



**INTERNATIONAL FEDERATION
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DATE: 25 SEPTEMBER 2003
MEMO TO: MEMBERS OF BUDGET REPORTING STEERING COMMITTEE
FROM: DR. JESSE W. HUGHES, CPA, COA, CGFM
SUBJECT: **RESEARCH REPORT ON BUDGETARY REPORTING**

ACTION REQUIRED

The Committee is asked to:

- **review** the draft Research Report; and
- **approve** the draft Research Report (subject to any amendments agreed) for publication.

AGENDA MATERIAL:

	Pages
10.2 A proposed <i>Research Report on Budget Reporting</i>	10.3-10.101
10.3 Steering Committee Members	10.102

BACKGROUND

An initial draft of a Research Report on Budget Reporting was presented to the PSC in Vancouver on 18 July 2003. The PSC concluded at that meeting that a potential IPSAS on Budget Reporting was within the PSC mandate and that research toward that end was appropriate. To achieve that objective, a Budget Reporting Steering Committee (see membership on list attached) was established in August. Based on comments received from the PSC, a revised draft was prepared and sent to the Budget Reporting Steering Committee (BRSC) members on 27 August 2003 with a response requested by 17 September 2003. Excellent responses were received from the BRSC and were incorporated into the Research Report to the maximum extent possible. The responses are too voluminous to attach to this memo but are available for review, if desired. All members were able to respond by the cutoff date with the exception of representatives from FEE and India. (The representatives from Norway and China were added after the cutoff date and were not able to respond.)

The comments received from the BRSC provided clarification on some points made in the initial draft and added country specific data that strengthened the international aspects of the report. The BRSC members were very supportive of the conclusions reached on the major issues and agreed that an international public sector accounting standard should be established on budget reporting. Due to the press of time to distribute material prior to the PSC meeting in Berlin, the BRSC members were not able to review the revised draft (attached in a separate file) of the Research Report that incorporated their comments. Consequently, any omissions or commissions in the Report are strictly my errors in compilation.

ISSUES

- (i) **Inclusion of a Comparative Budget to Actual Statement as Part of the General Purpose Financial Statements**

Paragraph 22, IPSAS 1 presently prescribes the following: “Where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period.” (Emphasis added.) The Standard is silent regarding preparation of a Comparative Statement if there are differences in bases.

BRSC recommendation

A Comparative Statement should be required as part of the General Purpose Financial Statements regardless of the budgetary and accounting bases used. If a cash budget is prepared and an accrual accounting system is in use, the Comparative Statement should reflect the actual figures on the same basis as the budgetary figures.

(ii) Format of Comparative Statement

Paragraph 22, IPSAS 1 states: “Reporting against budgets may be presented in various different ways, including:

- (a) the use of a columnar format for the financial statements, with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented, for completeness; and
- (b) a statement by the individual(s) responsible for the preparation of the financial statements that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements.”

BRSC recommendation

In addition to the stipulation in the present IPSAS, the Comparative Statement should reflect both the original budget and the final budget with appropriate explanations for significant differences between the two. The variance should be computed between the original budget and the actual amounts.

(iii) Reconciling Budgetary Basis With Accounting Basis

Some countries that have adopted the accrual basis of accounting as their generally accepted accounting principle (GAAP) continue to prepare their budgets on the cash basis. If the accounting basis (i.e., accrual) is different from the budgetary basis (i.e., cash), the Comparative Statement is generally prepared on the budgetary basis. Then, a reconciliation is generally made so that the reader is informed about the differences between the budgetary and accounting balances in the General Purpose Financial Statements.

BRSC recommendation

If the accounting basis is different from the budgetary basis, a reconciling statement should be prepared.

Dr. Jesse W. Hughes
Consultant on the Budgetary Reporting Project

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**INTERNATIONAL FEDERATION OF ACCOUNTANTS
PUBLIC SECTOR COMMITTEE**

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

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September 2003

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

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Executive Summary

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

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

- current best practices in budget formulation and reporting under differing budget models and government administrative arrangements;
- whether the development of an IPSAS on budget reporting and/or other budget related matters falls within the PSC's mandate;
- whether there is any precedent for an accounting standard setter to deal with budget reporting issues; and
- the issues which should appropriately be considered in any IPSAS that might be issued.

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

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

In order to assure that approved budgets are meaningful, close interaction between the budgeting and accounting systems is essential during the **execution** of the budget. In addition, commitment accounting is crucial to maintaining budgetary control during each fiscal period. Further, cash can be managed separately from the budgetary control process. The execution stage is enhanced when integrated financial management information systems are used. However, the means by which the budget is executed would not be specified in an IPSAS.

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

Analysis performed within five African countries indicates that their budgets are prepared on the cash basis and there is no indication that they plan to move to the accrual basis of accounting in the near future. Also, a survey conducted by OECD indicates that many countries plan to move toward the accrual basis of accounting. However, some of these countries prepare their budgets on the cash basis and they plan to continue to prepare their budgets on the cash basis for the foreseeable future even though their accounting will be on the accrual basis.

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

1. Background

a. The Budget

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

The budget documents are widely distributed and promoted. Given the lateness and complexity of historical public accounts in some countries, the budget documents are often the most important source of information on public finance. They reflect the financial characteristics of the government's plans for the forthcoming period and are used for analysis of the consequences of those plans on the economy. Making budget data publicly available is necessary to enable transparent reporting of the government's financial intentions. Reporting period results against the budget for the same period is a necessary component of any accountability regime. It enables the government to communicate to its constituents the extent to which performance and plan coincide and to explain any differences therein. In many respects, and for many external users, the budget documents are the most important financial statements issued by governments. In addition to financial information, some countries include performance measures covering effectiveness and efficiency in their budgetary reports. These budgetary documents can become controversial during the political process as noted in the following news release:²

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

² Federal attack on NSW budget papers by Annabel Hepworth, 18/03/2003. This story was found at <http://afr.com/australia/2003/03/18/FFXGUX0ADDD.html>.

frameworks to annual reports. It also said the state's departmental structures are messy, complex and "just bad administration".

Fiscal transparency is a major contributor to the cause of good governance. It should lead to better informed public debate about the design and results of fiscal policy, make governments more accountable for the implementation of fiscal policy, and thereby strengthen credibility and public understanding of macroeconomic policies and choices. Some countries (i.e., Germany) have special mechanisms for reviewing the realism of underlying economic forecasts, as well as related revenue estimates in particular. Fiscal transparency requires more than just budget (and actual) figures. It also requires information on the assumptions behind budget figures (i.e., economic and other risk factors). In a globalized environment, fiscal transparency is of considerable importance to achieving macroeconomic stability and high-quality growth. However, it is only one aspect of good fiscal management, and attention has to be paid also to increasing the efficiency of government activity and establishing sound public finances. To encourage countries to publicize their budgetary practices, the International Monetary Fund (IMF) issued a Code of Good Practices on Fiscal Transparency (See Appendix B).

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

The budget also serves as a key tool for financial management and control, and is the central component of the process that provides for government and parliamentary (or similar) oversight of the financial dimensions of operations. For budgetary control by internal management, many governments prepare budget to actual comparative schedules periodically within the budgetary period as well as at the end of the fiscal year. The format of these comparative schedules is similar to the following used in Honduras:

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

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

Government budgets are approved by the legislature and compliance is a legal matter. These budgets serve as national plans for economic governance and controlled use of resources for the country. While administrative arrangements can differ from jurisdiction to jurisdiction, in most cases, spending units have no authority to commit or spend government funds until the legislation imparting spending authority (the budget) has been passed by the legislature. In some cases, spending authority is granted at the same level as the prior year under a continuing resolution if the budget is not passed prior to the beginning of the fiscal year. In

addition, some governments permit purchase orders that have not been filled prior to the end of the fiscal period to be carried forward and funded in the next fiscal year. The types of budgets are defined in Appendix A.

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

b. International Public Sector Accounting Standards³

IPSASs deal with issues related to the presentation of annual general purpose financial statements. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. In democracies, political accountability of government to the electorate should take precedence. Their elected representatives act on their behalf and use the financial statements to hold the government and the civil service to account for the resources that they were allocated to provide the agreed level of goods and services. General purpose financial statements include those that are presented separately or within another public document such as an annual report. The objectives of general purpose financial statements are to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it.

In addition, general purpose financial statements can have a predictive or prospective role since they provide information useful to predict the level of resources required for continued operations. Further, these statements provide users with information indicating whether resources were obtained and used in accordance with the legally adopted budget. To assist users in this area, governments are **encouraged** to include in the financial statements a comparison of the actual results of operations with the approved budget for the reporting period.

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

³ Sections from the existing IPSASs pertaining to budgets or budget reporting are identified in Appendix D.

soon as their accounting staff is adequately trained on the requirements of an accrual accounting system and funding can be arranged.

c. Consistency in Reporting Between Accounting and Budgetary Systems

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

2. Objectives

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

- current best practices in budget formulation and reporting under differing budget models and government administrative arrangements;
- whether the development of an IPSAS on budget reporting and/or other budget related matters falls within the PSC's mandate;
- notwithstanding the above, whether there is any precedent, and or arguments, for an accounting standard setter to deal with budget reporting issues; and
- if an IPSAS on budget reporting (or other budget related) matters is to be prepared, the issues which should appropriately be dealt with by that IPSAS.

To meet these objectives, the qualitative characteristics of financial reporting previously identified in IPSAS 1⁴ will be considered in this Research Report. These are as follows:

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

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

⁴ Appendix 2, Presentation of Financial Statements, IPSAS 1 (May 2000).

3. The Issues

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

The IPSASs currently on issue do not fully address the presentation of budgetary/forecast financial information, nor require the disclosure of information that enables users to determine whether actual financial results are broadly consistent with previously issued budgets or forecasts. Where the financial statements and the budget are on the same basis of accounting, the IPSASs encourage the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period.⁵ Given the widespread practice in the public sector of publicly reporting and commenting on budgetary information, a strong case can be made that government budgets are general purpose financial statements (see above) and there is a need for an IPSAS to be developed on the financial reporting of budget information.

While there may be strong support for such an IPSAS, there are different views on:

- whether the preparation of such an IPSAS is within the mandate of the PSC; and
- if within the PSC’s mandate, the matters that should be dealt with by such an IPSAS and the nature and extent of its “requirements”.

If the objective is to develop best practices in budgeting, it will be necessary to develop some criteria. The World Bank Public Expenditure Management Handbook⁶ suggests three levels of goals for expenditure management. These are linked to criteria in a matrix, as indicated in Exhibit 1 below.

Exhibit 1: Financial management goals and criteria

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

⁵ Paragraph 22, IPSAS 1.

⁶ Chapter 2, Public Expenditure Management Handbook, 1998 (The World Bank).

b. The Nature Of Any IPSAS That Might Be Developed

As noted below, there are also differing views and arguments on the matters that should be dealt with by such an IPSAS, and the nature and extent of the requirements of any IPSAS.

(1) Budget Formulation

Some may be of the view that in the interests of better financial management the PSC should issue an IPSAS, or at least a best practice guide, on matters including:

- budget formulation, definition and classification; and
- budget reporting and use as a management tool.

However, others note that such an exercise is unlikely to be practicable given that budget formulation requirements and practices are developed within a legislative framework and reflect different administrative arrangements as well as political, institutional and cultural systems and processes.

(2) Budget Execution – Recognition and Measurement Rules

Some are of the view that an IPSAS on presentation of budget reporting should go further and deal with the application of the recognition and measurement requirements of the existing IPSASs in the budget context. The budget reporting IPSAS would then:

- deal only with general purpose budget reports;
- in respect of budgets prepared on the accruals basis, include requirements on the application of the definition and recognition criteria for assets, liabilities, revenues and expenses in “forward” budgets, the presentation of such information and related disclosures; and
- in respect of budgets prepared on the cash basis, include requirements on the basis on which projected cash receipts and payments should be included in the budget report, the presentation of that report and the additional disclosures that are required and encouraged.

(3) Budget Reporting - Presentation

Some are of the view that an IPSAS should not deal with issues of budget formulation or classification for internal financial management purpose. Rather it would deal only with:

- how budget data should be presented in budget reports that possess the characteristics of general purpose financial statements as noted above; and
- the relationship between budget reports and historical financial statements and how budget execution should be reported in historical financial statements.

