

*Proposed International Public Sector Accounting
Standard – Accrual Basis and Cash Basis*

Presentation of Budget Information in Financial Statements



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of Accountants**

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COMMENTING ON THIS EXPOSURE DRAFT

This Exposure Draft was approved for issue by the International Public Sector Accounting Standards Board (IPSASB). 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 (IPSAS).

Comments should be submitted in writing so as to be received by February 10, 2006. E-mail responses are preferred. All comments will be considered a matter of public record. Comments should be addressed to:

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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 Exposure Drafts.

The IPSASB issues IPSASs dealing with financial reporting under the accrual basis of accounting and the cash 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 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. It also forms the basis for amendments to the level of services which are to be provided and the level of taxation which is to be levied. In some jurisdictions, other public sector entities may also prepare and make publicly available their financial budgets.

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" (the Cash Basis IPSAS) also encourages the disclosure of a comparison of budgeted amounts with actual amounts for the reporting period.

This Exposure Draft differs from Exposure Drafts of proposed IPSASs previously issued. It applies equally to both entities that prepare general purpose financial statements in accordance with the accrual basis IPSASs and entities that prepare general purpose financial statements in accordance with the Cash Basis IPSAS.

Purpose of the Exposure Draft

This Exposure Draft proposes that the general purpose financial statements of entities that are required to make their approved budgets publicly available include a comparison of budget and actual amounts.

The proposed requirements in this Exposure Draft apply to entities that report in accordance with the accrual basis IPSASs and the Cash Basis IPSAS.

This Exposure Draft does not propose that public sector entities be required to make publicly available their approved budgets, or specify requirements for the presentation of approved budgets that are made publicly available. The IPSASB has indicated that in the future it will consider whether an IPSAS should be developed to deal with these matters.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by February 10, 2006. 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 contained in the appendix and implementation guidance) 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 proposals:

1. To require a comparison of actual amounts with amounts in the original and final budget as part of the general purpose financial statements (GPFs) (paragraph 12).
2. To require disclosure of the reasons for material differences between budget and actual amounts unless such explanation is included in other public documents issued at the same time as, or in conjunction with, the financial statements (paragraph 12). The IPSASB would welcome views on whether such disclosure should be required or encouraged.
3. That an entity shall present a comparison of budget and actual amounts in the GPFs as additional budget columns in the primary financial statements only where the GPFs and the budget are on the same basis of accounting and adopt the same classification structure (paragraph 15). The IPSASB would also welcome views on whether the budget figures should be required to be presented on the face of the primary financial statements when the budget amounts and the actual amounts in the GPFs are prepared on a comparable basis.
4. To require that disclosure of an explanation of the following be made in a report issued in conjunction with, or at the same time as, the financial statements: whether differences between the original and final budget arise from reallocations within the budget or other factors such as policy shifts, natural disasters, or other unforeseen events (paragraphs 25-26).
5. To require the comparison of actual and budget amounts to be made on the same basis of accounting as adopted for the budget, even if that basis is different from the basis adopted for the GPFs (paragraph 27).
6. To require a reconciliation of actual amounts on a budget basis with actual amounts presented in the GPFs (paragraph 44).

The IPSASB would also welcome views on whether:

- separate IPSASs specifying requirements for the comparison of budget and actual amounts should be issued for application when the accrual basis is adopted and when the cash basis is adopted; or

EXPOSURE DRAFT
PRESENTATION OF BUDGET INFORMATION IN FINANCIAL STATEMENTS

- the requirements proposed in this ED should be included in IPSAS 1 for those entities adopting the accrual basis of accounting, and in the Cash Basis IPSAS for those adopting the cash basis of accounting.

