



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor Tel: (212) 286-9344
New York, New York 10017 Fax: (212) 286-9570
Internet: <http://www.ifac.org>

DATE: OCTOBER 20, 2006
MEMO TO: MEMBERS OF THE IPSASB
FROM: PAUL SUTCLIFFE
SUBJECT: BUDGET REPORTING – DRAFT AMENDMENTS TO CASH
BASIS IPSAS

ACTION REQUIRED

The IPSASB is requested to:

- **Review** the first draft of amendments to the Cash Basis IPSAS on presentation of budget information, with a view to its approval or further development.

AGENDA MATERIAL:

	Pages
12.4 First draft of proposed amendments to the Cash Basis IPSAS to deal with presentation of budget information.	12.50 – 12.69

BACKGROUND

At the July 2006 meeting, the IPSASB agreed to develop a separate stand alone IPSAS dealing with the presentation of budget information by entities adopting the accrual basis of financial reporting, and to amend the Cash Basis IPSAS to include requirements for the presentation of budget information by entities adopting the cash basis of reporting.

The revised draft of the stand alone accrual basis IPSAS was included in the first distribution of agenda materials for this meeting as agenda item 12.3.

The first draft of proposed amendments to the Cash Basis IPSAS is attached to this memorandum as agenda item 12.4. It is based on those aspects of ED 27 “Presentation Of Budget Information in Financial Statements” that are applicable under the cash basis of financial reporting. At its last meeting in July 2006, the IPSASB commenced its review of, and agreed amendments to, a draft IPSAS which included requirements for presentation of budget information under both the accrual and the cash basis of financial reporting. To the extent that amendments agreed are applicable for the Cash Basis IPSAS, they have been incorporated in the attached draft.

A clean copy of the proposed amendments is attached. A marked up copy of the draft considered at the last meeting is available on request. The Cash Basis IPSAS has a different structure to the accrual IPSAS. To align with that structure, some paragraphs have been relocated and the sections of the ED dealing with Introduction and Basis for Conclusions have been deleted. Those calling for a marked-up draft should note that only changes in text are marked up. The “simple” relocation of paragraphs to align with the structure of the Cash Basis IPSAS has not been marked up.

The draft presented for review at this meeting includes an Appendix which identifies consequential amendments to other sections of the Cash Basis IPSAS. These changes will be processed when the Cash Basis IPSAS is updated for the budget presentation requirements.

Proposed Meeting Process and Objectives

At this meeting it is proposed that the IPSASB complete its page by page review of the draft accrual IPSAS, and then review the proposed amendments to the Cash Basis IPSAS.

Staff is seeking approval of the accrual IPSAS and, if time allows, the proposed amendments to the Cash Basis IPSAS, subject to the issues/matters identified below and any revisions or directions emerging from discussion at this meeting.

ISSUES

Issue A : Timing of Processing Amendments to the Cash Basis IPSAS

At the IPSASB meeting in July 2006, the Board noted its intention to review in mid 2007 the Cash Basis IPSAS in the light of any implementation issues identified by those adopting the IPSAS. The IPSASB also noted that it would co-ordinate this review with its consideration of proposed amendments to the Cash Basis IPSAS to deal with disclosures by recipients of external assistance - following review of responses to, and field test results on, the revised exposure draft “Financial Reporting Under the Cash Basis – Disclosure Requirements for Recipients of External Assistance”. (This revised draft ED is currently being finalized for issue in late October or early November 2006.)

Staff is of the view that the amendment and reissue of the Cash Basis IPSAS to deal with presentation of budget information should be co-ordinated with amendments arising from disclosures of external assistance and implementation issues that are processed in 2007. This would mean that the Cash Basis IPSAS would be reissued only once in 2007 (rather than each time amendments were approved). This single reissue could also incorporate any amendments to format and style that might arise from the equal authority approach and draw together updates to illustrative disclosures and transitional provisions. (Subject to any due process issues, this single reissue of the Cash Basis IPSAS has the potential to include all amendments to deal with implementation experiences that are approved by the IPSASB.)

This single reissue approach is likely to be a more user friendly than a series of reissues and will support the orderly implementation of the Cash Basis IPSAS and changes thereto.

The timing of reissue of the Cash Basis IPSAS has implications for such matters as the effective date of the amendments relating to the presentation of budget information, the terminology used and whether an Introduction and Basis for Conclusion will be included. These are considered further below.

Consequences for effective date of requirements relating to presentation of budget information under the cash basis

Deferring the reissue of the Cash Basis IPSAS until sometime in 2007 has consequences for the timing of application of the requirements for presentation of budget information.