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

- ensuring that the principles underlying the preparation of the budget were clearly communicated to readers, including
 - (a) clear explanations of the scope of the budget including whether, for example, the budget encompassed all government operations or only those traditionally designated as “general government” in Government Finance Statistics (GFS) or similar statistical classifications;
 - (b) whether the budget was prepared on a cash, accrual or other basis; and

- (c) whether the principles adopted for recognition, classification and disclosure in the budget papers reflected those in the cash or accrual IPSASs;
- enhancing the comparability of budget reports over time and between governments (or in enabling users to identify the major sources and effects of differences);
 - enhancing the comparability of the budget with historical financial reports encompassing the budget period.

(4) Budget Parameters

The parameters for the three stages along with possible areas for standards are identified in Exhibit 2 below:

Exhibit 2: Parameters of budget reporting standards

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

4. Current Budgetary Practices

a. OECD/World Bank Survey of Current Budgetary Practices

OECD (in collaboration with the World Bank, the Inter-American Development Bank, and IMF) is in the process of surveying 30 OECD Member countries and 30 non-OECD countries on their Budget Practices and Procedures. The goal of this survey is to create a database of quantitative measures that will provide a unique and comprehensive resource for various groups to assist them in making well-informed analysis and enable them to compare and contrast national practices. The OECD/World Bank recently published the results of their Budget Practices and Procedures Survey on their website (see <http://ocde.dyndns.org>). Forty-one of the 60 polled countries responded by mid August although not all the questions were answered in full (see Appendix E).

(i). Budgeting, Accounting, and Financial Reporting

Section 4.2 of the survey discusses the Budgeting, Accounting and Financial Reporting practices of the countries. Most countries (36) have a unified accounting and budget classification system with the Ministry of Finance or Central Budget Authority internally determining the technical standards for the budget (27) or following recommendations by a formal advisory board (8). The technical standards for the financial statements are determined similarly with most determined by this Ministry of Finance/Central Budget Authority internally (18) or following recommendations by a formal advisory board (7).

The budget is generally approved on a cash or obligations/commitments basis of accounting (24) with five countries planning to change that basis to full accrual, ten adding additional accrual basis information, and two changing to an obligations or commitments basis (see Appendix E). If there are some exceptions to the cash or obligations basis, then interest on government debt has the highest chance (27%) of being reported on the accrual basis. Of the respondents, 68% provided at least a partial statement of their basis. For their published financial statements, a slightly higher percentage (71%) reported both changes and current accounting policies in the adopted budget.

The majority of countries (21) report their consolidated, government-wide annual financial statements (which includes all government owned entities) on a cash, or cash with a few exceptions, basis. Six countries use full accrual, or full accrual with exceptions, basis. Fourteen countries do not report such a statement although some countries such as the United Kingdom, France, and Belgium are undergoing major revisions in all their accounting. For those countries using some accrual basis accounting, 10% followed the budgetary accounting basis and 15% treated interest on government debt as an accrual. Of the surveyed countries, 76% include all domestic and externally financed transactions in their systems with 95% reporting revenues and expenses and slightly over 56% reporting asset, liabilities and government equity.

Financial accounting for “Government Organizations”, prepared by 80% of the countries, is also reported mainly (23) on a cash, or cash with exception, basis. Only four countries did not use this type of financial report. Audited financial statements are publicly available in almost all countries with 46% taking over six months to publish from the end of the fiscal year; 27% publishing within three to six months and 10% in less than three months. Some countries polled did not indicate the amount of time required for audited statements. (Although it was not part of the survey, it is important to mention that budget reports usually are not subject to audit. Further, the claimed budget results in relation to financial targets often are not audited.)

For countries using the full accrual basis for any of their government organization annual financial statements, only 11 organizations capitalize and depreciate all their reproducible property, plant, and equipment assets. Typical assets which were not capitalized and depreciated were military assets (10), historical buildings (9), and highways (7). Twelve countries used historical cost as opposed to current market value (8 countries) when there was readily identified market values for capital assets. For specialized (no current market value) assets, 14 countries used historical cost and six used replacement value.

(ii). Types of Data Reported in Budget Documents

In Section 5.2, the countries were questioned on the Types of Data Reported in Budget Documents. Of the countries responding, 51% showed a forecast of fiscal aggregates for the budget year plus two years, with half of those also showing forecasts by individual ministries or government organizations; 46% show a formal rolling medium-term (3-5 years) estimate of expenditures and 39% for revenue; 68% contain a statement of the government's medium-term fiscal policy objectives. A majority of the respondents (61%) cover extra-budgetary funds and activities, with most having a legal framework for the reporting and managing of those funds. Almost all countries (40) report their final central government budgets as part of the final financial accounting reports presented to their legislature with 82% publishing the audited statements within 12 months. These are submitted to the legislature within varying timeframes: six months (49%), one year (33%), longer than a year (15%), or not at all (3%).

Only two of the countries responding do not show some type of budget comparison with actual expenditures in the past year(s). Of those responding, 63% show only a comparison with the past year while the others show longer or different types of comparisons. This comparison is evenly shown at the following levels: aggregate government-wide level (10 countries), ministry level (10), and another government organization or program level (10). These comparisons are not legally required by 66% of the countries. However, 51% of the countries are legally required to project expenditures beyond the next fiscal year (63% actually do so). Likewise, 46% are legally required to project receipts beyond the next fiscal year. Of the countries responding, 76% do not report ex post comparisons of projected expenditures in future years and the actual expenditures in those years (only 15% are legally required to do so, mainly at the government-wide level). At least 68% do not report similar ex post comparisons of projected receipts, with only 12% legally required to do so. Over half the respondents incorporate information on fiscal risks in their budget documentation at least "to some extent".

(iii). Budget Classification

Section 5.3 of the survey addresses Budget Classification. The majority of the countries classify their budgets in numerous formats. The most popular was economic classification (e.g., Employee Compensation, Interest, Grants, Social Benefits) at 85%. Of those responding, 83% showed a capital/current expenditure breakdown within line items while 73% showed an administrative or organization type of classification. Slightly over half also showed a program classification reflecting the governmental policy objectives and/or line-item classifications within programs. Of the respondents, 80% used a functional classification (Defense, Health, Education). Of those reporting by function, 13 used the UN Classification of the Functions of Government and 13 used a system of accounts consistent with Government Finance Statistics/System of National Accounts. Germany used both. Almost half used a decimal

coding scheme to show the hierarchy of ministries and divisions responsible for a budgeted expenditure.

(iv). Budgeting and Reporting

Section 6.5, Budgeting and Reporting, asks questions about the fiscal relationships between the various levels of government. Of the respondents, 49% have the national and sub-national governments using the same budget classifications and accounting rules, established by the national government. None are set by external bodies. Similarly, 63% of the lower levels of government have common financial reporting requirements, set by the national government. An additional 12% of the countries had their lower levels of government agree on common requirements. Most of the national governments do not regularly collect financial reports by lower levels of the government although taxation and expenditure budgets are the most popular (9 countries). Only five countries include the general government aggregates in the Legislature approved budget documents. Twelve countries do not include any general government aggregate in any of their budget documents since the Legislature only examines the national budget. In 24 countries, general government figures are presented for general knowledge only while 5 countries include the general government figures in the budget documents and are voted on by the Legislature. Similarly, actual general government data is transmitted and discussed in the Legislature in nine countries only at the end of the financial year. Seventeen countries transmit this information for knowledge purposes only and at least 9 countries do not send any actual general government data to the national government at any time of the year.

b. Summary of Five African Countries

In 2002, civil society budget analysis organizations from Ghana, Kenya, Nigeria, South Africa and Zambia published the results of a research project on Budget Transparency and Participation in the Budget Process.⁷ The purpose of the study was to evaluate the extent to which these countries provided sufficient budgetary information and access to citizens and civil society organizations so that they can participate effectively in the budget process. The study was intended to create a civil society agenda to demand changes in the budget process.

(i). Research Method

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

⁷ Further details of the project may be found from the Internet at <http://www.internationalbudget.org/resources/africalaunch.htm>

(ii). Results

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

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

In the third layer of countries, Zambia and Nigeria were found to have both “weak” legal frameworks and “weak” transparency and participation. The legal framework in Zambia allows for virtually limitless expenditure with approval after the fact and requires very little information to be published. While transparency is hampered by lack of compliance and cash budgeting, civil society and parliament are starting to forge a space for participation with positive effects. In Nigeria, a contradictory and ambiguous legal framework is a large part of the problem, particularly as it impacts on the comprehensiveness of the budget and the audit process. While civil society participation also remains weak, the increasingly active engagement of the legislature is a positive sign.

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

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

5. PSC Mandate on Budget Reporting

a. Discussion

The objective of the PSC is identified in the Preface to the IPSASs as follows: "Develop programs aimed at improving public sector financial management and accountability including developing accounting standards and promoting their acceptance." Further, IPSAS 1 on the Presentation of Financial Statements states "General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs." Inclusion of budgetary information in the accounting system is crucial to improving public sector financial management and to assure that government officials are held accountable for their budgetary decisions. Consequently, it is essential that users be informed on the degree by which their government officials were able to operate within the limits of the approved budget. The best mechanism by which to keep the public informed is through the general purpose financial statements.

b. Conclusion

At their July 2003 meeting in Vancouver, the PSC determined that Budgetary Reporting did fall within the mandate of the PSC and that it would be beneficial to issue an accounting standard on this crucial area of accountability.

6. Budget Formulation

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

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

The MTFF includes both revenue and expenditure forecasts. If the forecasts only deal with expenditures, it is referred to as a Medium Term Expenditure Framework (MTEF). To ensure consistency in taxing and spending policies from one fiscal period to another, it is beneficial to have a planning horizon of at least three years. This planning horizon can be assisted by the work of macroeconomists to assure comparability in reporting from country to country. For example, the level of production within a country is measured by the national income accounting system developed by macroeconomists in the early 1930s.⁸ Gross Domestic Product (GDP) identifies this level of production and is computed by macroeconomists (using the expenditure approach) as follows:

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

Where C = Consumption spending by the household sector

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

G = Purchases of goods and services by the government sector

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

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

$$I = S - (G + \text{TR} - \text{TX}) - \text{NX}$$

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

Each country hopes to improve their standard of living over time. Dividing GDP by the population is a good guide to measure living standards. The degree of improvement in the

⁸ A more complete explanation of the national income accounting system can be found in most Economics textbooks.

standard of living from year to year is measured by the percentage change in the per capita GDP. Decision makers use this information to develop their taxing and spending policies (i.e., fiscal policy) for future years.

Some countries incorporate this information into a Medium Term Fiscal Framework (MTFF) to assist in preparing future budgets. The objectives of a MTFF (as identified by the World Bank⁹) are as follows:

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

A MTFF is generally prepared for at least a three year period. The stages for the preparation and implementation of a MTFF have been identified as follows by the World Bank:¹⁰

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

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

b. Annual or Multi-Year Budget Appropriations

Funds are appropriated on an annual or multi-year basis to permit control of funds within a fiscal period. The United Nations Development Program has identified some of the key

⁹ Page 46, Public Expenditure Management Handbook, Poverty Reduction and Economic Management, The World Bank, 1998.

¹⁰ Ibid, Pages 47-52.

factors that contribute to making the budget preparation process effective in practice. These are as follows: transparency, management, decentralization, co-ordination and co-operation, integration, flexibility, discipline, link to medium term framework, accountability and credibility, and comprehensive. (See Appendix F)

To permit comparisons between countries, the IMF encourages the use of prescribed codes that assist in computing analytic measures for fiscal policy decisions. The reporting system prescribed by the IMF is a statistical system to measure fiscal performance but it is not an accounting system. The functional classification of expenses is the same as that used by the United Nations in their System of National Accounts. The breakout of the revenue and expense codes are identified in Appendix G¹¹ and are summarized below:

- Classification of Revenue
 - Taxes
 - Social Contributions
 - Grants
 - Other Revenue

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

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

Note: Countries and regions (i.e., the European System of Accounts) may provide alternative economic and functional classifications and these may be converted to the classifications desired by the IMF and the UN.