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING
STANDARD IPSAS XX — PRESENTATION OF BUDGET
INFORMATION IN FINANCIAL STATEMENTS**

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EXPOSURE DRAFT
PRESENTATION OF BUDGET INFORMATION IN FINANCIAL STATEMENTS

International Public Sector Accounting Standard XX, “Presentation of Budget Information in Financial Statements” (IPSAS XX) is set out in paragraphs 1-51 and the Appendix. All the paragraphs have equal authority. IPSAS XX should be read in the context of its objective, the Basis for Conclusions, and the “Preface to the International Public Sector Accounting Standards”. International Public Sector Accounting Standard IPSAS 1, “Presentation of Financial Statements” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING
STANDARD IPSAS XX — PRESENTATION OF BUDGET
INFORMATION IN FINANCIAL STATEMENTS**

Objective

1. This Standard requires a comparison of budget and actual amounts to be included in the general purpose financial statements (GPFs) of entities which are required to make publicly available the approved budget(s) for which they are held accountable. The Standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Compliance with the requirements of this Standard will ensure that public sector entities which are required to make publicly available the approved budget(s) for which they are held accountable, discharge their accountability obligations and enhance the transparency of their GPFs by demonstrating compliance with the approved budget.

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.**
3. **This Standard applies to public sector entities, other than Government Business Enterprises, that are required to make publicly available their approved budgets.**
4. This Standard applies to all entities that are required to make publicly available their approved budgets, other than Government Business Enterprises (GBEs). It deals with both reporting under the accrual and the cash basis of accounting. If the accrual basis of accounting is adopted, this Standard should be read in conjunction with the accrual basis International Public Sector Accounting Standards (IPSASs). If the cash basis of accounting is adopted, this Standard should be read in conjunction with the Cash Basis IPSAS, “Financial Reporting Under the Cash Basis of Accounting” (the Cash Basis IPSAS).
5. This Standard does not require approved budgets to be made publicly available, nor does it require that the GPFs disclose information about, or make comparisons with, budgets which are not required to be made publicly available.
6. 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 GPFs of a government or other public sector entity. This may occur where, for example, a government’s GPFs encompass government agencies or programs that

have operational autonomy and prepare their own budgets. In still other cases, approved budgets may be required to be made publicly available for only a component of the GPFSSs. This may occur where a budget is prepared only for the general government sector of the whole-of-government GPFSSs. This Standard applies to all entities which present GPFSSs when approved budgets for the entity, or components thereof, are required to be made publicly available.

7. The “Preface to International Public Sector Accounting Standards” issued by the International Public Sector Accounting Standards Board (IPSASB) explains that GBEs apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB). Therefore, this Standard does not apply to GBEs. GBEs are defined in paragraph 8 below.

Definitions

8. **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.

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 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 changes applicable to the budget period.

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.**

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

9. An approved budget as defined by this Standard reflects the anticipated revenues or receipts expected to arise in the annual budget period based on current plans and the anticipated economic conditions during that budget period, and expenses or expenditures approved by 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.
10. 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.

Original Budget

11. 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.

Presentation of a Comparison Between Budget and Actual Amounts

12. **An entity shall present a comparison of budget and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance**

with International Public Sector Accounting Standards. 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 budget and actual amounts unless such explanation is included in other public documents issued at the same time as, or in conjunction with, the general purpose financial statements, and a cross reference to those documents is made in the notes.**

The presentation of comparative information for the previous period is not required.

- 13. Presentation of the original and final budget amounts, and actual amounts on a comparable basis with the budget, in GPFs 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 GPFs for completeness.
- 14. Reports which provide commentary on the performance and achievements of the entity during the reporting period, including its compliance with budgets, are often issued at the same time as, or in conjunction with, the financial statements. An explanation of the material differences between actual and budget amounts will assist users in understanding the reasons for material departures from the approved budget. This Standard requires that such explanation be included in notes to the financial statements, unless included in other public documents issued at the same time as, or in conjunction with, the GPFs and the notes to the financial statements identify the documents in which the explanation can be found.

Presentation and Disclosure

- 15. **An entity shall present a comparison of budget and actual amounts as additional budget columns in the primary financial statements only where the GPFs and the budget are on the same basis of accounting and adopt the same classification structure.**
- 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) included in the complete set of financial statements under the accrual or cash basis of accounting. Alternatively, where the GPFs and the budget are on the same basis of accounting and adopt the same classification structure, additional columns may be added to the existing primary financial statements presented in accordance with IPSASs. These

additional columns will identify original and final budget amounts and, if the entity so chooses, differences between the budget and actual amounts.

