on a line item basis.
18. For those entities using the cash basis of accounting, the reconciliation between the actual amounts on the comparable basis and the actual amounts on the accounting basis may be made to the optional Cash Flow Statement rather than the required Statement of Cash Receipts and Payments as permitted in the Cash Basis IPSAS. The reconciliation would only be necessary where there are timing or entity differences between the budget and the general purpose financial statements unless there has been some modification to the cash budget.

Note Disclosures of Budgeted Amounts to Actual Comparisons on a Comparable Basis

19. *An entity shall disclose by way of note a comparison of the amounts approved in the budget to the actual amounts for each desired level of legislative oversight showing separately, at a minimum, the following information:*
 - (a) *The original budget;*
 - (b) *The final budget; and*

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20. This IPSAS deals with comparisons of actual amounts to comparable amounts in approved budgets. In some jurisdictions, budgets may be signed into law as part of the approval process; in others, approval may be provided without the budget becoming law. However, the critical feature is that the authority to withdraw funds from the government treasury or similar body for agreed and identified purposes is provided by a higher legislative body.
21. Presentation of the original and final budgets and differences between the actual amounts and the approved budget will enable users of the financial statements to identify:
- (a) How much does the final budget differ from the original budget and what caused any large changes?
 - (b) How much does the actual amount differ from the approved budget and what caused any large variances?

Disclosure of actual amounts for the reporting period, presented on the same basis as the approved budget, provides the reader with information about whether resources were obtained and used in accordance with the legally adopted budget. Comparisons required by paragraph 14 are made at the level of governing body oversight identified in the budget document.

22. Budget documents may provide great detail about particular activities, programs, or entities. These are often aggregated into broad classes for presentation and approval by legislature. The budgeted amounts approved by legislature focuses on broad classes and broad budget headings. This is also the focus of the comparison required by this IPSAS (i.e., the broad headings approved by the legislature). To avoid information overload, materiality and the level of aggregation should be considered as specified in IPSAS 1 in the context of the approved budget.
23. Public sector entities are encouraged, but not required, to present the comparative amounts in a columnar format. Such a presentation would include columns detailing the original budget, the final budget, the comparative actual amounts, and the variances (if any). If variances are not significant, the comparative amounts could be presented in a narrative. This relationship between the column headings is shown in the layout below:

| | |
|---|------------|
| Original Approved Budget | XXX |
| Plus/(Minus) Approved Changes during Reporting Period | <u>XXX</u> |

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| | |
|---|------------|
| Final Approved Budget | XXX |
| Actual Amounts on Comparable Basis | <u>XXX</u> |
| Plus/(Minus) Variances from Approved Budget | XXX |

24. Public sector entities are encouraged, but not required, to report all variances between the final budget amount and the actual amount in a separate column. A public sector entity may also report the variance between the original budget and the final budget amounts in a separate column, if it chooses. This Standard does not specify whether the variance between budget and actual should be computed using the original or final budget. The reader of the general purpose financial statements can make those comparisons in which they are most interested.
25. The final budget includes any supplemental appropriations. Supplemental appropriations 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). In addition, there may be a budget shortfall in revenues. Consequently, the funds allotted to an entity may need to be cut back from the amount originally appropriated for the reporting period in order to maintain fiscal discipline. Further, the final budget column would include all authorized changes (or amendments) even if they occur after the end of the reporting year.
26. Additional budget information, including information about service achievements, may be presented in documents other than general purpose financial statements. A cross-reference from general purpose financial statements to such documents is encouraged, particularly to link budget and actual data to non-financial budget data and actual service achievements.
27. ***The original budget shall include only the first complete approved budget. The original budget may be adjusted by reserves, transfers, allocations, supplemental appropriations, and other authorized legislative and executive changes before the beginning of the reporting period.***
28. The original approved budget may include appropriation amounts automatically carried over from prior years by law. For example, some countries include a legal provision that requires the automatic rolling forward of appropriations to cover prior-year commitments. Commitments encompass possible future liabilities based on a current contractual agreement. In some jurisdictions, they may be referred to as obligations or encumbrances. Commitments include outstanding purchase orders and contracts where goods or services have not yet been received.