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

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

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

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

c. Conclusions

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

- Use of revenue and expense codes from the GFS Manual to the maximum extent possible. Although attempts have been made to harmonize these codes with the IPSAS, some differences may exist. In those instances, the procedures prescribed by the IPSAS will be expected to prevail.
- Preparation of an annual budget in sufficient time to establish spending limits prior to the beginning of the fiscal period. It is expected that the annual budget would use the prior year financial statements in the preparation stage of the budget. As stated in paragraph 74, IPSAS 1, “An entity should be in a position to issue its financial statements within six months of the reporting date.”
- Preparation of a MTFF so that the “predictive or prospective role” provided by the general purpose financial statements can be met and one of the purposes of financial statements specified in IPSAS 1¹² can be achieved. However, it was felt that specifying the content of a MTFF in an accounting standard would not be appropriate.

¹² Paragraph 14, IPSAS 1.

7. Budget Execution

a. Inter-Relationship Between Accounting And Budgeting Systems

The World Bank has developed a diagnostic tool (called a Country Financial Accountability Assessment or CFAA) to enhance the Bank's knowledge of public financial management (PFM) arrangements in client countries.¹³ The key issues to be examined in the areas of external fiscal reporting and transparency are identified in Appendix H. The CFAA supports both

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

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

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

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

As explained in a World Bank document,¹⁴ "management of these three objectives is integrated through a perspective that goes beyond the annual budget cycle. This is achieved by linking policy, planning and budgeting in a medium term expenditure framework at both the overall government and sectoral levels. GFM systems provide decision-makers and public sector managers with a set of tools to support these objectives. The architecture of the information systems network is determined by the basic functional processes that public sector managers employ to achieve these objectives and the overall regulatory framework that underpins these processes." (See Appendix J for the basic functional processes.)

¹³ Guidelines to Staff, Country Financial Accountability Assessment, Financial Management Sector Board, World Bank (March, 2003).

¹⁴ Page 9, Information Systems for Government Fiscal Management by Ali Hashim and Bill Allan, The World Bank, 1999.

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

- Control Structure—Generally derived from a legislative framework with basic principles laid down in financial provisions in the constitution and laws related to the management of public finances.
- Accounts Classification—The code structure is a methodology for consistently recording each financial transaction for purposes of financial control and costing as well as economic and statistical analysis. This structure is needed to provide a consistent basis for the following:
 - Consolidating government-wide financial information;
 - Integrating planning, budgeting and accounting;
 - Capturing data at the point of entry throughout the government; and
 - Compiling budget allocations as well as program and project costs within and across various government agencies.
- Reporting Requirements—Generally specified in two areas: (1) external reporting to provide information to the legislature, the public, and other interested parties, and (2) internal management reporting for government policy makers and managers.

Members of the World Bank and the IMF explain the importance of the relationship between accounting and budgetary information as follows:¹⁵

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

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

b. Budgetary Control

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

¹⁵ Page 176, Treasury Reference Model by Ali Hashim (World Bank) and Bill Allan (IMF), http://www1.worldbank.org/public_sector/pe/trmodel.htm (3/14/2001).

module, a separate budget or funds control module is often maintained. Cash planning is also critical to assure that cash is available to compensate employees or pay invoices when payment is due.

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

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

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

There is some inconsistency throughout the world in the use of “commitment” accounting procedures. To clarify these procedures and lessen the confusion over the terminology, see Appendix K for a more complete discussion of this technique as explained by IFAC in a previous study.

c. Conclusions

Although it was felt that the degree of interaction between accounting and budgetary systems should not be included in an accounting standard, the accounting standards should be broad enough to support the integration of budgetary and accounting systems to the maximum extent possible. Further, commitment accounting should be used to assure that funds are available prior to release of a purchase order or contract. Inclusion of the budgetary information in the general purpose financial statements will “meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs.”¹⁶ This would include comparison of actual expenditure and income with the budgeted amounts agreed by parliament, variances for each line between these two items considering budget assumptions, and explanations for all variances (positive and negative) above a certain significant level (e.g., 5%).

¹⁶ Paragraph 2, IPSAS 1.

8. Budget Reporting

a. Issue 1—Part of General Purpose Financial Statements

In a prior IFAC study, the following user needs¹⁷ were noted:

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

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

(emphasis added)

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

Differences between the actual expenses and the final (or original) budget are reflected in the comparative statements in order to assist the user in determining how close the government came to meeting the budget expectations. The budgetary comparisons are generally made at the primary and secondary levels of control as approved by the legislature. Since approved budgets are considered law in many countries, explanations are generally required in those instances where expenses exceed budgetary authority. Guidance in the present IPSASs¹⁸ is as follows:

“General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the

¹⁷ Extracted from page 11-12, Governmental Financial Reporting, Study 11, May 2000, IFAC Public Sector Committee.

¹⁸ Paragraph 14, IPSAS 1, Presentation of Financial Statements.

resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting **may** also provide users with information (emphasis added):

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

The reporting entity needs to be clearly defined to assure that the budget to actual comparisons relate to the same entity. This would include the whole-of-government statements as well as the statements covering only general government. In addition, many countries have extra-budgetary funds that may be excluded in general government statements. It is essential that comprehensive budgets be presented in order to reflect the actual results of operations as compared to the budgetary authority.

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

b. Issue 2—Format of Comparative Statement

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

Guidance in the present IPSASs¹⁹ is as follows:

“Public sector entities are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which may be given effect through authorizing legislation. General purpose financial reporting by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget. **Where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period.** (Emphasis added). Reporting against budgets may be presented in various different ways, including:

¹⁹ Paragraph 22, IPSAS 1, Presentation of Financial Statements.

- (a) the use of a columnar format for the financial statements, with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented, for completeness; and
- (b) a statement by the individual(s) responsible for the preparation of the financial statements that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements.

c. Issue 3—Reconciling Budgetary Basis With Accounting Basis

Some countries that have adopted the accrual basis of accounting as their generally accepted accounting principle (GAAP) continue to prepare their budgets on the cash basis. If the accounting basis (i.e., accrual) is different from the budgetary basis (i.e., cash), the comparative statement is generally prepared on the budgetary basis. Then, a reconciliation is generally made so that the reader is informed about the differences between the budgetary and accounting balances in the general purpose financial statements. Some of the more common differences are identified in Appendix L. Examples from the US of a comparative statement is shown in Appendix M and a reconciling statement is shown in Appendix N. In addition, the United Kingdom includes the requirement for a budget to actual comparative statement in their Accounting Manual to include a reconciliation to the cash basis. (See Appendix O for an extract from their Manual.) The present IPSASs do not specify the action to be taken in those instances where the budget and accounting are on different bases.

d. Conclusions

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

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

9. Summary

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

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

Country specific laws²⁰ and accounting standard setters (i.e., Croatia, France, Ghana, Honduras, Nigeria, Sweden, Tanzania, Uganda, United Kingdom, United States and many others) encourage the preparation of comparative "budget to actual" financial statements. In addition, such a standard would permit comparability of budget reports over time and between governments. For such comparisons to be beneficial, disclosures in the general purpose financial statements would need to identify the basis of accounting used for the budgetary reports and whether they were in compliance with the cash or accrual IPSASs. Additional information would be needed to identify the government business enterprises included in the budget, as well as the functions (identified in the GFS Manual) included within general government.

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

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

- The dominance of the accounting model for commercial entities is because it provides a universal model of business activities. Because government revenues and expenditures are unrequited, the accounting model can never fulfill a similar role for governments, and hence financial measures must be combined with non-financial performance measures to provide a comprehensive model. Budget standards must recognize the importance of such non-financial measures and address how they are to be incorporated within budget reporting.
- The very broad and multi-layered concept of stakeholders, e.g. children are no less stakeholders in government activity simply because they do not vote.

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

It is mooted that "budget reporting" is not a simple extension of "financial reporting". The needs of stakeholders should be researched, as should the realities of supply, in relation to their information needs. It is proposed that the standard **require** a "Management Report" to

²⁰ See Appendix P for highlights of the Budgetary Law in Sweden, Appendix Q for Budget Preparation Procedures in Denmark, and Appendix R for Budget Procedures in France.

be included within the general purpose financial statements and that participating countries be **encouraged** to give consideration to budget formulation and execution “best practice” as recommended and updated, from time to time by a standing PSC. The recommended “best practice” for particular economies (developing, etc.) should be proposed, with options, if necessary, as a guide to participating countries. Such a guide would give leadership, alignment and direction and would promote the achievement of the objectives and qualitative characteristics set out earlier in this research report.

There is a substantial difference between the information needs of public and private sector stakeholders. The current reporting standard on financial position projects the view that the needs of both of these stakeholder groups are similar, i.e. that shareholders of private enterprises have common information needs to citizens of a given country. Citizens reviewing political leadership and executive administration in relation to the management of national finances have unique information needs that could be included in a Management Report.

Stakeholders need to know what is funded and what is not funded within the medium term framework. Depending on their point of view, they may wish to promote the collection of further funds. Alternatively, they may wish to see current collections, and services, reduced. They may also wish to see a debate on how these needs should be provided. Possible service providers include the public and private sectors as well as Public Private Partnerships. Information needs, on a planned future, are as important as information needs on historical actual to budget performance. The spending level, in itself, does not guarantee service delivery and thus the provision of performance indicators on preset measurable objectives are needed in much the same way as private sector shareholders may look to, say, an Earnings Per Share indicator.

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

10. How the Changes Would Improve Financial Reporting

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

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

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

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

Further to the Management Report, it is suggested that best practice for particular circumstances should be researched and should be recommended for use by national governments. This leadership would build the base of available comparative information and be an extremely useful guideline to participating countries by saving them the possible route of having to learn the hard way.

A Case Study on South Africa is presented in Appendix T to demonstrate the actions taken by one country to move in this direction. The abridged and incomplete case study presents a practical example of the fact that one need not tackle complexity with a complex solution. One can implement and refine over time. The improvement on previously available information levels was much appreciated by stakeholders, even if it was, at first, considered somewhat “disturbing” news.

APPENDIX A—TERMINOLOGY

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

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

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

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

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

Budgetary Definitions:

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

7. **Medium-term fiscal framework (MTFF)**: a process for improving government expenditure programs that assists decision-makers to gauge what is affordable in aggregate over the medium-term and to reconcile this with spending policies and their costs over the same period. The aim is similar to that of multi-year budgeting. It incorporates a performance budgeting approach. It is employed extensively in developed countries but is yet to be proved in practice in developing and transitional countries.
8. **Capital budget**: a plan of proposed capital outlays, such as for infrastructure, buildings, equipment, and other long-lived assets, and of the means to finance them.
9. **Recurrent budget**: a plan of proposed funding needed to provide the basic services of government. Such a plan would include compensation of employees, use of goods and services, etc.
10. **Supplementary budget**: These are budgets that are enacted during or after the end of the financial year to authorize expenditures not within original budgets. These do not normally represent policy changes, but may be necessary where the original budget did not adequately envisage expenditure requirements (e.g. war, natural disasters, etc.).
11. **Development budget**: Most low-income countries worldwide have development and recurrent budgets. Typically the development budget is a collection of projects, whether internally or externally funded. The rest of the budget is then described as a recurrent budget. The development budget frequently includes non-capital items, and the recurrent budget often includes capital items. Some countries may consider that a development budget equates to a capital budget, but this is not presently the case for many countries.
12. **Below the line items**: In some countries, this term is used to refer to asset and liability accounts (accounts that are “below the line” of budget accounts), and also in some cases to monies that are effectively held in trust by government for some special purpose.

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

Encumbrance—See definition under “commitment”.

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

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

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

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

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

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

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

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

APPENDIX B. IMF CODE OF GOOD PRACTICES ON FISCAL TRANSPARENCY¹

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

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

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

Revised Code of Good Practices on Fiscal Transparency

I. Clarity of Roles and Responsibilities

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

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

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

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

¹ Extracted from IMF website— <http://www.imf.org/external/np/fad/trans/index.htm>.

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

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

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

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

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

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

II. Public Availability of Information

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

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

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

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

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

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

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

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

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

III. Open Budget Preparation, Execution, and Reporting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IV. Assurances of Integrity

4.1 Fiscal data should meet accepted data quality standards.

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

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

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

4.2 Fiscal information should be subjected to independent scrutiny.

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

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

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

Principle I—Establish Broad Goals to Guide Government Decision Making

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

Principle II—Develop Approaches to Achieve Goals

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

² Extracted from Government Finance Officers' Association website--
<http://www.gfoa.org/services/nacslb/budgetmenu.htm>.