ED 27, “Presentation of Budget Information in Financial Statements” proposed that the requirements when finalized would become effective two years after issue of the Standard. This was supported by respondents to the ED and tentatively confirmed by the Board at its meeting in March 2006, when it reviewed responses to ED 27. In its recent Standards, the

IPSASB has adopted a policy of specifying effective dates as being reporting periods beginning on or after January 1 of the year following issue. This policy together with the two year period before the requirements become effective and a reissue in late 2007, would mean that the requirements will not be effective until periods beginning on January 1, 2010. This is 12 months after the equivalent accrual requirements become effective. (Consistent with ED 27, the updated Cash basis IPSAS when reissued in 2007 will also note early adoption of the requirements on presentation of budget information is encouraged.)

Equal Authority of Text

The Cash Basis IPSAS was issued prior to the decision that black and grey letter have equal authority was made by the IPSASB – consequently, it includes the explanation that the standards are in bold and commentary is in grey text, rather than the “rubric” stating that the black and grey letter have the same authority.

The black and grey letter text of the attached amendment to the Cash Basis IPSAS has been drafted to ensure that it conforms with the equal authority style. In that context, the black letter paragraphs of this draft use the term “shall” while the black letter paragraphs of the Cash Basis IPSAS use the term “should”. It is proposed that the Cash Basis IPSAS be revised to use “shall” as part of its review in 2007, and that amendments to deal with presentation of budget information will be made at that time. Consequently, use of “shall” in this draft is appropriate. If the IPSASB determines that these amendments are to be processed prior to the review of the Cash Basis IPSAS, the use of “shall” in this extract may need to be reviewed.

Introduction and Basis for Conclusion

Since late 2004, IPSASs and IPSAS - EDs include a Basis for Conclusions. Consistent with this policy, ED 27 included a Basis for Conclusion.

At the March, 2006 meeting, the IPSASB agreed that new EDs and IPSASs developed in the future would include an Introduction. Consistent with this policy, the stand alone draft accrual IPSAS at agenda item 12.3 includes an Introduction and a Basis for Conclusion.

The Cash Basis IPSAS does not include an Introduction or a Basis for Conclusion and the attached proposed amendments do not include an Introduction or a Basis for Conclusion – it does not appear appropriate to develop such for only a component of the IPSAS. Whether an Introduction and Basis for Conclusion should be developed for the full Cash Basis IPSAS could usefully be considered as part of the review of the Cash Basis IPSAS intended for 2007. Subject to the IPSASB’s decision at that time, the Introduction and Basis for Conclusion could include a section dealing with presentation of budget information based on those developed for the accrual basis IPSAS, to the extent appropriate for entities adopting the cash basis.

Issue B : Definitions which include reference to the accrual basis

Notwithstanding that the attached amendments are proposed to apply only to the cash basis, definitions of “accounting basis” and “budgetary basis”, include reference to the accrual basis of accounting. The text also notes that the budget may be prepared on the cash, accrual or other basis (for example see paras 1.10.27, 29, 30, 35 and 43). These definitions and explanations are consistent with the equivalent definitions in the draft accrual basis IPSAS on presentation of budget information in financial statements (at agenda item 12.3). In respect of the accrual basis IPSAS, it is considered appropriate as members have identified

circumstances in which the budget is prepared on a cash or “near cash” basis and the financial statements on the accrual basis. It is less likely that entities will prepare budgets on the accrual basis and financial statements on the cash basis. However, staff is of the view that retention of references to both accrual and cash basis in the definitions is justified for the following reasons:

- It clarifies that the accounting basis as used in financial statements is either the cash or accrual basis which complies with IPSASs.
- It acknowledges that entities may budget on a modified accrual, modified cash or accrual basis. Staff is of the view that while likely to be rare, the IPSAS should not exclude the possibility that the budgets of some agencies may be prepared on an accrual basis, while the financial statements are presented on a cash basis.
- It ensures that the cash and accrual basis IPSASs adopt the same definitions of the same terms – this is advantageous as entities move from the cash to the accrual basis for their financial statements, and perhaps also their budgets.

Members are requested to confirm, or otherwise, that retention of references to the accrual basis are appropriate.

Issue C: Additional Column Approach for Statement of Cash Receipts and Payments

Paragraphs 1.10.6 and 1.10.15 working together provide that additional columns may be included in the statement of cash receipts and payments when the financial statements and the budget are prepared on a comparable basis.

The Cash Basis IPSAS does allow for financial statements other than the statement of cash receipts and payments to be prepared (see example paragraph 1.3.9 which allows for statements which report on a fund basis and statements which provide additional information about, for example, cash payments or sources and deployment of borrowings).

However, the statement of cash receipts and payments is clearly established as the primary financial statement in the Cash Basis IPSAS. Staff is of the view that spreading the comparison of budget and actual across a potentially wide range of “component” statements will not enhance the discharge of accountability as was intended by the IPSASB. Accordingly, the draft amendments propose that a separate statement comparing budget and actual should be required unless the budget and the statement of cash receipts and payments is prepared on a comparable basis.

Members are requested to confirm, or otherwise, that this approach is appropriate.