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29. ***All comparisons (including the actual amounts) shall be presented using the same format, terminology, measurement, budgetary basis and classification as the budget document.***
30. In order for the comparisons to be meaningful, all public sector entities with approved budgets shall present budget to actual comparisons using the same format, terminology, measurement, budgetary basis and classification as the budget document. The purpose of the disclosure of information about budget and actual is to determine the degree of compliance with the budget. To achieve that objective, entities are required to present budget to actual comparisons based on the organization or program classification used for their approved budget. In some cases, this may mean presenting a budget to actual comparison on a different basis and for a different group of activities than those encompassed by the general purpose financial statement.
31. In many jurisdictions, budgets may be prepared consistent with a statistical reporting system that may be different than the entities included in the general purpose financial statements. Thus, the budgets prepared to comply with a statistical reporting system may focus on the general government sector that encompasses entities fulfilling the functions of government as their primary activity. In statistical models, the general government sector is usually comprised of the following: central; state, provincial, or regional; and local. It may be possible to create sub-sectors at each level of government based on whether the units are financed by the legislative budgets of that level of government or by extra-budgetary sources. In general, all entities funded by appropriations made in accordance with a budget controlled by the legislature are amalgamated into a single institutional unit.
32. ***Regardless of how a public sector entity presents budget amounts for each year of a biennial budget, the information disclosed in the notes shall identify any major variances from the approved budget.***
33. Governments with biennial budgets take different approaches to presenting budgetary comparisons depending on how their budget is passed. For example, if a government passes a biennial budget that contains two legally enforceable annual budgets, the government would report the first year's annual budget in the budget to actual comparison for the first year of the biennium. Similarly, the government would report the second year's annual budget in the second year of the biennium. However, if unused appropriations from the first year of the biennium budget are legally authorized to be spent in the second year, the government would need to increase its second year budget for these "carryover" amounts. If a government passes a biennial budget that does not separate budgeted

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amounts into two annual periods, the government may report the entire amount of the biennial budget in the first year of the biennium, and the unexpended amounts from the first year as the beginning budget for the second year.

TRANSITIONAL PROVISIONS

34. *Entities are not required to apply all the requirements of this standard for reporting periods beginning on a date within five years following the date of first adoption of this Standard. Entities are encouraged to fully implement this Standard earlier.*
35. This Standard provides a five year transitional period for disclosure of a comparison between the budget and the actual amounts.

EFFECTIVE DATE

36. *An entity shall apply this International Public Sector Accounting Standard for annual periods beginning on or after Month XX, XXXX. Earlier application is encouraged. If an entity applies this Standard for an earlier period it shall disclose that fact.*
37. When an entity adopts the cash or accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Appendix A

Changes to Existing IPSASs

IPSAS 1, “Presentation of Financial Statements”

Delete the following sentence from paragraph 22: “Where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period. Reporting against budgets 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 individuals(s) responsible for the preparation of the financial statements that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements.”

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

Rewrite heading to paragraph 2.1.33 as follows: “Disclosure of Assets and Liabilities”

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

Delete paragraph 2.1.36 pertaining to “Comparison with Budgets”

Delete example in Appendix 2 on page 78 titled “Comparison with budgets (paragraph 2.1.33(b))”

Appendix B**Illustrative Footnote Disclosures**

This appendix illustrates the application of the provisions of the Standard to assist in clarifying their meaning. It does not form part of the Standard. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of the Standard or to indicate the Board's endorsement of the situations or methods illustrated. Application of the provisions of this Standard may require assessment of facts and circumstances other than those illustrated here.

- (a) Budgetary basis—The budget is approved on a cash basis.
- (b) Classification scheme—The approved budget is presented by functional classification.
- (c) Period covered—The approved budget covers the fiscal period from 1 January 2006 to 31 December 2006.
- (d) Entities included—The approved budget includes all entities within the general government sector. The general government sector is comprised of the following: central, regional, and local governmental entities.
- (e) The original budget was approved by legislative action on (date).
- (f) A supplemental appropriation of XXX was approved by legislative action on (date) due to the earthquake in the Northern Region on (date).

Appendix C

Implementation Guidance

Illustrative Financial Statements - Examples

This appendix illustrates the application of the provisions of the Standard to assist in clarifying their meaning. It does not form part of the Standard. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of the Standard or to indicate the Board's endorsement of the situations or methods illustrated. Application of the provisions of this Standard may require assessment of facts and circumstances other than those illustrated here.