- Element 7—Develop Management Strategies
 - Practice 7.1—Develop Strategies to Facilitate Attainment of Program and Financial Goals
 - Practice 7.2—Develop Mechanisms for Budgetary Compliance
 - Practice 7.3—Develop the Type, Presentation, and Time Period of the Budget

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

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

Principle IV—Evaluate Performance and Make Adjustments

- Element 11—Monitor, Measure, and Evaluate Performance
 - Practice 11.1—Monitor, Measure, and Evaluate Program Performance
 - Practice 11.1a—Monitor, Measure, and Evaluate Stakeholder Satisfaction
 - Practice 11.2—Monitor, Measure, and Evaluate Budgetary Performance
 - Practice 11.3—Monitor, Measure, and Evaluate Financial Condition
 - Practice 11.4—Monitor, Measure, and Evaluate External Factors
 - Practice 11.5—Monitor, Measure, and Evaluate Capital Program Implementation

- Element 12—Make Adjustments as Needed
 - Practice 12.1—Adjust the Budget
 - Practice 12.2—Adjust Policies, Plans, Programs and Management Strategies
 - Practice 12.3—Adjust Broad Goals, If Appropriate

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

IPSAS 1, Presentation of Financial Statements (May 2000), prescribes the following:

2. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document such as an annual report. This Standard does not apply to condensed interim financial information.

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

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

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

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

*22. Public sector entities are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which may be given effect through authorizing legislation. General purpose financial reporting by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget. **Where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period.** (Emphasis added). Reporting against budgets may be presented in various different ways, including:*

- (a) *the use of a columnar format for the financial statements, with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented, for completeness; and*
- (b) *a statement by the individual(s) responsible for the preparation of the financial statements that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements.*

IPSAS 2, Cash Flow Statements (May 2000), prescribes the following:

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

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

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

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

- (a) the preparation of a note with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented for completeness; and*
- (b) a statement by the individual(s) responsible for the preparation of the financial statements that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or payments made without appropriation or other form of authority, then details may be disclosed by way of note to the relevant item in the financial statements."*

Appendix E. OECD/World Bank Survey of Current Budgetary Practices

Name of Country (* if OECD)	Types of Appropriations in Budget (Basis)	Plans to Change Budget Basis?	Basis of Govt.-Wide Financial Statements	Basis of Govt. Org. Financial Statements
Algeria	Cash only		Full cash	Full cash
Argentina		No	No statement	Full cash
Australia*	Accruals only	No	Full accrual	Full accrual
Austria*	Cash only	No	Full cash	No statement
Belgium*	Obligation/cash	Full accrual	Full cash	Full cash
Bolivia	Cash/accruals	No	No statement	Both cash/acc
Cambodia	Obligation only	Obligation	Cash +	Cash +
Chile	Cash/accruals	Full accrual	No statement	Both cash/acc
Colombia	Obligation only	Full accrual	Full accrual	Both cash/acc
Czech Republic*	Cash only	No	Full cash	Full cash
Denmark*	Obligation/cash	Full accrual	No statement	Cash +
France*		More accrual	No statement	Full cash
Germany*	Cash only	No	Full cash	Full cash
Greece*	Cash only	More accrual	Full cash	
Hungary*	Obligation/cash	More accrual	Full cash	Cash +
Iceland*	Cash/accruals	Accrual rejected	Accrual +	Accrual +
Indonesia	Cash only	Full accrual	Cash +	Cash +
Ireland*	Cash only	No	Cash +	Full cash
Israel	Obligation/cash	More accrual	Cash +	No statement
Italy*	Obl/cash/accruals	No	No statement	Both cash/acc
Japan*	Cash only	No	No statement	Full cash
Jordan	Cash only	Obligation	Cash +	Full accrual
Kenya	Cash/accruals	No	Full cash	Full cash
Korea*	Cash only	More accrual	No statement	No statement
Mexico*	Cash only	No	Cash +	Cash +
Morocco	Obl/cash/accruals	No	Full cash	Full cash
Netherlands*	Obl/cash/accruals	More accrual	Full cash	Full accrual
New Zealand*	Accruals only	No	Both cash/acc	Both cash/acc
Norway*	Cash only	Other	Full cash	Full cash
Peru	Cash/accrual	No	No statement	Full accrual
Portugal*	Cash only	More accrual	No statement	Both cash/acc
Slovak Republic*		More accrual	Full cash	Full cash
Slovenia	Cash only	More accrual	Full cash	Cash +
South Africa	Cash only	Other	No statement	Cash +
Spain*	Cash only	No	No statement	Full cash
Suriname	Obligation only	Other	Full cash	Full cash
Sweden*	Cash/accruals	Other	Accrual +	Full accrual
Turkey*	Cash only	More accrual	Full cash	Full cash
United Kingdom*	Cash/accruals	No	No statement	Full cash
United States*	Obligation only	No	Accrual +	Accrual +
Uruguay	Cash/accruals	Other	No statement	Both cash/acc

Source: <http://ocde.dyndns.org> "Results of the survey on Budget Practices and Procedures", Sections 1.1a, 4.2d, 4.2j, 4.2l, 4.2m. August 10, 2003.

APPENDIX F: BUDGET PREPARATION PROCESS - KEY FACTORS

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

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

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

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

APPENDIX G. GOVERNMENT FINANCE STATISTICS (GFS) MANUAL 2001

A. CLASSIFICATION OF REVENUE

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

APPENDIX G. GFS MANUAL 2001 (continued)

B. ECONOMIC CLASSIFICATION OF EXPENSE

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

APPENDIX G. GFS MANUAL 2001 (continued)

D. CLASSIFICATION OF OUTLAYS BY FUNCTIONS OF GOVERNMENT

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

APPENDIX G. GFS Manual 2001 (concluded)

D. CLASSIFICATION OF OUTLAYS BY FUNCTIONS OF GOVERNMENT (concluded)

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

n.e.c. = not elsewhere classified

R&D = research and development

APPENDIX H. WORLD BANK COUNTRY FINANCIAL ACCOUNTABILITY ASSESSMENT (CFAA)³

Annex B. Key Issues to Examine

(i) External Fiscal Reporting and Transparency

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

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

Is there regular external reporting on budget implementation?

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

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

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

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

³ Explained on World Bank website— <http://www1.worldbank.org/publicsector/cfaa.htm>.

APPENDIX I. OECD BEST PRACTICES FOR BUDGET TRANSPARENCY⁴

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

Background

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

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

⁴ Extracted from OECD website— <http://www.oecd.org>.

1. Budget Reports

1.1 The Budget

- The budget is the government's key policy document. It should be comprehensive, encompassing all government revenue and expenditure, so that the necessary trade-offs between different policy options can be assessed.
- The government's draft budget should be submitted to parliament far enough in advance to allow parliament to review it properly. In no case should this be less than 3 months prior to the start of the fiscal year. The budget should be approved by parliament prior to the start of the fiscal year.
- The budget, or related documents, should include a detailed commentary on each revenue and expenditure programme. Non-financial performance data, including performance targets, should be presented for expenditure programmes where practicable.
- The budget should include a medium-term perspective illustrating how revenue and expenditure will develop during, at least, the two years beyond the next fiscal year. Similarly, the current budget proposal should be reconciled with forecasts contained in earlier fiscal reports for the same period; all significant deviations should be explained.
- Comparative information on actual revenue and expenditure during the past year and an updated forecast for the current year should be provided for each programme. Similar comparative information should be shown for any non-financial performance data.
- If revenue and expenditures are authorised in permanent legislation, the amounts of such revenue and expenditures should nonetheless be shown in the budget for information purposes along with other revenue and expenditure.
- Expenditures should be presented in gross terms. Ear-marked revenue and user charges should be clearly accounted for separately. This should be done regardless of whether particular incentive and control systems provide for the retention of some or all of the receipts by the collecting agency.
- Expenditures should be classified by administrative unit (e.g., ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.
- The economic assumptions underlying the report should be made in accordance with Best Practice 2.1 (below).

- The budget should include a discussion of tax expenditures in accordance with Best Practice 2.2 (below).
- The budget should contain a comprehensive discussion of the government's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practice 2.3-2.6 (below).

1.2 Pre-Budget Report

- A pre-budget report serves to encourage debate on the budget aggregates and how they interact with the economy. As such, it also serves to create appropriate expectations for the budget itself. It should be released no later than 1 month prior to the introduction of the budget proposal.
- The report should state explicitly the government's long-term economic and fiscal policy objectives and the government's economic and fiscal policy intentions for the forthcoming budget and, at least, the following two fiscal years. It should highlight the total level of revenue, expenditure, deficit or surplus, and debt.
- The economic assumptions underlying the report should be made in accordance with Best Practice 2.1 (see below).

1.3 Monthly Reports

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

1.4 Mid-Year Report

- The mid-year report provides a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the current fiscal year

and, at least, the following two fiscal years. The report should be released within six weeks of the end of the mid-year period.

- The economic assumptions underlying the budget should be reviewed and the impact of any changes on the budget disclosed (see Best Practice 2.1).
- The mid-year should contain a comprehensive discussion of the government's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practices 2.3 - 2.6 (below).
- The impact of any other government decisions, or other circumstances, that may have a material effect on the budget should be disclosed.

1.5 Year-End Report

- The year-end report is the government's key accountability document. It should be audited by the Supreme Audit Institution, in accordance with Best Practice 3.3 (below) and be released within six months of the end of the fiscal year.
- The year-end report shows compliance with the level of revenue and expenditures authorised by parliament in the budget. Any in-year adjustments to the original budget should be shown separately. The presentation format of the year-end report should mirror the presentation format of the budget.
- The year-end report, or related documents, should include non-financial performance information, including a comparison of performance targets and actual results achieved where practicable.
- Comparative information on the level of revenue and expenditure during the preceding year should also be provided. Similar comparative information should be shown for any non-financial performance data.
- Expenditure should be presented in gross terms. Ear-marked revenue and user charges should be clearly accounted for separately.
- Expenditure should be classified by administrative unit (e.g., ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.
- The year-end report should contain a comprehensive discussion of the government's financial assets and financial liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practices 2.3 - 2.6 (below).

1.6 Pre-Election Report

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

1.7 Long-Term Report

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

2. Specific Disclosures

2.1 Economic Assumptions

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

2.2 Tax Expenditures

- Tax expenditures are the estimated costs to the tax base of preferential treatment for specific activities.

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

2.3 Financial Liabilities and Financial Assets

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

2.4 Non-Financial Assets

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

2.5 Employee Pension Obligations

- Employee pension obligations should be disclosed in the budget, the mid-year report and the year-end report. Employee pension obligations are the difference between accrued benefits arising from past service and the contributions that the government has made towards those benefits.

- Key actuarial assumptions underlying the calculation of employee pension obligations should be disclosed. Any assets belonging to employee pension plans should be valued at market value.

2.6 Contingent Liabilities

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

3. Integrity, Control and Accountability

3.1 Accounting Policies

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

3.2 Systems and Responsibility

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

3.3 Audit

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

3.4 Public and Parliamentary Scrutiny

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

APPENDIX J. GOVERNMENT FISCAL MANAGEMENT PROCESSES AND INFORMATION SYSTEMS⁵

Government Fiscal Management Processes

Macro Economic Forecasting

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

Budget Preparation

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

Budget Execution, Accounting, and Fiscal Reporting

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

Information Systems Support

Information Systems to Support Macro Economic Forecasting

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

Information Systems to Assist in Budget Preparation and Approval

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

Information Systems for Budget Execution, Accounting and Fiscal Reporting

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

⁵ Pages 6-7, Information Systems for Government Fiscal Management by Ali Hashim and Bill Allan, The World Bank, 1999.

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

Government Fiscal Management ProcessesCash Management

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

Debt Management

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

Revenue Administration

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

Personnel Administration

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

Auditing

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

Information Systems SupportCash Management System

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

Debt Management System

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

Systems for Revenue Administration

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

Systems to Assist in Fiscal Aspects of Personnel Management

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

Systems to Support Auditing

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

APPENDIX K. COMMITMENTS⁶

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

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

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

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

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

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

⁶ Extracted from p. 123, Government Financial Reporting, Study 11, May 2000, IFAC Public Sector Committee.