17. In those jurisdictions where budgets are prepared on the accrual basis and encompass the full set of GPFs, or where budgets are prepared on the cash basis and adopt a format for presentation consistent with the Cash Basis IPSAS, additional budget columns will be added to all the primary financial statements required by IPSASs. In some jurisdictions, budgets prepared on the accrual basis may be presented in the form of only certain of the primary financial statements that comprise the full set of the GPFs as specified by IPSASs – for example, the budget may be presented as a statement of financial performance or a cash flow statement, with additional information provided in supporting schedules. In these cases, the additional budget columns will be included in the primary financial statements in the GPFs that are also adopted for presentation of the budget.

Level of Aggregation

18. Budget documents may provide great detail about particular activities, programs or entities. These details are often aggregated into broad classes and “budget heads” 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 approved by the legislature or other authoritative body is required by this IPSAS. This will ensure that comparisons are made at the level of governing body oversight identified in the budget document(s).
19. IPSAS 1 and the Cash Basis IPSAS require GPFs to provide information that meets a number of qualitative characteristics, including that the information is:
- (a) Understandable;
 - (b) Relevant to the decision-making and accountability needs of users; and
 - (c) Reliable in that it:
 - (i) represents faithfully transactions and other events;
 - (ii) reflects the economic substance of transactions and other events and not merely their legal form;
 - (iii) is neutral, that is, free from bias;
 - (iv) is prudent; and
 - (v) is complete in all material respects.
20. In some cases, the detailed financial information included in approved budgets may need to be aggregated for presentation in GPFs in accordance with the requirements of this Standard. Such aggregation may be necessary to avoid information overload and to reflect relevant levels of legislative 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 qualitative characteristics of financial reporting as outlined in paragraph 19 above. Appendix 4 of the Cash Basis IPSAS and Appendix 2 of IPSAS 1 summarize the qualitative characteristics of financial reporting.

21. Additional budget information, including information about service achievements, may be presented in documents other than GPFs. A cross-reference from GPFs to such documents is encouraged, particularly to link budget and actual data to non-financial budget data and service achievements.

Original and Final Budget

22. **The final budget shall include all changes approved by legislative actions or other designated authority to revise the original budget.**
23. 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. Commitments include outstanding purchase orders and contracts where goods or services have not yet been received.
24. 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 revenues 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 reporting period in order to maintain fiscal discipline. The final budget includes all such authorized changes or amendments.
25. **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, in a report issued in conjunction with, or at the same time as, the financial statements.**
26. A public sector entity is required to disclose the original budget and the final budget in the financial statements. It is also required to include in a separate report issued in conjunction with or at the same time as the financial statements, an explanation of whether changes between the original and final budget 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, operating or budget overrun report issued by government.

Comparable Basis

27. **All comparisons shall be presented on a comparable basis to the budget.**
28. The comparisons of budget and actual amounts shall be presented on the same basis (format, terminology, budgetary basis and classification) 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 GPFs 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 GPFs.
29. GPFs consolidate entities and activities controlled by the entity. As noted in paragraph 6, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the consolidated GPFs. Where this occurs, the separate budgets may be recompiled for presentation in the GPFs 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.
30. Entities may adopt different bases of accounting for the preparation of their GPFs and for their approved budgets. For example, a government may adopt the accrual basis for its GPFs and the cash basis for its budget. However, notwithstanding this difference, the budget entity and financial reporting entity will often be the same. Similarly, the period for which the budget is prepared and classification basis adopted for the budget will often be reflected in GPFs. 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.
31. 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 GPFs. 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 GPFs report on all activities controlled by a government, including the business activities of the government. Exposure Draft 28, “Disclosure of Financial Information about the General Government Sector” (ED 28) specifies requirements for note disclosure of financial information about the general government sector of a whole of government entity by entities which adopt the accrual basis of accounting and elect to make such disclosures. In many cases, disclosures made in accordance with ED 28 will encompass the same entities, activities and classification bases as adopted in budgets

prepared consistent with the general government sector as defined in statistical reporting models. In these cases, disclosures made in accordance with ED 28 will also facilitate the disclosures required by this Standard.