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OF FINANCIAL REPORTING, AND RECONCILIATION OF BUDGET TO ACCOUNTING BASIS****Section 1. Both Annual Budget And Accounting On Cash Basis****Government XX****Budget To Actual Comparison****For The Year Ended 31 December 20XX****Illustrating The Classification Of Payments By Functions**

| (in thousands of currency units) | Budgeted Amounts | | | Actual Amounts on Comparable Basis | Variance Between Original Budget and Actual |
|---|------------------|--------------|------------|---|--|
| | Original | Supplemental | Final | | |
| RECEIPTS | | | | | |
| Taxation | | | | | |
| Income tax | X | | X | X | X |
| Value-added tax | X | | X | X | X |
| Property tax | X | | X | X | X |
| Other taxes | X | | X | X | X |
| Aid Agreements | | | | | |
| International agencies | X | | X | X | X |
| Other Grants and Aid | X | | X | X | X |
| Borrowings | | | | | |
| Proceeds from borrowings | X | | X | X | X |
| Capital Receipts | | | | | |
| Proceeds from disposal of plant and equipment | X | | X | X | X |
| Trading Activities | | | | | |
| Receipts from trading activities | X | | X | X | X |
| Other receipts | X | | X | X | X |
| Total receipts | X | | X | X | X |
| PAYMENTS | | | | | |
| General public services | (X) | (X) | (X) | (X) | (X) |
| Defense | (X) | (X) | (X) | (X) | (X) |
| Public order and safety | (X) | (X) | (X) | (X) | (X) |
| Education | (X) | (X) | (X) | (X) | (X) |
| Health | (X) | (X) | (X) | (X) | (X) |
| Social protection | (X) | (X) | (X) | (X) | (X) |
| Housing and community amenities | (X) | (X) | (X) | (X) | (X) |
| Recreational, cultural and religion | (X) | (X) | (X) | (X) | (X) |
| Economic affairs | (X) | (X) | (X) | (X) | (X) |
| Environmental protection | (X) | (X) | (X) | (X) | (X) |
| Total payments | (X) | (X) | (X) | (X) | (X) |
| NET RECEIPTS/ (PAYMENTS) | X | (X) | X | X | X |

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COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE ACCRUAL AND CASH BASIS
OF FINANCIAL REPORTING, AND RECONCILIATION OF BUDGET TO ACCOUNTING BASIS

Section 2. Both Annual Budget And Accounting On Accrual Basis
Government YY
Budget To Actual Comparison
For The Year Ended 31 December 20xx
Illustrating The Classification Of Expenses By Economic Nature

| (in thousands of currency units) | Budgeted Amounts | | Actual Amounts on Comparable Basis | Variance Between Original Budget and Actual |
|--|-------------------------|--------------|---|--|
| | Original | Final | | |
| Operating revenue | | | | |
| Taxes | X | X | X | X |
| Fees, fines, penalties and licenses | X | X | X | X |
| Revenue from exchange transactions | X | X | X | X |
| Transfers from other government entities | X | X | X | X |
| Other operating revenue | X | X | X | X |
| Total operating revenue | X | X | X | X |
| Operating expenses | | | | |
| Wages, salaries and employee benefits | (X) | (X) | (X) | (X) |
| Grants and other transfer payments | (X) | (X) | (X) | (X) |
| Supplies and consumables used | (X) | (X) | (X) | (X) |
| Depreciation and amortization expense | (X) | (X) | (X) | (X) |
| Other operating expenses | (X) | (X) | (X) | (X) |
| Total operating expenses | (X) | (X) | (X) | (X) |
| Surplus/(deficit) from operating activities | X | X | X | X |
| Finance costs | (X) | (X) | (X) | (X) |
| Gains on sale of property, plant and equipment | X | X | X | X |
| Total non-operating revenue/(expenses) | (X) | (X) | (X) | (X) |
| Surplus/(deficit) from ordinary activities | X | X | X | X |
| Minority interest share of surplus/(deficit) | (X) | (X) | (X) | (X) |
| Net surplus/(deficit) for the period | X | X | X | X |