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

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

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

APPENDIX L. COMMON DIFFERENCES BETWEEN GAAP AND BUDGETARY BASIS OF ACCOUNTING⁷

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

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

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

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

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

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

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

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

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

⁷ Extracted from “Relationship Between Budgetary and Financial Statement Information (1999)” published by the Government Finance Officers Association of America on their website, <http://www.gfoa.org>.

APPENDIX M. ILLUSTRATIVE BUDGETARY COMPARISON STATEMENTS FOR STATE AND LOCAL GOVERNMENTS IN THE UNITED STATES⁸

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

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

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

⁸ Extracted from p. 267-273, GASB 34 Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, June 1999 (United States)

APPENDIX N. Example of Differences between Budgetary and GAAP Basis of Reporting

Budgetary Comparison Schedule⁹ Notes to RSI

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

Budgetary Funds

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

⁹ Adapted from Exhibit 2c, Statement No. 41 of the Governmental Accounting Standards Board (US), Budgetary Comparison Schedules—Perspective Differences, pp. 18-19 (May 2003).

Actual amounts (budgetary basis) “other financing sources and uses” from the budgetary comparison schedules	\$(534,157)	\$(5,105)	\$ -
Reclassifications:			
Budgetary general revenue fund transfers in are reclassified to the highway special revenue fund for GAAP reporting	(2,187)	-	
2,187			
The state reports amounts in the budgetary general revenue fund and special state fund that are reported in non-major funds for GAAP reporting	<u>(148,587)</u>	<u>10,846</u>	
=			
Total other financing sources and uses as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$(684,928)</u>	<u>\$ 5,741</u>	
<u>\$2,187</u>			

Appendix O. Extract of Accounting Manual from the UK¹⁰

12.1.1 The financial statements of resource accounts will be based on the standard commercial model of profit and loss account and balance sheet. However, the resource account formats differ from the Companies Act Schedule 4 formats in a number of respects. These differences are appropriate in the context of the nature of central government; in addition they are necessary to enable the financial information in resource accounts to be compared with departments' resource-based Estimates.

12.1.2 Resource accounts should comprise the following:

- a. Schedule 1 - Summary of Resource Outturn: the parliamentary control schedule comparing outturn with Estimate for both resource expenditure and the overall cash requirement (although supply-financed agencies which are not whole departments need not produce this schedule);
- b. Schedule 2 - Operating Cost Statement: showing resources consumed during the year in support of both the department's own administration expenditure and its programme expenditure, net of departmental income (but for agencies which are not whole departments);
- c. Schedule 2 - Statement of Recognised Gains and Losses: laid out underneath the operating cost statement in the schedule;
- d. Schedule 3 - Balance Sheet: showing the assets and liabilities at the year end which are represented by taxpayers' equity;
- e. Schedule 4 - Cash Flow Statement: analysing the net cash flow by headings, including operating activities, capital expenditure and financing;
- f. Schedule 5 - Resources by Departmental Aim and Objectives: analysed by aim and objectives (although supply-financed agencies which are not whole departments need not produce this schedule);
- g. Notes to the accounts: explaining and amplifying the information in the previous schedules.

Schedule 1 - Summary of Resource Outturn

12.1.5 Schedule 1 records the information required for parliamentary control. It has no equivalent in GAAP.

12.1.6 Parliamentary control aspects of resource consumption, in particular accounting for Supply and any specific parliamentary reporting requirements are described in *Government Accounting*, chapter 12.

12.1.7 The schedule will show:

- a. a comparison of outturn against the Supply Estimate voted by Parliament in respect of each request for resources, net total resources, and the net cash requirement where request for resources is defined in *Government Accounting*, chapter 11;
- b. a reconciliation of net total resources to the net cash requirement for both outturn and Estimate ([12.1.12](#));
- c. an explanation of variances between Estimate and outturn in respect of net total resources and net cash requirement specifying any excess vote requirements where necessary, criteria for determining what should be reported as a variance are described in *Government Accounting*, chapter 12;

¹⁰ Extracted from <http://www.accounting-manual.gov.uk>.

- d. details of income payable to the Consolidated Fund, showing amounts recognised and amounts received.

12.1.8 The net cash requirement in the Estimates is the Supply authorised to be issued from the Consolidated Fund in respect of the year in order to finance estimated resource consumption and requirements for capital. The outturn net cash requirement is the actual cash spent in the year in delivering the outturn net total resources and capital accounted for in Schedule 1.

12.1.9 Parliamentary control aspects of income, together with associated cash receipts, are described in *Government Accounting*, chapter 20. This includes guidance on the classification of income as appropriations in aid, excess appropriations in aid, Consolidated Fund extra receipts, and also on the treatment of bad debts.

12.1.10 The disposal of tangible and intangible fixed assets, as well as investments, will be treated in Schedule 1 as follows:

- a. the profit or loss on disposal will be included within total resource outturn. A profit on disposal will be treated as an appropriation in aid provided the amount is within the level so authorised by Parliament. *Government Accounting*, chapter 20 describes appropriations in aid and excess appropriations in aid;
- b. the carrying value of the asset, used to calculate profit or loss on disposal, will be treated as a non-operating appropriation in aid (12.1.12b);
- c. the profit or loss on disposal will not be treated as a non-cash item in the accruals adjustments in the reconciliation of net total resources to net cash requirement (12.1.12ci). This is because the profit or loss within total resource outturn and carrying value, together, will equate to the disposal proceeds;
- d. any bad debts or provision for bad debts will be included as a charge against resources.

The disposal of an asset by way of a barter deal will follow the above treatment.

12.1.11 Because excess Votes, in terms of both resources and cash, are calculated to the nearest penny, and there needs to be a separate reconciliation to the Consolidated Fund, the following amounts should be shown to the nearest penny in respect of both resources as cash:

- a. the amount of excess or surplus of outturn compared with Estimate;
- b. the net total outturn.

These should be shown as a footnote to Schedule 1. Other items shown to the nearest penny are described in [12.1.14](#) and [12.1.35](#).

12.1.12 The “Reconciliation of resources to net cash requirement” will include the following items:

- a. **Capital:** This will cover all voted capital expenditure treated as such in Estimates:
 - i. **acquisition of fixed assets**, comprising both tangible and intangible assets, and including purchased assets, those acquired under a finance lease or barter deal, and **PFI**-financed on-balance sheet assets
 - ii. **investments**, including the acquisition of shares and issue of new voted loans. Principal repayments of voted loans will either be netted off here or, more usually, included as non-operating appropriations in aid (12.1.12b); *Government Accounting*, chapter 11, provides further details.

These items will be recorded on an accruals basis, with any associated creditor changes included under “accruals adjustments”.

- b. **Non-operating appropriations in aid:** These are described in *Government Accounting*, chapter 20. They will include, in respect of disposals of fixed assets, the carrying value used to calculate profit or loss on disposal (12.1.10), and principal repayments of voted loans unless netted off in loans (12.1.12a.ii). *Government Accounting*, chapter 11 provides further details concerning the latter. These items will be expressed on an accruals basis, with any associated debtor changes included under “accruals adjustments”.
- c. **Accruals adjustments:**
- i. **non-cash items**, including items of expenditure which in the private sector would be cash transactions - for example cost of capital charges and the audit fee (7.1.3), and also depreciation and the setting up of, and subsequent changes to, provisions. Profit or loss on the disposal of a fixed asset will not be included here (12.1.10)
 - ii. **changes in working capital other than cash**, including movements in balances relating to debtors, creditors, and stocks
 - iii. **changes in creditors** (amounts falling due after more than one year)
 - iv. **use of provision**, relating to the utilisation only of a provision, its setting up, and subsequent changes being included in 12.1.12c.i.

Accruals adjustments included in the reconciliation will be restricted to those related to expenditure and income chargeable to a department's Estimates (i.e. chargeable to a request for resources, capital, or non-operating cost appropriations in aid).

They will include:

- o movements in debtors in respect of both operating and non-operating appropriations in aid (A in A), in respect of cash advances to finance expenditure chargeable to the department's Estimate in a future year, or in respect of prepayments for services associated with barter deals;
- o movements in creditors in respect of expenditure chargeable to Estimates (including in respect of finance leases, and PFI financed on balance sheet fixed assets);
- o movements in debtors or creditors in respect of VAT, PAYE, and National Insurance contributions in connection with expenditure chargeable to Estimates;
- o accruals adjustments in respect of items accounted for in a net subhead (see *Government Accounting*, chapters 11 and 12);
- o accruals adjustments in respect of expenditure and income financed by an advance from the Contingencies Fund in the year in which the expenditure is accounted for on Schedule 1 (see *Government Accounting*, chapter 11).

These accruals adjustments will exclude:

- o movements in debtors or deferred-income creditors in respect of income which is treated as excess appropriations in aid, and other Consolidated Fund extra receipts, whether or not they are treated as income in the operating cost statement;
- o accruals adjustments in respect of expenditure or income not chargeable to Estimates;
- o movements in debtor or creditor balances with the consolidated fund or other sources of finance (other than creditors in respect of finance leases and PFI-financed on balance sheet fixed assets) or any bank overdrafts.

- d. **Transfer of functions - difference between resource and cash transfers:** This item comprises the difference between the net resource transfer and the amount of cash transferred in connection with transfers of functions between departments ([8.8.5-6](#)).
- e. **Excess cash receipts surrenderable to the Consolidated Fund:** This item is applicable in the rare situation where a department is self-financing in terms of resources and would otherwise have a negative cash requirement. Because Parliament cannot vote a negative cash requirement, the excess cash amount should be surrendered to the Consolidated Fund and is shown in this item in the Estimate to bring the net cash requirement to a token £1,000. Although this is a balancing item in the Estimates, specific rules have been set by HM Treasury to determine the amount to be recognised as outturn. Detailed guidance is available from the Treasury on request.
- f. **Adjustment to reflect departmental underspending on cash:** This item is a means of avoiding unnecessary issues of cash from the Consolidated Fund in a Supplementary Estimate where the department already has sufficient cash to finance the additional resource consumption sought. It does not apply to the outturn, where this item will always be zero.

An explanation of items d and e above, where applied, should be disclosed in a note to the accounts to be agreed with HM Treasury.

12.1.13 The “Analysis of income payable to the Consolidated Fund” will be by:

- a. operating income and receipts - excess appropriations in aid;
- b. non-operating income and receipts - excess appropriations in aid;
- c. other operating income and receipts not classified as appropriations in aid;
- d. other non-operating income and receipts not classified as appropriations in aid;
- e. other amounts collectable on behalf of the Consolidated Fund;
- f. excess cash receipts surrenderable to the Consolidated Fund.

Details of amounts included under each of the above four headings, will be disclosed in a note to the accounts. A sub-total will be drawn under a and b.

12.1.14 Below the analysis ([12.1.13](#) above), a footnote should be added to disclose the actual sum received in cash to the nearest penny. In most cases the note should also describe this amount as “surrenderable to the Consolidated Fund”. However, if some or all of this cash is required temporarily to finance an Excess Vote pending approval of the Excess Vote by Parliament, a second memorandum line should be included to disclose, to the nearest penny, the amount to be applied to the Excess Vote and the resulting balance, again to the nearest penny, surrenderable to the Consolidated Fund.

12.1.15 Subject to the following, all line items shown in Schedule 1 of the illustrative resource accounts ([Annex 4](#)) should be shown even if they do not apply:

- a. “Reconciliation of resources to net cash requirement”: all the items and sub-items listed in [12.1.12](#), except for [12.1.12d](#), e and f, should be shown. Departments may sub-divide these item and sub-item further where this would improve transparency, as illustrated in Schedule 1 in [Annex 4](#).
- b. “Analysis of income payable to the Consolidated Fund”: all the items listed, except [12.1.13](#), should be shown.
- c. The excess vote footnote referred to in [12.1.14](#).

The excepted items should only be shown if applicable.

12.1.16 A detailed analysis of net resource outturn and variance against Estimate will be shown in a note to the accounts ([12.1.21a.i](#)), to which a cross-reference needs to be made in Schedule 1.