Issue D : Illustrative Financial Statements

Staff wish to draw to members attention the following two specific issues.

Additional Column Approach

The accrual IPSAS illustrates the additional column approach when the financial statements and the budget are prepared on a comparable basis. The Illustrative Examples in the cash basis does not illustrate the additional column approach. This is because the Statement of Cash Receipts and Payments includes the additional “third party settlement” column and staff is of the view that to include additional columns for original and final budgets (and potentially budget variances) will increase substantially the complexity of that statement. As

such, Staff is of the view that it is more useful to illustrate the separate statement of budget and actual.

Members are requested to advise whether this approach is appropriate, or the separate column approach should also be illustrated.

Budget prepared on accrual basis

The Implementation Guidance in ED 27 included examples of the budget prepared on both the cash basis and the accrual basis. The Implementation Guidance in the draft accrual IPSAS at agenda item 12.3 also includes illustrations of a budget prepared on the cash basis and a budget prepared on the accrual basis - on the grounds that some jurisdictions which adopt the accruals basis for the financial statements will prepare budgets on the cash basis.

The attached draft amendments to the Cash Basis IPSAS include an illustration of an accrual based budget at Appendix B, and the text notes that in some, albeit rare cases, a government or government agency may adopt the cash basis for its financial statements and the accrual basis for its budget (see paragraph 1.10.29). While such a reference in the text is justifiable, staff is not convinced that it is necessary to add an illustration of this to the already lengthy illustrative examples in the Cash Basis IPSAS. Accordingly, staff is of the view that illustrative example B to this draft should be deleted.

Issue E: Structure of the section on presentation of budget information and potential reduction of length of the section

Each of the sections in Part 1 of the Cash Basis IPSAS which deal with specific transactions, events or disclosures commence with the relevant definitions, then identify the requirements. This structure has also been adopted for the proposed section on presentation of budget information. As part of this restructuring, the scope paragraph has been absorbed in paragraph 1.10.6 which establishes the presentation requirements (Specification that the Cash Basis IPSAS applies to entities adopting the cash basis of accounting other than government business enterprises, are established in the initial scope paragraphs (1.1.1 and 1.1.5) of the IPSAS).

The scope of this section (applicable to entities which make their approved budgets publicly available) could be broken out and established as a separate paragraph supported by the relevant commentary paragraphs. However, the budget presentation section is substantially longer than other sections of the Cash Basis IPSAS. While this may be appropriate given the subject matter dealt with, staff is of the view that it is useful to reduce the length of the section where possible, provided it does not undermine essential explanations.

When developing the other sections of the Cash Basis IPSAS, the IPSASB has sought to reduce the length and complexity of each section as far as possible. In anticipation that the IPSASB will also wish to reduce the length of this section as far as possible, staff have identified the following areas for members to consider for possible consolidation or removal:

- Delete paragraph 1.10.2 – because the key characteristics of an approved budget is explained in 1.10.3.
- Delete paragraph 1.10.14 – because this is also addressed (in part) paragraph 1.10.8.
- Relocate paragraph 1.10.15 to follow 1.10.6 and delete paragraph 1.10.16 and 1.10.17 – because the relocation of paragraph 1.10.15 reduces the need for explanation in 1.10.16 and 1.10.17.

- Delete paragraph 1.10.20 – because the encouragement will appear in Part 2 of the Cash Basis IPSAS when reissued.
- Delete paragraphs 1.10.30 and 1.10.31 – because while these paragraphs forge an useful link to the IPSAS dealing with general government disclosures in the accrual series, there is not an equivalent section in the Cash Basis IPSAS and statistical basis are promoting adoption of the accrual basis. In addition, paragraph 1.10.8 does acknowledge the general government sector.
- Merge paragraphs 1.10.32 and 1.10.33 - because the second part of paragraph 1.10.32 is also addressed in paragraph 1.10.33.
- Consolidate paragraphs 1.10.35 and 1.10.36 into the one paragraph – because 1.10.36 includes commentary about possible program outcomes that are not critical to this IPSAS.

There is also a case that paragraph 1.10.47 is not necessary because the black letter paragraph 1.10.46 clearly identifies the relief from comparatives, and paragraph 1.10.47 does not add to the understanding of 1.10.46. However, in the absence of a Basis for Conclusions in the Cash Basis IPSAS, staff is of the view that 1.10.47 adds useful explanation for this requirement.

1.10 PRESENTATION OF BUDGET INFORMATION IN FINANCIAL STATEMENTS

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1.10 PRESENTATION OF BUDGET INFORMATION IN FINANCIAL STATEMENTS

Definitions

1.10.1. 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 basis International Public Sector Accounting Standards and the Cash Basis International Public Sector Accounting Standard.

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

Appropriation is an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority.