32. 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 GPFs 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 GPFs of those national governmental entities. However, where a national government does not control state or local governments, its general purpose financial statement will not consolidate state, provincial or local governments. Rather, separate GPFs are prepared for each level of government. The requirements of this Standard will only apply to the GPFs of governmental entities when approved budgets for the entities and activities they control, or subsections thereof, are required to be made publicly available.

Multi-year Budgets

33. 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.
34. 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. 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.

Note Disclosures of Budgetary Basis, Period and Scope

35. IPSAS 1 and the Cash Basis IPSAS require entities to present in notes to the financial statements, information about the basis of preparation of the financial statements and the accounting policies adopted. Entities may adopt different accounting policies for the preparation and presentation of their GPFSS and for the preparation and presentation of their approved budgets. The inclusion in the notes to the financial statements of the policies adopted for the preparation and presentation of approved budgets will enable users to better understand the basis on which the approved budget has been prepared, and whether and how it differs from the financial statements.
36. **An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget.**
37. 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 GPFSSs. These differences may occur when the accounting system and the budget system compile information from different perspectives – the budget may focus on cash flows, or cash flows plus certain commitments, while the financial statements report cash flow and accrual information.
38. Formats and classification schemes adopted for presentation of the approved budget may also differ from the formats adopted for the GPFSSs. An approved budget may classify items on the same basis as is adopted in the GPFSSs, for example, by economic nature (for example compensation of employees, use of goods or services), function (for example, health, education) as is adopted in the GPFSSs. However, 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 GPFSSs. 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).
39. Disclosure of the budgetary basis and classification basis adopted will assist users to better understand the relationship between the budget and accounting information disclosed in the GPFSSs.
40. **An entity shall disclose in notes to the financial statements the period of the approved budget.**
41. GPFSSs 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 GPFSs will assist the user of those financial statements to better understand the relationship of the budget data and budget comparison to the GPFSs. Disclosure of the period covered by the approved budget where that period is the same as the period covered by the GPFSs will also serve a useful confirmation role, particularly in jurisdictions where interim budgets and financial statements and reports are also prepared.

42. **An entity shall identify in notes to the financial statements the entities included in the approved budget.**
43. IPSASs require entities to prepare and present GPFSs that consolidate all resources controlled by the entity. At the whole-of-government level, a GPFS prepared in accordance with IPSASs will encompass budget-dependant and GBEs controlled by the government. However, as noted in paragraph 31, 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 27, 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 GPFSs.

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

44. **The actual amounts presented on a comparable basis to the budget in accordance with paragraph 27 shall be reconciled to the following actual amounts presented in the general purpose financial statements, identifying separately any basis, timing and entity differences:**
 - (a) **When the cash basis is adopted for the presentation of the general purpose financial statements: total cash receipts and total cash payments; and**
 - (b) **When the accrual basis is adopted for the presentation of the general purpose financial statements:**
 - (i) **total revenues, total expenses and net cash flows from operating activities, investing activities and financing activities, if the accrual basis is adopted for the budget; or**
 - (ii) **net cash flows from operating activities, investing activities and financing activities if a basis other than the accrual basis is adopted for the budget.**

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.

45. Differences between the actual amounts identified consistent with the comparable basis and the actual amounts recognized in the GPFSSs 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 cash basis or modified cash basis but the financial statements are prepared on the accrual basis;
 - (b) Timing differences, which occur when the budget period differs from the reporting period reflected in the GPFSSs; and
 - (c) Entity differences, which occur when the budget omits programs or entities that are part of the entity for which the GPFSSs are prepared.