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OF BUDGET TO ACCOUNTING BASIS**Section 3. Both Biennial Budget And Accounting On Cash Basis****Government B****Budget To Actual Comparison****For The Year Ended 31 December 20XX****Illustrating The Classification Of Payments By Functions**

| (in thousands of currency units) | Original Biennial Budget | Target Budget for 1 st Year | Revised Budget in 1 st Year | 1 st Year Actual on Comparable Basis | Balance Available for 2 nd Year | Target Budget for 2 nd Year | Revised Budget in 2 nd Year | 2 nd Year Actual on Comparable Basis | Variance Between Budget and Actual |
|--|--------------------------------|---|---|--|---|---|---|--|--|
| RECEIPTS | | | | | | | | | |
| Taxation | | | | | | | | | |
| Income tax | X | X | X | X | X | X | X | X | X |
| Value-added tax | X | X | X | X | X | X | X | X | X |
| Property tax | X | X | X | X | X | X | X | X | X |
| Other taxes | X | X | X | X | X | X | X | X | X |
| Aid Agreements | | | | | | | | | |
| International agencies | X | X | X | X | X | X | X | X | X |
| Other Grants and Aid | X | X | X | X | X | X | X | X | X |
| Borrowings | | | | | | | | | |
| Proceeds from borrowings | X | X | X | X | X | X | X | X | X |
| Capital Receipts | | | | | | | | | |
| Proceeds from disposal of plant and equipment | X | X | X | X | X | X | X | X | X |
| Trading Activities | | | | | | | | | |
| Receipts from trading activities | X | X | X | X | X | X | X | X | X |
| Other receipts | X | X | X | X | X | X | X | X | X |
| Total receipts | X | X | X | X | X | X | X | X | X |

Item 10.2 *Draft ED Budget Reporting ED for PAP*

IPSASB Oslo March 2005

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OF BUDGET TO ACCOUNTING BASIS

| (in thousands of currency units) | Original Biennial Budget | Target Budget for 1 st Year | Revised Budget in 1 st Year | 1 st Year Actual on Comparable Basis | Balance Available for 2 nd Year | Target Budget for 2 nd Year | Revised Budget in 2 nd Year | 2 nd Year Actual on Comparable Basis | Variance Between Budget and Actual |
|--|--------------------------------|---|---|--|---|---|---|--|--|
| PAYMENTS | | | | | | | | | |
| General public services | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) |
| Defense | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) |
| Public order and safety | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) |
| Education | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) |
| Health | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) |
| Social protection | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) |
| Housing and community amenities | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) |
| Recreational, cultural and religion | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) |
| Economic affairs | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) |
| Environmental protection | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) |
| Total payments | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) | (X) |
| NET | X | X | X | X | X | X | X | X | X |
| RECEIPTS/(PAYMENTS) | | | | | | | | | |

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Between The Actual Amount on a Budgetary Basis (Cash) And Actual Amount on an Accounting (Accrual) Basis as well as Timing and Entity Differences

Any Public Sector Entity

Comparison of Actual Amounts Where There Are Differences

For The Year Ended 31 December 20XX

Illustrating The Classification Of Expenses By Economic Nature

| (in thousands of currency units) | Actual Amount on Comparable Basis | Basis Difference | Timing Difference | Entity Difference | Actual Amount on Accounting Basis |
|--|--|-------------------------|--------------------------|--------------------------|--|
| Operating revenue | | | | | |
| Taxes | X | X | X | X | X |
| Fees, fines, penalties and licenses | X | X | X | X | X |
| Revenue from exchange transactions | X | X | X | X | X |
| Transfers from other government entities | X | X | X | X | X |
| Other operating revenue | X | X | X | X | X |
| Total operating revenue | X | X | X | X | X |
| Operating expenses | | | | | |
| Wages, salaries and employee benefits | (X) | (X) | (X) | (X) | (X) |
| Grants and other transfer payments | (X) | (X) | (X) | (X) | (X) |
| Supplies and consumables used | (X) | (X) | (X) | (X) | (X) |
| Depreciation and amortization expense | (X) | (X) | (X) | (X) | (X) |
| Other operating expenses | (X) | (X) | (X) | (X) | (X) |
| Total operating expenses | (X) | (X) | (X) | (X) | (X) |
| Surplus/(deficit) from operating activities | X | X | X | X | X |
| Finance costs | (X) | (X) | (X) | (X) | (X) |
| Gains on sale of property, plant and equipment | X | X | X | X | X |
| Total non-operating revenue (expenses) | (X) | (X) | (X) | (X) | (X) |
| Surplus/(deficit) from ordinary activities | X | X | X | X | X |
| Minority interest share of surplus/(deficit) | (X) | (X) | (X) | (X) | (X) |
| Net surplus/(deficit) for the period | X | X | X | X | X |

Appendix D**Basis for Conclusion**

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

SCOPE

C1. The scope of this ED on Budget Reporting is limited to a comparison between approved budgets and the actual revenues and expenses associated with that budget for all public sector entities that have such budgets. If the cash basis of accounting is used, the comparison would be made to the actual receipts and payments associated with the approved cash budget. Approved budgets represent the legal authority to expend funds. Therefore, the IPSASB is of the view that financial reports should provide financial information to assist users of those reports to 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. To meet this need and provide a higher level of transparency and accountability, almost all governments prepare and publish “Budget to Actual Comparisons”. The budgetary comparisons are generally made at the levels of legislative oversight as approved by the legislature. Approved budgets are considered law in many countries, and explanations are generally required in those instances where budgetary authority is exceeded.