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

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

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

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

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

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

Approved Budgets

1.10.2. An approved budget as defined by this Standard reflects the anticipated revenues or receipts expected to arise in the annual or multi-year budget period based on current plans and the anticipated economic conditions during that budget period, and expenses or expenditures approved by a legislative

body, being the legislature or other relevant authority. An approved budget is not a forward estimate or a projection based on assumptions about future events and possible management actions which are not necessarily expected to take place. Similarly, an approved budget differs from prospective financial information which may 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.

1.10.3. In some jurisdictions, budgets may be signed into law as part of the approval process. In other jurisdictions, approval may be provided without the budget becoming law. Whatever the approval process, the critical feature of approved budgets is that the authority to withdraw funds from the government treasury or similar body for agreed and identified purposes is provided by a higher legislative body or other appropriate authority. The approved budget establishes the expenditure authority for the specified items. The expenditure authority is generally considered the legal limit within which an entity must operate. In some jurisdictions, the approved budget for which the entity will be held accountable may be the original budget and in others it may be the final budget.

1.10.4. If a budget is not approved prior to the beginning of the budget period, the original budget is the budget that was first approved for application in the budget year.

Actual Amounts

1.10.5. This Standard uses the term “actual” or “actual amounts” to describe the amounts that result from execution of the budget. In some jurisdictions, “budget out-turn”, “budget execution” or similar terms may be used with the same meaning as “actual” or “actual amounts”.

Presentation of a Comparison of Budget and Actual Amounts

1.10.6. **Subject to the requirements of paragraph 1.10.15, an entity that makes publicly available its approved budget(s) shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the statement of cash receipts and payments currently presented in accordance with this Standard. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:**

- (a) **The original and final budget amounts;**
- (b) **The actual amounts on a comparable basis; and**
- (c) **By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts unless such explanation is**

included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Scope

- 1.10.7. This Standard applies to all entities that are required to, or elect to, make publicly available their approved budget(s). This Standard does not require approved budgets to be made publicly available, nor does it require that the financial statements disclose information about, or make comparisons with, approved budgets which are not made publicly available.
- 1.10.8. In some cases, approved budgets will be compiled to encompass all the activities controlled by a public sector entity. In other cases, separate approved budgets may be required to be made publicly available for certain activities, groups of activities or entities included in the financial statements of a government or other public sector entity. This may occur where, for example, a government's financial statements encompass government agencies or programs that have operational autonomy and prepare their own budgets, or where a budget is prepared only for the general government sector of the whole-of-government. This Standard applies to all entities which present financial statements when approved budgets for the entity, or components thereof, are made publicly available.

Comparison of Budget and Actual Amounts

- 1.10.9. Presentation in the financial statements of the original and final budget amounts, and actual amounts on a comparable basis with the budget which is made publicly available will complete the accountability cycle by enabling users of the financial statements to identify whether resources were obtained and used in accordance with the approved budget. Differences between the actual amounts and the budget amounts, whether original or final budget (often referred to as the "variance" in accounting), may also be presented in the financial statements for completeness.
- 1.10.10. An explanation of the material differences between actual amounts and the budget amounts will assist users in understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable.
- 1.10.11. An entity may be required, or may elect, to make publicly available its original budget, its final budget or both its original and final budget. In circumstances where both original and final budget are required to be made publicly available, the legislation, regulation or other authority will often provide guidance on whether explanation of material differences between actual and the original budget amounts, or actual and the final budget amounts, is required in accordance with paragraph 1.10.6(c). In the absence of any such guidance, material differences may be determined by reference to, for example, differences between actual and original budget to focus on

performance against original budget, or differences between actual and final budget to focus on compliance with the final budget.

- 1.10.12. In many cases, the final budget amount and the actual amount will be the same. This is because budget execution is monitored over the reporting period and the original budget progressively revised to reflect changing conditions, changing circumstances and experiences during the reporting period. Paragraph 1.10.24 of this Standard requires the disclosure of an explanation of the reasons for changes between the original and final budget. That disclosure, together with the disclosures required by paragraph 1.10.6 above, will ensure that entities which make publicly available their approved budget(s) are held publicly accountable for their performance against, and compliance with, the relevant approved budget.
- 1.10.13. Management discussion and analysis, operations review or other public reports which provide commentary on the performance and achievements of the entity during the reporting period, including explanations of any material differences from budget amounts, are often issued in conjunction with the financial statements. In accordance with paragraph 1.10.6(c) of this Standard, explanation of material differences between actual and budget amounts will be included in notes to the financial statements unless included in other public reports or documents issued in conjunction with the financial statements, and the notes to the financial statements identify the documents in which the explanation can be found.
- 1.10.14. Where approved budgets are only made publicly available for some of the entities or activities included in the financial statements, the requirements of paragraph 1.10.6 will apply to only the entities or activities reflected in the approved budget. This means that where, for example, a budget is prepared only for the general government sector of a whole of government reporting entity, the disclosures required by paragraph 1.10.6 will be made only in respect of the general government sector of the government.