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

46. This Standard requires that the actual amounts on a comparable basis to the budget presented in a budget and actual comparison be reconciled to certain equivalent amounts presented in the GPFSSs, identifying separately amounts attributable to basis, timing or entity differences. The reconciliation 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 amounts recognized in the GPFSSs. 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 GPFSSs.
47. For some entities adopting the same basis of accounting for both preparation of the budget documents and the GPFSSs, only the identification of differences between actual amounts in the budget and the equivalent amounts in the GPFSSs will be required. This will occur where the budget is prepared for the same period, encompasses the same entities and adopts the same presentation format as the GPFSSs. In these cases, the comparison may be affected by the inclusion of an additional budget column in the financial statements consistent with the requirements of paragraphs 12 and 15 of this Standard. For other entities adopting the same basis of accounting, 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 GPFSSs, 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 GPFSSs prepared on the same accounting basis.
48. For those entities using the cash basis (or a modified cash or modified accrual basis) of accounting for the presentation of the approved budget and the accrual basis for their GPFSSs, the major totals presented in the statement of budget and actual comparison will be reconciled to net cash flows from operating activities, net cash flows from investing activities, and net cash

flows from financing activities as presented in the cash flow statement prepared in accordance with IPSAS 2, “Cash Flow Statements”.

Effective Date

49. **An entity shall apply this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after MM DD, YYYY (2 years after issue of the Standard). Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY it shall disclose that fact.**
50. When an entity adopts the accrual or cash basis of accounting, as defined by International Public Sector Accounting Standards, 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.
51. 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 to develop and, as appropriate, align their budget and financial reporting procedures, time periods and coverage. Earlier adoption of this Standard is encouraged.

Appendix A

Amendments to Other International Public Sector Accounting Standards

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD, YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

- A1. IPSAS 1, “Presentation of Financial Statements” is amended as described below.

Add the following (identified by underlining) to paragraph 19:

19. ...
- (a) ...
 - (b) ...
 - (c) ...
 - (d) ...
 - (e) When the entity is required to make 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 other financial statements; and
 - (ef) Accounting policies and notes to the financial statement

Add the following (identified by underlining) to paragraph 22:

22. ...Entities which make publicly available their approved budgets are required to comply with the requirements of IPSAS XX, “Comparison of Budget and Actual Amounts”. For other entities, 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 for these entities 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 differences from the budget or appropriation may also be presented, for completeness; and
 - (b) A statement by the individual(s) responsible for the preparation of the financial statements that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or

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other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements.

- A2. 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 is required to make 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.

Insert an additional paragraph following paragraph 1.3.8:

- 1.3.8A Entities which are required to make publicly available their approved budgets are required to comply with the requirements of Cash Basis IPSAS, “Comparison of Budget and Actual 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 IPSAS XX, 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 are required to make publicly available their approved budgets are required to comply with the requirements of IPSAS XX, “Comparison of Budget and Actual Amounts”. This Standard encourages other entities to include in their general purpose 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: ...

Implementation Guidance – Illustrative Examples

This guidance accompanies, but is not part of, IPSAS XX.

- A. Statement of comparison of budget and actual amounts when the cash basis is adopted for the budget**
- B. Additional column approach when the accrual basis is adopted for the presentation of the budget and the general purpose financial statements. (Illustrated only for the statement of financial performance.)**
- C. Note disclosures**
- D. Encouraged Note disclosure: biennial budget**

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

(in thousands of currency units)	<u>Budgeted Amounts</u>		Actual	<i>*Difference: Budget and Actual</i>
	Original	Final	Amounts on Comparable Basis	
RECEIPTS				
Taxation				
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. Separate Column Approach

For Government YY for the Year Ended 31 December 20x2

Both Annual Budget And General Purpose Financial Statements Adopt Accrual Basis

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

Actual 20x1	(in thousands of currency units)	Actual 20x2	Final Budget 20x2	<i>*Difference: Budget and Actual</i>	Original Budget 20x2
	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)
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)
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

(which presents its approved budget on a cash basis and the general purpose financial statements on the accrual basis)