Annex 4 2002-03 Department Yellow: illustrative primary statements

1 The following illustrative resource accounts for "Department Yellow" (a fictitious departmental grouping) consist of:

- a. Schedule 1 - Summary of Resource Outturn;
- b. Schedule 2 - Operating Cost Statement, and Statement of Recognised Gains and Losses;
- c. Schedule 3 - Balance Sheet;
- d. Schedule 4 - Cash Flow Statement;
- e. Schedule 5 - Resources by Departmental Aim and Objectives;
- f. Notes to the accounts.

2 The resource accounts are for illustration only and should only be followed as the circumstances of an individual department dictate. The accounts do not show every line item which may be necessary in the circumstances of an individual department, but they do show the main headings and line items which most departments would be expected to include.

DEPARTMENT YELLOW

Schedule 1

	2002-03						2001-02	
	Estimate			Outturn			Net total outturn compared with Estimate saving/(excess)	Prior-year outturn
Summary of Resource Outturn 2002-03	Gross expenditure	A in A	NET TOTAL	Gross expenditure	A in A	NET TOTAL ¹		
	1	2	3	4	5	6	7	8
	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 1 (Notes 7 and 11)	57,310	14,322	42,988	56,595	14,624	41,971	1,017	29,356
Request for resources 2 (Notes 7 and 11)	83,095	43,168	39,927	80,423	40,246	40,177	(250)	38,466
Request for resources 3 (Notes 7 and 11)	21,125	-	21,125	19,917	-	19,917	1,208	23,890
Request for resources 4 (Notes 7 and 11)	25,200	25,200	-	24,570	24,570	-	-	-
Total resources	186,730	82,690	104,040	181,505	79,440	102,065	1,975	91,712
Non-operating cost A in A (Note 7)	-	-	800	-	-	694	106	75
Net cash requirement	-	-	104,836	-	-	96,769	8,067	86,432
<i>Reconciliation of resources to cash requirement</i>	Note		£000			£000		£000

Net total resources		104,040	102,065	1,975
Capital (Note a):				
Acquisition of fixed assets:	12 and 13			
Cash purchase		2,600	1,803	797
Finance lease		-	-	-
On-balance sheet PFI		-	-	-
Off-balance sheet PFI residual interest		820	820	-
Investments (Note a)	15			
Non-operating A in A (Note a)				
Book value of fixed asset disposals		(800)	(694) (106)	
Accruals adjustments (Note a):				
Non-cash items (Note a)	5	(11,104)	(13,077)	1,973
Changes in working capital other than cash (Note a)	16	3,200	(228)	3,428
Changes in creditors falling due after more than one year (Note a)	20	338	338	-
Use of provision (Note a)	21	3,642	3,642	-
Transfer of functions - difference between resource and cash transfers (Note b)		-	2,100	(2,100)
Excess cash receipts surrenderable to the Consolidated Fund (Note b)		-	-	-
Adjustment to reflect departmental under-spending on cash (Note b)		-	-	-
Net cash requirement (Schedule 4) (Note b)		102,736	96,769	5,967

Explanation of the variation between Estimate and outturn (net total resources):

- (i)
- (ii)

Explanation of the variation between Estimate net cash and requirement and outturn (net cash requirement):

- (i)
- (ii)

Prior-period adjustments

- (i)
- (ii)

Appendix P. Swedish Standards Regarding Actual to Budget Reporting

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

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

Local Government Accounting Act

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

State Budget Act

Follow-up, forecasts and outcome

...

38 §

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

39 §

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

40 §

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

Ordinance concerning the Annual Reports and Budget Documentation

Section 2. General provisions relating to the annual report

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

Art 4. The annual report shall consist of

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

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

Section 6 Appropriation report and cash flow statement

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

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

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

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

Appendix Q. Budget Preparation in Denmark

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

1. The Budget cycle

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

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

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

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

The overall schedule are illustrated in the following table:

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

	Proposal
Mid December	Third and final Parliamentary discussion on the Budget Proposal

2. Institutions in the Budget Process

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

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

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

Parliament

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

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

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

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

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

This procedure makes the Danish appropriation system very flexible because most applications to the Finance Committee are passed within 1-2 weeks. As a special Danish practice all

applications passed by the Finance Committee during the fiscal year are combined in one supplementary appropriation-act by the end of the fiscal year.

Government

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

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

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

Ministry of Finance

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

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

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

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

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

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

Spending ministries

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

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

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

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

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

Spending agencies

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

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

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

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

3. Establishing Budget preconditions

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

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

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

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

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

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

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

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

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

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

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

4. Setting up overall Budget targets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ceilings for the different spending ministries.

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

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

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

Appendix R. Information about the French Budget

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

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

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

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

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

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

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

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

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

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

Appendix S: Government Budget Characteristics

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

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

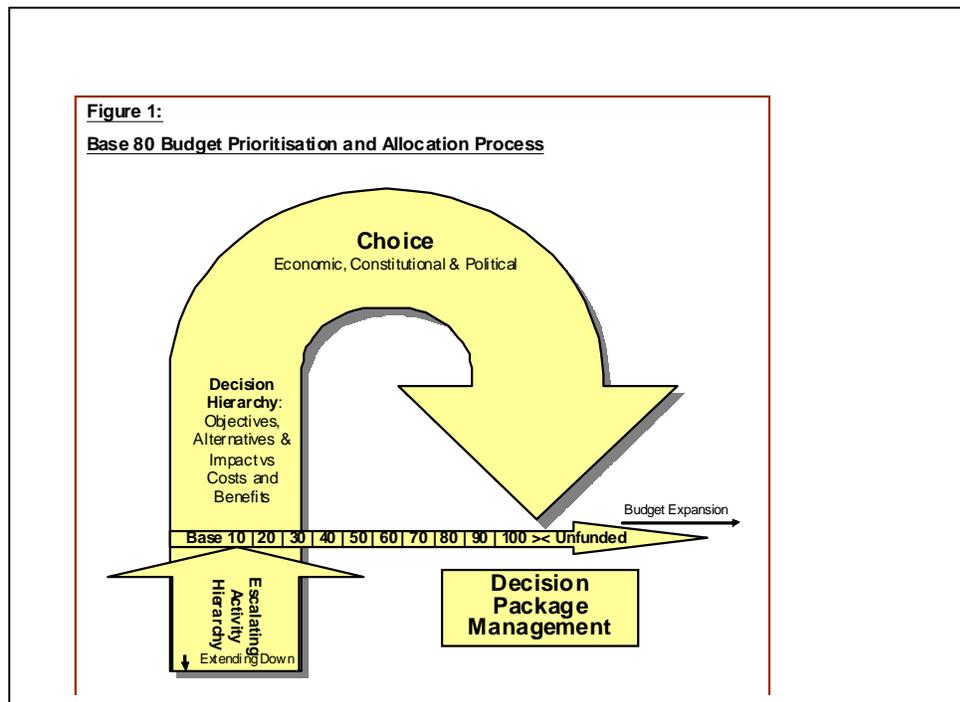
Characteristic	Consequent features	Relevance for budget standards
4 Budget as driver of the financial management process	<p>4.1 Because of the legal, political and multi dimensional nature of the government budget, it drives the whole financial management process. This contrasts with commercial budgets, which are little more than forecasts, and where reported results tend to be the driver.</p> <p>4.2 This the structure of the accounting system, and especially the chart of accounts, is driven by the budget classification.</p> <p>4.3 Budgets drive the business activities of governments - the term "budget execution" describes the process. Hence the difficulty of achieving a demand driven customer focus in government activities.</p>	<p>This has a number of implications:</p> <ul style="list-style-type: none"> • Financial reports must compare incurred to budgeted expenditure • Need to be able to track budgets as they change, e.g. through virements or supplementary budgets. What should be comparator in financial reports, original or modified (flexed) budget? • Chart of accounts must be based on budget classification
5 Unrequited revenues and expenditures	<p>5.1 There is no automatic link between revenues raised and funds expended - these are separate policy decisions, i.e. they are unrequited.</p> <p>5.2 Hence the budget/accounting model is not an input-output model in the way it is for commercial entities - this is a primary reason why financial management has not historically had the significance in government that it has in commerce.</p> <p>5.3 The public sector has sought to address this issue through the development of non-financial performance measures.</p>	<p>Budgets need to clearly identify separate revenue raising and expenditure decisions - these should not be "netted off" because this obscures the separate decisions involved</p> <p>There is an issue of the extent to which performance measures should be linked to, or incorporated in, the budget process and reports</p>
6 Budget time periods	<p>6.1 For most countries the legal budget process is linked to the government fiscal year</p> <p>6.2 The recent recognition to move to a medium term budget framework is typically not recognised in law. The issue arises of the legal status of medium term budget reports.</p>	<p>Reporting standards need to recognise possible alternative scenarios for relationships between, and legal status of, annual and medium term budget documents.</p> <p>Might recommend alternative approaches or just allow alternatives</p>

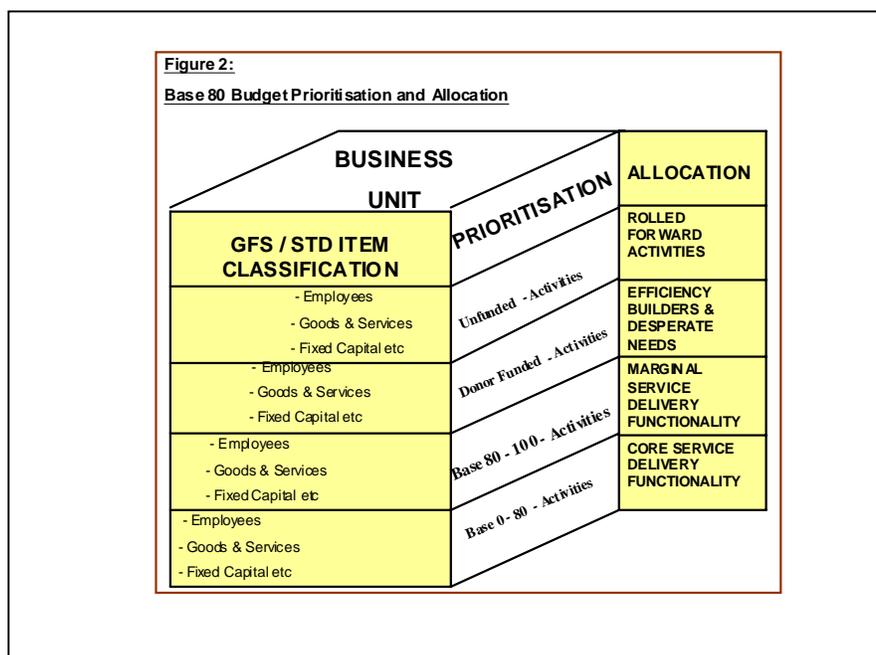
Characteristic	Consequent features	Relevance for budget standards
<p>7 Cash based budget most easily linked to fiscal impact and budget execution process</p>	<p>7.1 Cash budgets directly measure the fiscal impact of the budget, and can be directly translated into cash ceilings for budget execution and expenditure management</p> <p>7.2 This in part explains why cash budgeting has persisted despite the clear inadequacies of cash accounting as a financial management tool, and even in some cases budgets continue to be cash based when accounting has moved to an accrual basis</p> <p>7.3 Hence an important need for standard setting is to address how accrual budgeting can meet the requirement for cash based information</p> <p>7.4 Cash based budgets make meaningful balance sheets impossible, but nevertheless much of the balance sheet information on assets and liabilities is essential for effective financial management. How can this discrepancy be addressed?</p>	<p>This is a very fundamental issue, which is at the heart of much of the debate about the use of cash accounting for government. Indeed, it is difficult to see how for any country this can be adequately addressed without starting from the budget perspective.</p> <p>For budget standards there are a number of issues:</p> <ul style="list-style-type: none"> • Will the standards accept a different basis (cash or accrual) for budget from accounting? • If accrual based, what additional reports are required to (i) measure fiscal impact, and (ii) translate budgets into expenditure ceilings? • If cash based, what budget reports are required on assets and liabilities (and contingent liabilities)
<p>8 Multiple stakeholders</p>	<p>8.1 The concept of stakeholders for government financial information can be seen as a multi-dimensional matrix.</p> <p>8.2 Levels of stakeholders can be seen in terms of proximity to information - the executive, legislature, government officials, citizens with direct fiduciary relationships with government (taxpayers, suppliers), voters, all citizens of the country</p> <p>8.3 External stakeholders, e.g. international organisations (European Commission for EU countries, IMF, etc)</p> <p>8.4 Specific interest groups, e.g. poor people, women, disabled</p>	<p>The concept of transparency means the legitimate information needs of all stakeholders needs to be recognised and information provided in a manner that facilitates their ability to interpret and analyse financial transactions</p>

Appendix T. Case Study on South Africa

In 2001, the Department of Justice and Constitutional Development in South Africa (DoJ&CD) was rated the worst financially managed department in the country and was responsible for more than half of the unauthorized expenditure of the entire government, within a scenario where it consistently under spent the available budget, did not meet service delivery expectations and in certain regions last balanced its books in the late 1950's. The latter problem had thus been in existence since the Queen was the head of state and the problem had not been resolved by a number of successive Governments in more than forty years. The problems were addressed on a number of fronts, one of which, budget reporting, jolted mindsets at the outset, but now has widespread acceptance.