Presentation

- 1.10.15. **An entity shall present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis.**
- 1.10.16. Comparisons of budget and actual amounts may be presented in a separate financial statement (“statement of comparison of budget and actual amounts” or a similarly titled statement). Alternatively, where the financial statements and the budget are prepared on a comparable basis – that is, on the same basis of accounting for the same entity and reporting period, and adopt the same classification structure - additional columns may be added to the statement of cash receipts and payments presented in accordance with this IPSAS. These additional columns will identify original and final budget amounts and, if the entity so chooses, differences between the budget and actual amounts.

- 1.10.17. When the budget and financial statements are not prepared on a comparable basis a separate statement of comparison of budget and actual amounts is presented. In these cases, the financial statements could usefully clarify that the budget and the accounting bases differ and the statement of comparison of budget and actual amounts is prepared on the budget basis.

Level of Aggregation

- 1.10.18. Budget documents may provide great detail about particular activities, programs or entities. These details are often aggregated into broad classes under common “budget heads”, “budget classifications” or “budget headings” for presentation to, and approval by, the legislature or other authoritative body. The disclosure of budget and actual information consistent with those broad classes and budget heads or headings will ensure that comparisons are made at the level of legislative or other authoritative body oversight identified in the budget document(s).
- 1.10.19. In some cases, the detailed financial information included in approved budgets may need to be aggregated for presentation in financial statements in accordance with the requirements of this Standard. Such aggregation may be necessary to avoid information overload and to reflect relevant levels of legislative or other authoritative body oversight. Determining the level of aggregation will involve professional judgment. That judgment will be applied in the context of the objective of this Standard and the qualitative characteristics of financial reporting as identified in paragraph 1.3.32 of this Standard. *(Staff Note: Paragraph 1.3.32 identifies the qualitative characteristics and notes that Appendix 4 of the Cash Basis IPSAS summarizes the qualitative characteristics of financial reporting. It is therefore not necessary to include reference to Appendix here, as occurs in accrual IPSAS.)*
- 1.10.20. Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Part 2 of this Standard encourages the inclusion in the financial statements of a cross-reference to such documents.

Original and Final Budget

- 1.10.21. **The final budget shall include all changes approved by legislative actions or other designated authority to revise the original budget.**
- 1.10.22. The original budget may include residual appropriated amounts automatically carried over from prior years by law. For example, governmental budgetary processes in some jurisdictions include a legal provision that requires the automatic rolling forward of appropriations to cover prior year commitments. Commitments encompass possible future liabilities based on a current contractual agreement. In some jurisdictions, they may be referred to as obligations or encumbrances and include

outstanding purchase orders and contracts where goods or services have not yet been received.

1.10.23. Supplemental appropriations may be necessary where the original budget did not adequately envisage expenditure requirements arising from, for example, war or natural disasters. In addition, there may be a shortfall in budgeted receipts during the period, and internal transfers between budget heads or line items may be necessary to accommodate changes in funding priorities during the fiscal period. Consequently, the funds allotted to an entity or activity may need to be cut back from the amount originally appropriated for the period in order to maintain fiscal discipline. The final budget includes all such authorized changes or amendments.

1.10.24. **An entity shall present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors, either:**

- (a) **by way of note disclosure in the financial statements; or**
- (b) **in a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.**

1.10.25. Notes to the financial statements or a separate report issued before, in conjunction with or at the same time as the financial statements, will include an explanation of changes between the original and final budget including whether, for example, changes arise as a consequence of reallocations within the original budget parameters or as a consequence of other factors, such as changes in the overall budget parameters, including changes in government policy. Such disclosures are often made in a management discussion and analysis or similar report on operations, issued in conjunction with, but not as part of, the financial statements. Such disclosures may also be included in budget out-turn reports issued by governments to report on budget execution. Where such disclosures are made in a separate report rather than in the notes to the financial statements, the notes will include a cross reference to that report.

Comparable Basis

1.10.26. **All comparisons of budget and actual amounts shall be presented on a comparable basis to the budget.**

1.10.27. The comparisons of budget and actual amounts will be presented on the same accounting basis (accrual, cash or other basis), same classification basis and for the same entities and period as for the approved budget. This will ensure that the disclosure of information about compliance with the budget in the financial statements is on the same basis as the budget itself. In some cases, this may mean presenting a budget and actual comparison on a different basis of accounting, for a different group of activities, and with a different

presentation or classification format than that adopted for the financial statements.