1. The budget is approved on a 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 IPSAS 6 “Consolidated and Separate Financial Statements”).
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 Outcomes 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 general purpose financial statements for the whole of government are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance. The general purpose 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 general purpose financial statements differ from the budget which is approved on the cash basis and which 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 general purpose financial statements were recast from the accrual basis to the cash basis and by functional classification, to be on the same basis as the final approved budget. In addition, adjustments to amounts in the general purpose financial statements for timing differences associated with the continuing appropriation and differences in the entities covered (government business enterprises) were made to express the actual amounts on a comparable basis to the final approved budget. The amount of these adjustments are identified in the following table:
6. A reconciliation between the actual amounts on a comparable basis as presented in the Budget and Actual Comparative Statement and the actual

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amount in the Statement of Cash flows 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 accrual basis.

	Operating	Financing	Investing	Total
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	X	X	X	X
Basis Differences	X	X	X	X
Timing Differences	-	-	-	-
Entity Differences	X	X	X	X
Actual Amount in the Statement of Cash Flows	X	X	X	X

*This reconciliation could be included on the face of the Budget and Actual Comparative Statement or as a footnote.

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**D. Encouraged Note Disclosure Government B: -Biennial Budget On Cash Basis
For The Year Ended 31 December 20XX**

	Original Biennial Budget Year	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	*Difference: Budget and Actual over Budget Period
(in thousands of currency units)									
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
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
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.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed International Public Sector Accounting Standard.

Scope of the Standard

- BC1. In many jurisdictions, legislation or other authority requires public sector entities, whether the government or particular government entities, to make public the approved budgets for which they are held accountable. Such disclosure is made in the interest of transparent government. This proposed Standard applies to governments and government entities that are required to make publicly available the approved budget(s), for which they are held accountable.
- BC2. The approved budget reflects the financial characteristics of the government's or other entity's plans for the forthcoming period and, in respect of activities funded from the government budget, represent the authority to expend funds. The International Public Sector Accounting Standards Board (IPSASB) is of the view that reporting against those financial plans will enhance the transparency of general purpose financial statements and is an important element in the discharge of accountability of entities which are required to make their budget publicly available. The inclusion of a comparison of budget and actual amounts in general purpose financial statements (GPFs) will provide financial information to assist users to assess whether resources were raised as anticipated and used in accordance with budgets approved by the legislature or similar authoritative body.
- BC3. Many governments and government entities which are required to make publicly available their approved budget already report actuals against budgeted amounts in their financial statements or in budget outcome reports or similar documents issued in conjunction with their financial statements. For these governments, comparisons of budget and actual amounts are generally made at the levels of legislative oversight approved by the legislature and explanations of material differences are made where budgetary authority is exceeded. This proposed Standard reinforces that practice, and requires that it be adopted by all entities that are required to make publicly available their approved budgets.
- BC4. Many governments and government entities not specifically required to make publicly available their approved budgets do so in the interests of enhanced transparency and accountability. These governments and government entities may also include in their GPFs comparisons of budget and actual amounts in accordance with the requirements of this proposed Standard.

- BC5. This proposed Standard does not require entities to make publicly available their approved budgets, or specify presentation requirements for approved budgets that are made publicly available. The IPSASB has indicated that in the future it will consider whether an International Public Sector Accounting Standard (IPSAS) should be developed to deal with these matters.

Need for an International Public Sector Accounting Standards

- BC6. Currently IPSAS 1, “Presentation of Financial Statements”, encourages but does not require comparisons of budget and actual amounts where the financial statements and the budget are on the same basis. The Cash Basis IPSAS, “Financial Reporting Under the Cash Basis of Accounting” also encourages a comparison between the budget and actual amounts. The IPSASB considered whether compliance with this proposed Standard should be encouraged or required by entities that are required to make publicly available their budgets and prepare and present their financial statements in accordance with the Cash Basis IPSAS or with accrual basis IPSASs. It concluded that disclosure of information about budget and actual amounts is a necessary element for the discharge of accountability for such entities, and an IPSAS should be prepared to specify appropriate disclosure requirements. Accordingly this proposed Standard applies to financial statements prepared on the cash basis and the accrual basis in accordance with IPSASs.