C2. Guidance in IPSAS 1, par. 22 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. 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

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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 notes to the relevant item in the financial statements.”

- C3. Currently IPSAS 1 encourages but does not require comparisons where the same basis is used for the budget and accounting systems. The IPSASB is of the view that an accounting standard is needed to identify how to make the comparisons and how best to reconcile any differences between the budget and accounting amounts. The Board is of the view that 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. Further, it will ensure that requirements are appropriate and will reflect international benchmarks of transparency. This is one of the objectives of general purpose financial statements as identified in IPSAS 1, par. 2.
- C4. 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 built that list). It is not always the case for budgetary reports, which are not necessarily based on the “control” approach described in IPSAS 6. The budget scope can be broader or narrower than the scope of the financial statements based on the “control” approach. Moreover, most budgetary reports don’t deal with consolidation aspects

Budget to Actual Comparisons

- C5. The Board is of the view that the basis, entities included and period covered in the budget should be used to demonstrate compliance with the budget. 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 countries, the revisions must be approved by the legislature. In some of those countries where comparative statements are encouraged, the initial budget as approved by legislation is expected to

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be included in the comparative statement along with the final, revised approved budget.

- C6. The Board is of the view that a budget to actual comparison should include the original budget as approved by the legislative body as well as the final adopted budget. Inclusion of both the original and final budget would inform the readers of the financial statements about the extent of changes that might have been made to the original budget during the course of the reporting period. This would include comparison of actual amounts 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. To avoid information overload, the presentation of variances in a separate column between budget and actual amounts is encouraged but not required.

Reconciliation between Actual Amounts on the Comparable Basis and Actual Amounts on the Accounting Basis

- C7. 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 IPSASB was of the view that the comparison between budget and actual is generally prepared on the budgetary basis. If there are other differences (timing or entity) between the budgetary system and the accounting system, the Board felt that a reconciliation should be performed to identify the differences between the two systems. Thus the reader is informed about the differences between the actual amounts on a comparable basis and the actual accounting amounts in the general purpose financial statements.
- C8. Since the accrual financial reports include cash flow statements, 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 with the accrual financial reports will be necessary.

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

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The International Public Sector Accounting Standards Board (IPSASB) is establishing a Project Advisory Panel (PAP) to address issues associated with an Exposure Draft (ED) on the “Comparison of Budget and Actual Amounts for the Accrual and Cash Basis of Accounting”. This ED is the first ED that flows from the IPSASB’s consideration of the recommendations in the Research Report titled “Budget Reporting” that was posted on the www.ifac.org website in May 2004.

I would like to invite you to be a member of this PAP to be chaired by Ron Points (the US member on the IPSASB). The role of the PAP will be to provide input to the IPSASB and its staff on the development of the ED. A draft of the ED will be sent to PAP members prior to each IPSASB meeting with a request for comment. Comments will then be provided to IPSASB members for their consideration as they review the draft ED. It is intended that the PAP will conduct its business electronically. In terms of timing, I anticipate that a draft ED will be provided to all PAP members in late January/early February, with a request for comment by the end of February to enable comments to be considered by the IPSASB at its March 2005 meeting. Depending on the outcome at that meeting, a revised draft may be provided to PAP members for comment before the July 2005 IPSASB meeting. I am hopeful that we will be able to finalize the ED for release after that meeting. If you agree to be a member of the PAP, Dr. Jesse Hughes (our consultant on the aforementioned Research Report) will contact you shortly.

The IPSASB received valuable input from members of the Steering Committee who supported the development of the Research Report. I hope that you will accept this invitation to be a member of the PAP for this ED, as I am sure the ED development process will benefit from your input. I would appreciate your prompt attention to this invitation.

Sincerely,

Philippe Adhemar, Chair
International Public Sector Accounting Standards Board
International Federation of Accountants