- 1.10.28. Financial statements consolidate entities and activities controlled by the entity. As noted in paragraph 1.10.8, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the consolidated financial statements. Where this occurs, the separate budgets may be recompiled for presentation in the financial statements in accordance with the requirements of this Standard. Where such re-compilation occurs, it will not involve changes or revisions to approved budgets. This is because this Standard requires a comparison of actual amounts with the approved budget amounts.
- 1.10.29. Entities may adopt different bases of accounting for the preparation of their financial statements and for their approved budgets. For example, in some, albeit rare, cases a government or government agency may adopt the cash basis for its financial statements and the accrual basis for its budget. In addition, budgets may focus on, or include information about, commitments to expend funds in the future and changes in those commitments, while the financial statements will report cash receipts and payments and balances thereof. However, the budget entity and financial reporting entity will often be the same. Similarly, the period for which the budget is prepared and the classification basis adopted for the budget will often be reflected in financial statements. This will ensure that the accounting system records and reports financial information in a manner which facilitates the comparison of budget and actual data for management and for accountability purposes – for example, for monitoring progress of execution of the budget during the budget period; and for reporting to the government, the public and other users on a relevant and timely basis.
- 1.10.30. In some jurisdictions, budgets may be prepared on a cash or accrual basis consistent with a statistical reporting system that encompasses entities and activities different from those included in the financial statements. For example, budgets prepared to comply with a statistical reporting system may focus on the general government sector and encompass only entities fulfilling the “primary” or “non-market” functions of government as their major activity, while financial statements report on all activities controlled by a government, including the business activities of the government.
- 1.10.31. In statistical reporting models, the general government sector may comprise national, state or provincial and local government levels. In some jurisdictions, the national government may control state/provincial and local governments, consolidate those governments in its financial statements and develop, and require to be made publicly available, an approved budget that encompasses all three levels of government. In these cases, the requirements of this Standard will apply to the financial statements of those national governmental entities. However, where a national government does not control state or local governments, its financial statement will not consolidate

state, provincial or local governments. Rather, separate financial statements are prepared for each level of government. The requirements of this Standard will only apply to the financial statements of governmental entities when approved budgets for the entities and activities they control, or subsections thereof, are made publicly available.

Multi-year Budgets

- 1.10.32. Some governments and other entities approve and make publicly available multi-year budgets, rather than separate annual budgets. Conventionally, multi-year budgets comprise a series of annual budgets or annual budget targets. The approved budget for each component annual period reflects the application of the budgetary policies associated with the multi-year budget for that component period. In some cases, the multi-year budget provides for a roll forward of unused appropriations in any single year.
- 1.10.33. Governments and other entities with multi-year budgets may take different approaches to determining their original and final budget depending on how their budget is passed. For example, a government may pass a biennial budget that contains two approved annual budgets, in which case an original and final approved budget for each annual period will be identifiable. If unused appropriations from the first year of the biennial budget are legally authorized to be spent in the second year, the “original” budget for the second year period will be increased for these “carry over” amounts. In the rare cases in which a government passes a biennial or other multi-period budget that does not specifically separate budget amounts into each annual period, judgment may be necessary in determining which amounts are attributable to each annual period. For example, the original and final approved budget for the first year of a biennial period will encompass any approved capital acquisitions for the biennial period that occurred during the first year, together with the amount of the recurring revenue and expenditure items attributable to that year. The unexpended amounts from the first annual period would then be included in the “original” budget for the second annual period and that budget together with any amendments thereto would form the final budget for the second year. Part 2 of this Standard encourages disclosure of the relationship between budget and actual amounts during the budget period.

Note Disclosures of Budgetary Basis, Period and Scope

- 1.10.34. **An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget.**
- 1.10.35. There may be differences between the accounting basis (cash, accrual, or some modification thereof) used in preparation and presentation of the budget and the accounting basis used in the financial statements. These differences may occur when the accounting system and the budget system compile information from different perspectives – for example the budget may focus on cash flows plus certain accruals and commitments, while the financial statements report cash receipts and cash payments.

- 1.10.36. Formats and classification schemes adopted for presentation of the approved budget may also differ from the formats adopted for the financial statements. An approved budget may classify items on the same basis as is adopted in the financial statements, for example, expenditures by economic nature (for example compensation of employees, supplies and consumables, grants and transfers), or function (for example, health, education). Alternatively, the budget may classify items by specific programs (for example, poverty reduction, control of contagious diseases) or program components linked to performance outcome objectives (for example, tertiary education – students graduating, hospital emergency services – surgical operations performed), which differ from classifications adopted in the financial statements. Further, a recurrent budget for ongoing operations (for example, education, health) may be approved separately from a capital budget for capital outlays (for example, infrastructure, buildings).
- 1.10.37. Disclosure of the budgetary basis and classification basis adopted for the preparation and presentation of approved budgets will assist users to better understand the relationship between the budget and accounting information disclosed in the financial statements.
- 1.10.38. **An entity shall disclose in notes to the financial statements the period of the approved budget.**
- 1.10.39. Financial statements are presented at least annually. Entities may approve budgets for an annual period or for multi-year periods. Disclosure of the period covered by the approved budget where that period differs from the reporting period adopted for the financial statements will assist the user of those financial statements to better understand the relationship of the budget data and budget comparison to the financial statements. Disclosure of the period covered by the approved budget where that period is the same as the period covered by the financial statements will also serve a useful confirmation role, particularly in jurisdictions where interim budgets and financial statements and reports are also prepared.
- 1.10.40. **An entity shall identify in notes to the financial statements the entities included in the approved budget.**
- 1.10.41. Paragraph 1.6.5 of this Standard requires controlling entities to prepare and present consolidated financial statements which encompass budget-dependant entities and GBEs controlled by the government. However, as noted in paragraph 1.10.30, approved budgets prepared in accordance with statistical reporting models may not encompass operations of the government that are undertaken on a commercial or market basis. Consistent with the requirements of paragraph 1.10.26, budget and actual amounts will be presented on a comparable basis. Disclosure of the entities encompassed by the budget will enable users to identify the extent to which the entity's activities are subject to an approved budget and how the budget entity differs from the entity reflected in the financial statements.