A budget framework, called the "Base 80", was created and implemented. It is, in essence, a variant of a Zero Based Budget (ZBB). A number of principles are embedded in the process. Firstly, it empowers choice by presenting functional decision packages and the suggested prioritization thereof, to the responsible parliamentary Portfolio Committee. The Portfolio Committee is thus offered the opportunity of debate with National Treasury the money supply realities. The process is depicted in figures 1 and 2 below.





Due to a lack of time and skills, ZBB was not implemented immediately. Otherwise, the needs of 747 court locations, 518 cash halls etc that were financially accounted for, mostly in a manual process on library cards would need to be unpacked! In 2002, a ZBB was promised in 2004 and for each successively elected government at the start of their five year term of office. The functionality was divided into core and supporting business units and presented to Parliament and to National Treasury decision packages representing the marginal 20% of funding provisionally available within the MTEF. In addition, cost estimates for unfunded functionality was presented. Against a possible budget of some 4 billion Rand (excluding the management of trust funds that exceed this figure) unfunded needs approached 5 billion Rand. The budget proposal at first shocked most, but once explained, was enthusiastically received by the Justice Cluster Portfolio Committee and after substantial press coverage and debate by the committee, was unanimously proposed for adoption, by all political parties, in the National Assembly of Parliament. Memorable debates followed the realization that much of the legislation passed by Parliament had never been implemented. Legislation such as the "Equality Act" and "Maintenance Investigation Act" (Alimony) had never been implemented as no funding was available. This surprised many as "poverty alleviation" was promoted as a national priority. An interesting debate on prioritization surrounding the appointment of equality officers versus the implementation of the "Child Justice Bill" saw agreement that ensuring the future of our children was to be a priority funded initiative and that dealing with the legacy of apartheid could be rolled forward for future implementation. Meeting the needs of divorced women was to be met by the allocation of a policy reserve fund etc. For the first time the budget vote debate showed what was and what was not to be expected. All this was the result of a somewhat different Budget Report that expanded the information provided into the realm of non-financial information, promises, unfunded needs etc.

In a "Footprint" project, the core service delivery functionality was determined and costed at current costs. Productivity matters such as promoting efficiency, effectiveness and economy are dealt with as separate matters. In this way the 0-80 baseline of recurring expenditure is separated from marginal 80-100 matters that mostly tend to be non-recurring projects covering desperate needs, productivity improvements and functionality growth. The latter needs to be

tracked to monitor the release of baseline funds to unfunded initiatives. Unfunded initiatives communicate needs and align expectations with reality. The effect of this framework was that in the last budget allocations we received a massive budget increment with allocations ring fenced for specific decision packages in line with the prioritization directives from Parliament. Previously budget allocations were negotiated on an incremental basis.

The Base 80 approach moots a MTMF (Medium Term Management Framework) that clearly presents the “reverse promise”. The reverse promise is, in essence, a service level agreement that sets out what will be done and most importantly it also sets out what will not be done. In reporting on the budget measurable objectives are offered and measured in subsequent periods for reporting to stakeholders.

All Departments want more rather than less. This is a result of the emphasis placed on the approach which creates winners out of those that get the most, rather than those that deliver the most. The monitoring of measurable objectives ensures that surplus funding is not requested and in addition it ensures the principle of budgeting for success: The making of hard choices to avoid the allocation of diluted budgets, across a broad front, thus ensuring that failure is not a self fulfilling prophecy.

A vision and strategy are needed to align stakeholders and service providers. The creation of a public sector variant of the Kaplan and Norton Balanced Scorecard was found to be useful as a benchmark and as a mechanism to generate and report upon productivity versus functionality growth. The project management approach called for the determination of a project reporting framework designed to build intellectual capacity rather than to put “glass in windows”. This enhanced credibility which in turn secured the funding, against measurable objectives, without which, it would all not have been possible in the first place. The following tables illustrate the above.

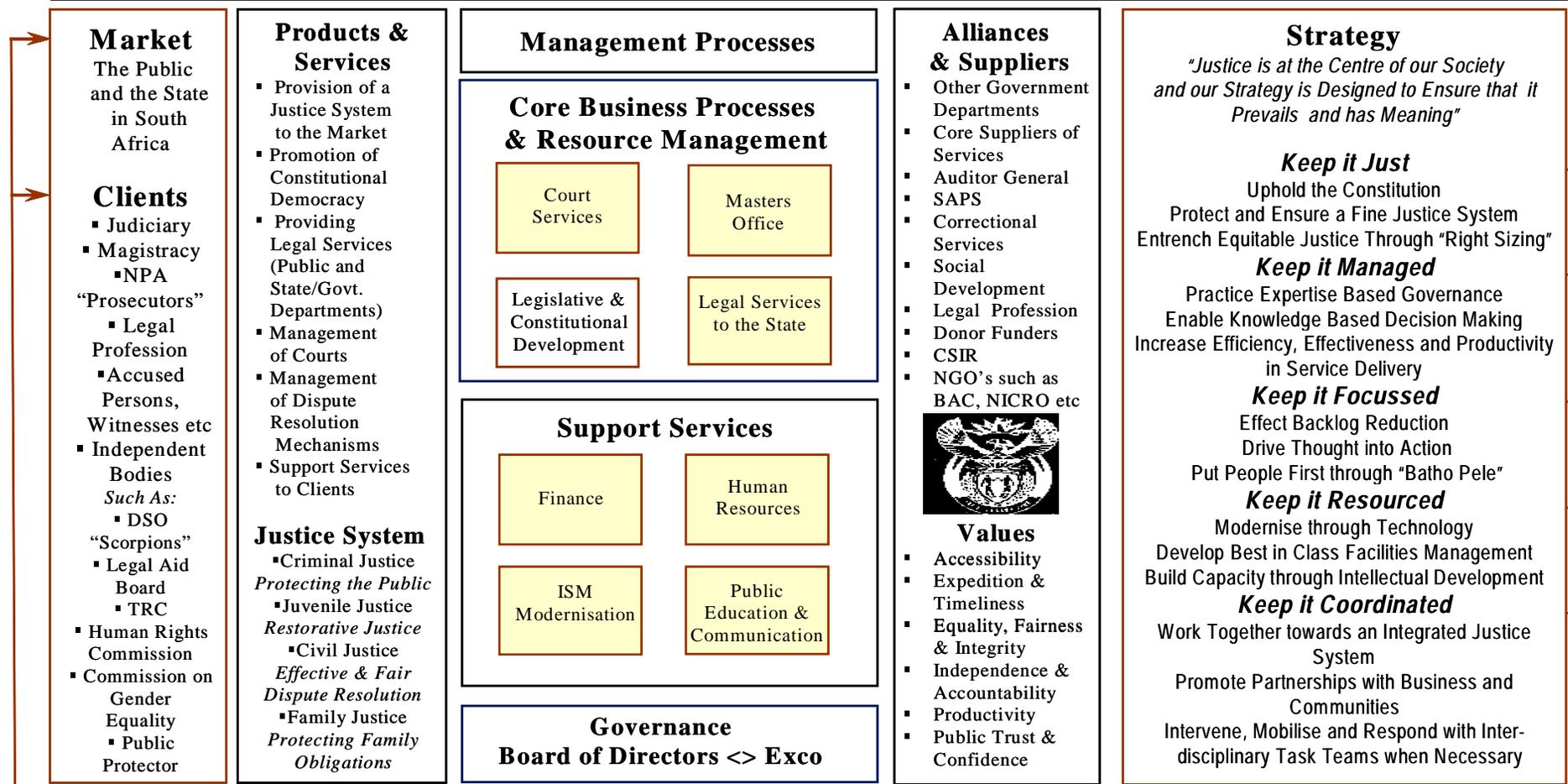
Department of Justice and Constitutional Development – Business Model

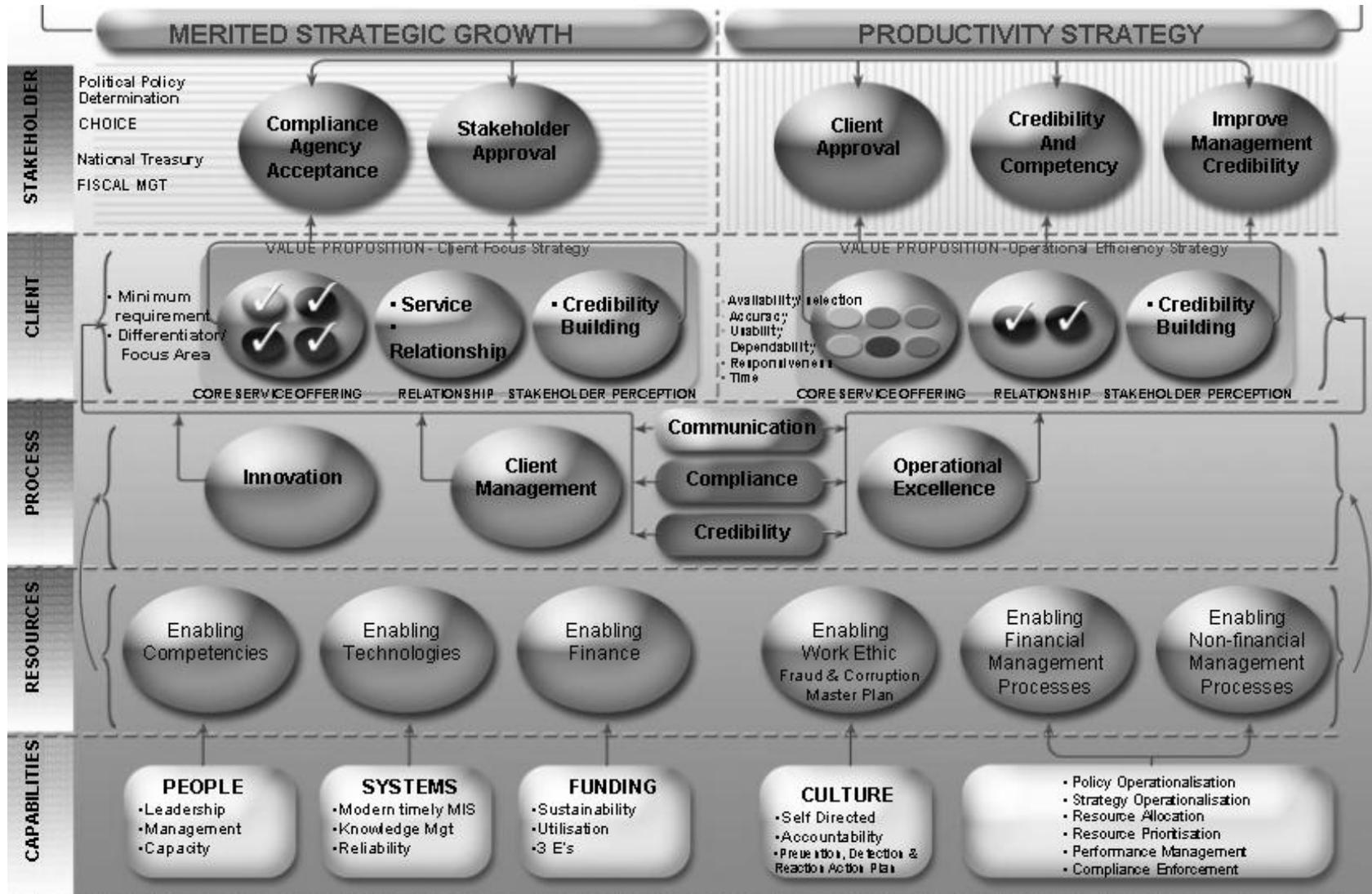
Our Vision: A Safer and More Secure South Africa