Disclosure of Original and Final Budget

- BC7. This proposed Standard requires the disclosure of the original budget and the final budget and, in a report issued in conjunction with, or at the same time as, the financial statements, an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors.
- BC8. Budgets are prepared in advance of the reporting period and the occurrence of natural disasters and changes in political or economic conditions may dictate a need for revisions to the initially approved budget during the budget period. In some jurisdictions, the authority for such revision is delegated to the Minister of Finance (within specified limits) or similar office holder. In other jurisdictions, the revisions must be approved by the legislature. Where those revisions are authorized by the appropriate authority, they comprise the final budget for the reporting period. The IPSASB is of the view that disclosure of the original and final budget is necessary to ensure that readers of the financial statements are aware of the nature and extent of changes to the original budget that have been approved during the course of the reporting period.
- BC9. Revisions to the original budget may occur as a result of policy shifts, including changes in government priorities during the reporting period, or of unanticipated economic conditions. The disclosure of the reasons for

changes between the original and final budget during the reporting period is necessary for the discharge of accountability and will provide useful input for analysis of the financial effects of changing economic conditions and of policy shifts. The IPSASB is of the view that such disclosures are more appropriately made in reports accompanying the financial statements, rather than as part of the financial statements themselves.

Comparisons with approved budget

- BC10. This proposed Standard requires disclosure of the original and final budget amounts and actual amounts on a comparable basis with the budget amounts. Users of the financial statements will be able to identify and determine the differences between amounts in the original and/or final approved budget and their equivalent actual amounts (often referred to as “variances” in accounting) for each level of legislative oversight disclosed. Entities may elect, but are not required, to present these differences in the financial statements.
- BC11. This proposed Standard requires an explanation of material differences (whether positive or negative) between actual and budget amounts to be made by way of note disclosure in the financial statements, unless such explanation is included in other publicly available documents issued at the same time as, or in conjunction with, the financial statements. The IPSASB is of the view that disclosure of this information will enhance the transparency of financial statements and strengthen the accountability of entities that make their budgets publicly available. The explanation of such differences may be included in a management discussion and analysis, operations review, budget overrun or similar report issued in conjunction with the financial statements. The IPSASB is of the view that where explanation is included in such reports, and notes to the financial statements direct readers to those reports, it is not necessary to repeat that explanation in the financial statements.

Adoption of the budget basis and reconciliation of budget and accounting bases

- BC12. Entities may adopt different accounting bases for the preparation of their GPFs and for their approved budgets. In particular, some entities that adopt the accrual basis of accounting for preparation of their GPFs prepare their budgets on the cash basis. In these circumstances, the financial reporting and budget basis will differ. Differences between the budgetary basis and the GPFs may also arise as a consequence of timing, entity or classification differences.
- BC13. This Standard requires that the comparisons of budget and actual amounts shall be presented on the same basis (format, terminology, budgetary basis and classification) and for the same entities and period as for the approved budget. This is necessary to enable the financial statements to demonstrate the extent to which actual amounts were used in accordance with legally

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authorized budgets. It will ensure that disclosures are made on a comparable basis, and the financial statements demonstrate compliance with the approved budget. Consequently, amounts reflected in the GPFs under the accrual IPSASs or the Cash Basis IPSAS will need to be recast to be comparable to the final approved budget where there are basis, timing or entity differences.

- BC14. To better enable users to identify the relationship between the budget entity and the financial reporting entity, the proposed Standard requires that actual amounts on the budget basis be reconciled to specified equivalent amounts presented in the GPFs, identifying separately any basis, timing and entity differences.

Presentation of budget and actual information

- BC15. This proposed Standard allows the budget and actual information to be presented in a separate statement or as an additional budget column in existing financial statements. Flexibility in the method of presentation allows entities to present the comparison in a manner that best serves user needs, while at the same time retaining the prominence that comes from inclusion in the GPFs. The prohibition on adopting the additional column approach for presentation when the financial statements and budget are prepared on a different basis of accounting is necessary to ensure that budget and actual amounts are presented on comparable basis.