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

1.10.42. The actual amounts presented on a comparable basis to the budget in accordance with paragraph 1.10.26 shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to total cash receipts and total cash payments, identifying separately any basis, timing and entity differences. The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements.

1.10.43. Differences between the actual amounts identified consistent with the comparable basis and the actual amounts recognized in the financial statements can usefully be classified into the following:

- (a) Budgetary basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, where the budget is prepared on the accrual basis or modified cash basis and the financial statements are prepared on the cash basis;
- (b) Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements; and
- (c) Entity differences, which occur when the budget omits programs or entities that are part of the entity for which the financial statements are prepared.

There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

1.10.44. The reconciliation required by paragraph 1.10.42 of this Standard will enable the entity to better discharge its accountability obligations by identifying major sources of difference between the actual amounts on a budget basis and the total cash receipts and total cash payments recognized in the statement of cash receipts and payments. This Standard does not preclude reconciliation of each major total and subtotal, or each class of items, presented in a comparison of budget and actual amounts with the equivalent amounts in the financial statements.

1.10.45. For entities adopting the cash basis of accounting for preparation of both the budget documents and the financial statements, a reconciliation will not be required where the budget is prepared for the same period, encompasses the same entities and adopts the same presentation format as the financial statements. For other entities adopting the same basis of accounting for the budget and the financial statements, there may be a difference in presentation format, reporting entity or reporting period – for example, the approved budget may adopt a different classification or presentation format to the financial statements, may include only non-commercial activities of the entity, or may be a multi-year budget. A reconciliation would be necessary where

there are presentation, timing or entity differences between the budget and the financial statements prepared on the same accounting basis.

1.10.46. The disclosure of comparative information in respect of the previous period in accordance with the requirements of this Standard is not required.

1.10.47. This Standard requires a comparison of budget and actual amounts to be included in the financial statements of entities which make publicly available their approved budget(s). It does not require the disclosure of a comparison of actual amounts of the previous period with the budget of that previous period, nor does it require that the related explanations of differences between the actuals and budget of that previous period be disclosed in the financial statements of the current period.

Effective Date

1.10.48. An entity shall apply this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after January 1, 2010. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2010 it shall disclose that fact.

STAFF NOTE : January 1, 2010 reflects expectation that the Standard will be issued in the second half of 2007 – if this is not the case, it is proposed that application date be revised to ensure it is 2 years after issue.

1.10.49. Application of this Standard is not required for 2 years from its issue date. The deferred application is intended to provide sufficient time for entities currently adopting, or about to adopt, IPSASs to develop and, as appropriate, align their budget and financial reporting procedures, time periods and coverage. Earlier adoption of this Standard is encouraged.

1.10.50. When an entity adopts this IPSAS subsequent to this effective date, paragraphs 1.10.1 to 1.10.47 of this Standard apply to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Appendix A

Amendments to Other Paragraphs of the Cash Basis IPSAS

STAFF NOTE: THE FOLLOWING PROPOSED AMENDMENTS WILL BE PROCESSED WHEN THE CASH BASIS IPSAS IS REISSUED.

- A1. Part 1 of Cash Basis IPSAS, “Financial Reporting Under the Cash Basis of Accounting” is amended as described below.

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

1.3.4

- (a);
- (b); and
- (c) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments in accordance with paragraph 1.10.6.

Insert an additional item (c) in paragraph 1.3.9:

;and

- (c) provide a comparison of actual and budget amounts.

Rewrite paragraph 2.1.33 as follows:

- 2.1.33 *An entity is encouraged to disclose in the notes to the financial statements information about assets and liabilities of the entity.*

Add a new paragraph following paragraph 2.1.34:

- 2.1.34A Entities other than those which make publicly available their approved budgets and are required to disclose budget and actual comparisons in accordance with paragraphs 1.10.1 to 1.10. 50 of Part 1 of this Standard are encouraged to include in the financial statements a comparison with the budgets.

Add the following (identified by underlining) to paragraph 2.1.36:

- 2.1.36 ... In some jurisdictions, this requirement is reflected in legislation. Entities which make publicly available their approved budgets are required to comply with the requirements of paragraphs 1.10.1 to 1.10. 50 of Part 1 of this Standard. This Standard encourages other

entities to include in their financial statements the disclosure of a comparison of actual with the budgeted amounts for the reporting period where the financial statements and the budget are on the same basis of accounting. Reporting against budgets may be presented in different ways, including: ...

Insert additional paragraphs following paragraph 2.1.36:

- 2.1.37 Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in the financial statements a cross-reference to reports which include information about service achievements.
- 2.1.38 Entities which adopt multi-period budgets are encouraged to disclosure the relationship between budget and actual amounts during the budget period.
- 2.1.39 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in their financial statements a cross-reference to such documents, particularly to link budget and actual data to non-financial budget data and service achievements.
- 2.1.40 Entities may take different approaches to determining the annual budget within the multi-period budget. Where multi-period budgets are adopted, entities are encouraged to provide additional note disclosure about the relationship between budget and actual amounts during the budget period.

Implementation Guidance – Illustrative Examples

These illustrations will be included in Appendix 1(a) to the Cash Basis IPSAS. It does not form part of the Standard.

- A. Statement of comparison of budget and actual amounts when the cash basis is adopted for the budget and the financial statements**
- B. Statement of comparison of budget and actual amounts when the accrual basis is adopted for the presentation of the budget. (Illustrated only for the statement of financial performance.)**
- C. Note disclosures**

This illustration will be included in Appendix 2 of the Cash Basis IPSAS, which illustrates the encouraged disclosures. It does not form part of the Standard.

- D. Encouraged Note disclosure: biennial budget**

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

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

* The “Difference...” column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

B. Statement of Comparison of Budget and Actual Amounts

For Government YY for the Year Ended 31 December 20x2

Annual Budget Adopts Accrual Basis

(Illustrated only for Budget Statement of Financial Performance. Similar presentation would be adopted for other budget statements)

Note: The budget and the accounting bases differ. This Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis.

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

* The “Difference...” column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

C. Extract of Note Disclosures for Government X

(Government X presents its approved budget on a modified cash basis and the financial statements on the cash basis)

1. The budget is approved on a modified cash basis by functional classification. The approved budget covers the fiscal period from 1 January 20XX to 31 December 20XX and includes all entities within the general government sector. The general government sector includes all entities identified as government departments in note xx (prepared in accordance with paragraph 1.6.20 of this Standard).
2. The original budget was approved by legislative action on (date) and a supplemental appropriation of XXX for disaster relief support was approved by legislative action on (date) due to the earthquake in the Northern Region on (date). The original budget objectives and policies, and subsequent revisions are explained more fully in the Operational Review and Budget Out-turn reports issued in conjunction with the financial statements.
3. The excess of actual expenditure over the final budget of 15% (25% over original budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final approved budget and the actual amounts.
4. The budget and the accounting bases differ. The financial statements for the whole of government are prepared on the cash basis using a classification based on the nature of expenses in the statement of financial performance. The financial statements are consolidated statements which include all controlled entities, including government business enterprises for the fiscal period from 1 January 20XX to 31 December 20XX. The budget is approved on the modified cash basis by functional classification and deals only with the general government sector which excludes government business enterprises and certain other non-market government entities and activities.
5. The amounts in the statement of cash receipts and payments were adjusted to be consistent with the modified cash basis and reclassified by functional classification, to be on the same basis as the final approved budget. In addition, adjustments to amounts in the statement of cash receipts and payments for timing differences associated with the continuing appropriation, and differences in the entities covered (government business enterprises and other entities) were made to express the actual amounts on a comparable basis to the final approved budget.
6. A reconciliation between the actual inflows and outflows as presented in the statement of comparison of budget and actual amounts and the amounts of total cash receipts and total cash payments reported in the statement of cash

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 receipts and payments for the year ended 31 December 20XX is presented below. The financial statements and budget documents are prepared for the same period. There is an entity difference: the budget is prepared for the general government sector and the financial statements consolidate all entities controlled by the government; and a basis difference: the budget is prepared on a cash basis and the financial statements on the modified cash basis.

	Total inflows	Total outflows		
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	X	X		
Basis Differences	X	X		
Timing Differences	-	-		
Entity Differences	X	X		
Total Cash receipts	X			
Total Cash Payments		X		

*This reconciliation could be included on the face of the Statement of Comparison of Budget and Actual Amounts or as a note disclosure.

D. Encouraged Note Disclosure Government B: -Biennial Budget On Cash Basis - For The Year Ended 31 December 20XX**(This illustration is encouraged and would be added to Part 2 of the Cash Basis IPSAS)**

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

* This column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.