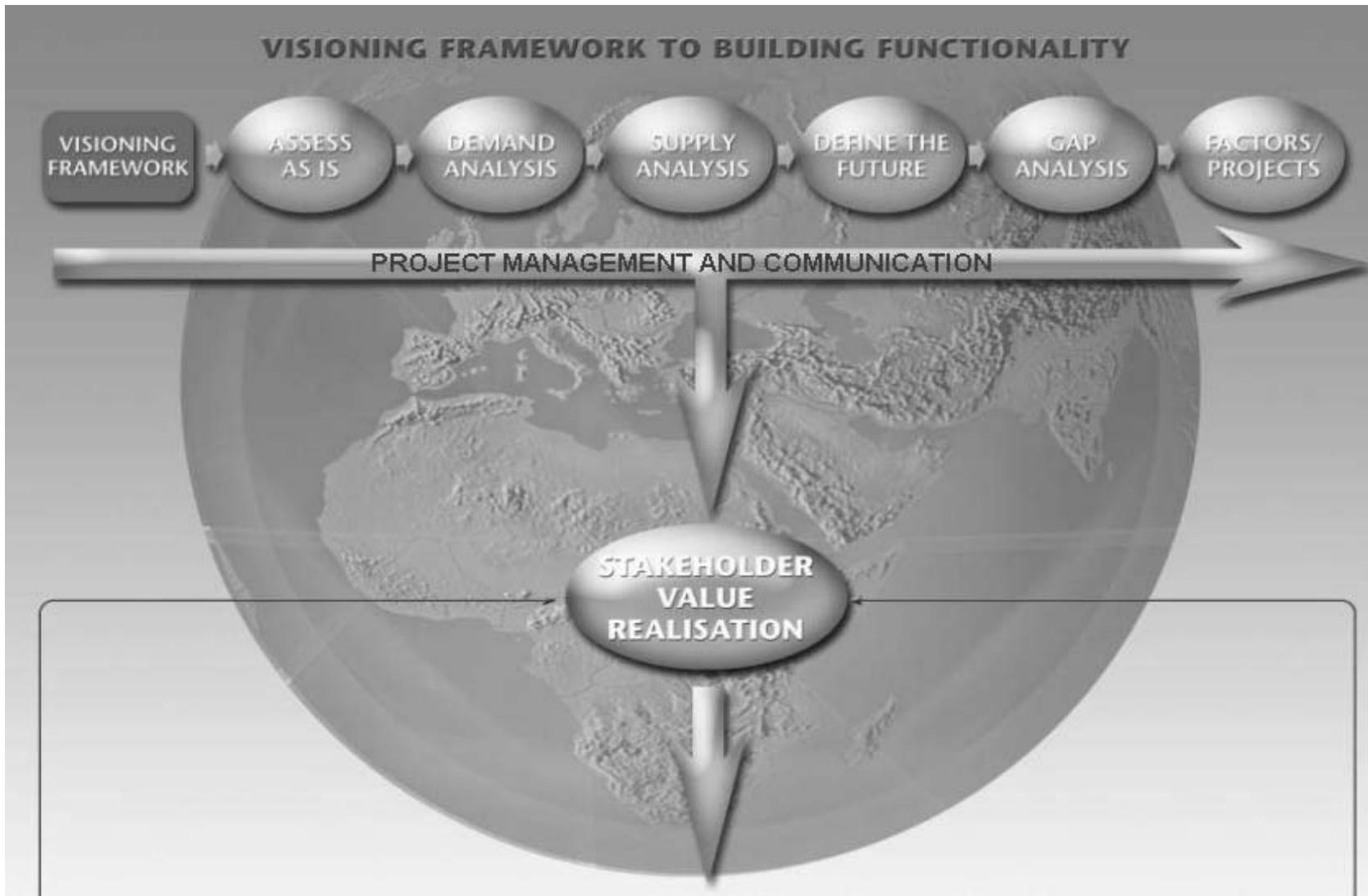
Our Mission: To Administer Justice

To Uphold and Protect the Constitution and the Rule of the law. We are Accountable to the Public and the State, in Rendering Accessible, Fair, Speedy and a Cost Effective Administration of Justice, in the Interests of a Safer and More Secure South Africa. We will achieve this by:
 Promoting Constitutional Democracy - Providing Appropriate Legal Services - The Sound Management of Courts - Alternative Dispute Resolution Mechanisms

Political Influence Social Needs Funding (State & Donor)	Parliament Staff Retention	External Business Drivers Public/ Investor Confidence Crime	Technology HIV/Aids	PFMA, Batho Pele, and PSA Resource Constraints Legislation etc.
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Project Management Framework	Transformation		Business Model		
	PLANNING THOUGHT TO ACTION	BUILDING BUY-IN	CONCEPT FORMULATION	PROJECT DEFINITION	PROJECT IMPLEMENTATION
DOCUMENTATION	▪Scope document	▪Concept document	▪Broad action plan	▪Detailed action plan	
PROJECT TOOLS	▪Reports & news letter ▪Mind maps ▪Project Office Notice Board	▪Reports & news letter ▪Mind maps ▪Notice Boards	▪Detailed reports ▪Multiple news letters ▪Mind maps	•MS Project etc •Statistical analysis and progress monitoring, reports- news letters	
MINDSET ACTIVITIES ETC. Note This is not meant to be a complete guide to the Performance Enhancement Programme. It is a quick reference chart to "PEP" Reports The Speedo, The Rev Counter, The Fuel Gauge & Monthly PEP Info Pack	▪Visiting stakeholders ▪Building Trust, Ownership & Buy-in ▪Information search ▪Gathering facts & statistics ▪Starting the "War Room" ▪Meetings & workshops ▪Filing & knowledge mgt ▪Determining current situation, what, for whom, where, when, how much, how often, why, needs, customers, markets etc ▪Policies & procedures ▪Painting the detail of the unseen future ▪Evaluating alternatives & communicating	▪Consulting -Stakeholders & helping -Experts & learning •Stimulating creativity •Brain storming, strategic positioning & tactics •Expectation management •Technology evaluation •Sharing information •Follow-up meetings, workshops, building morale, meaning & purpose •Costs, benefits & SWOT •Climbing the right wall, at the right place? •Sharing alternatives & communicating	▪Funding estimates ▪Measurable deliverables ▪Detailed specifications ▪Resource acquisition ▪Technology & know how ▪Competency audit – capacity & capability ▪Define "The Bus & Gauges" ▪Customer analysis ▪Branding & marketing ▪Resource prioritisation & allocation, skills gaps ▪Cash flow & investment ▪Timeframes: what - when ▪Change management ▪Defining alternatives & communicating	•Establish alliances, partners etc •Empower decision making •Mgt training, team building, support, listening & coaching •Tenders, Budgets-> "Base 80" •Accountability-> defined roles •Attention to detail & improve •Timeous delivery-> milestones •Marketing deliverables •KPI & CSF monitoring •Change management •Decision making & instructions •Recognition to achievers •Choices must be predictable •People focussed, learning, communicating, working together & meeting promises •Communicating performance	
FOCUS	▪Goal identification ▪Filtering ▪Researching Goals	▪Goal testing ▪Generating ▪Immature goals	▪Goal setting ▪Authorisation ▪Maturing goals	▪Obstacle management ▪Priority setting ▪Achieving goals & compliance	
DRIVING FORCE	•Facilitation •Enthusiasm	▪Co-ordination ▪Motivation	•Team Building •Energising	•Driving & encouraging •Project management	
DRIVERS	▪User group & volunteers	▪Task teams	•Project teams	•Business Units & Management	
PRIMARY FOCUS	▪Creating a vision ▪Gathering facts & ideas ▪Innovation workshops	▪Building strategy ▪Cultivating ideas ▪Innovation feedback	•Setting objectives •Formalising ideas •Setting up structures	•Directing, controlling etc •Implementing and tracking budget & strategy progress	

PEP – Performance Enhancement Programme**Overview - Project Status May 02**

DRIVING THOUGHT INTO ACTION	BUILDING BUY-IN	CONCEPT FORMULATION	PROJECT DEFINITION	PROJECT IMPLEMENTATION
Transformation Status	Scope Document	Concept Document	Broad Action Plan	Detailed Action Plan
1. Corporatisation	←			→
2. Monthly Accounts	←			→
3. Change Management	←		→	
4. Base 80	←			→
5. As Is Analysis	←			→
6. Filling Vacant Posts	←			→
7. Monthly Reporting	←			→
8. Compliance	←			→
9. Donor Fund Admin	←			→
10. Capacity Building	←			→
11. Budget Coaches	←			→
Phase I				
12. Justice Footprint	←			→
13. Governor Brown	←	→		
14. Rolling Stone Phase I	←			→
15. Modernisation	←			→
16. Forensic Investigations	←			→
17. PEP Recognition Awards	←			→
18. Audit Facilitation	←	→		→
19. Head Office Re-engineering	←		→	
20. Newsletters	←		→	
21. Regional Re-engineering	←		→	
22. Performance Audit	←			→
23. Zero Based Budget				
24. Budget Coaches				
Phase II				
25. Rolling Stone Phase II				
26. Trust a/c Diversion				
27. Payroll Re-engineering				
28. Procurement	←		→	
FOCUS	Goal identification Filtering Researching Goals	Goal testing Generating Immature goals	Goal setting Authorisation Maturing goals	Obstacle mgt Priority setting Achieving goals
DRIVING FORCE	Facilitation Enthusiasm	Co-ordination Motivation	Team Building Energising	Driving Project management

DRIVERS	User Group	Task team	Project team	Departments
PRIMARY FOCUS	Creating a vision Gathering facts/ideas Innovation workshops	Building strategy Cultivating ideas Innovation feedback	Setting objectives Formalising ideas Setting up structures	Directing, controlling etc Implementing and tracking budget & strategy progress

QUICK REFERENCE GUIDE: SEE COMMENTRY BELOW

PEP – Performance Enhancement Programme**Overview - Project Status April**

03

DRIVING THOUGHT INTO ACTION	BUILDING BUY-IN	CONCEPT FORMULATION	PROJECT DEFINITION	PROJECT IMPLEMENTATION
Transformation Status	Scope Document	Concept Document	Broad Action Plan	Detailed Action Plan
29. Corporatisation	←			→
30. Monthly Accounts	←			→
31. Change Management	←			→
32. Base 80	←			→
33. As Is Analysis	←			→
34. Filling Vacant Posts	←			→
35. Monthly Reporting	←			→
36. Compliance	←			→
37. Donor Fund Admin	←			→
38. Capacity Building	←			→
39. Budget Coaches	←			→
Phase I	←			→
40. Justice Footprint	←			→
41. Governor Brown	←	→		
42. Rolling Stone Phase I	←			→
43. Modernisation	←			→
44. Forensic Investigations	←			→
45. PEP Recognition Awards	←			→
46. Audit Facilitation	←	→		→
47. Head Office Re-engineering	←			→
48. Newsletters	←			→
49. Regional Re-engineering	←			→
50. Performance Audit	←			→
51. Zero Based Budget	←			→
52. Budget Coaches	←			→
Phase II	←			→
53. Rolling Stone Phase II	←			→
54. Trust a/c Diversion	←			→
55. Payroll Re-engineering	←			→
56. Procurement	←			→
FOCUS	Goal identification Filtering Researching Goals	Goal testing Generating Immature goals	Goal setting Authorisation Maturing goals	Obstacle mgt Priority setting Achieving goals
DRIVING FORCE	Facilitation Enthusiasm	Co-ordination Motivation	Team Building Energising	Driving Project management

DRIVERS	User Group	Task team	Project team	Departments
PRIMARY FOCUS	Creating a vision Gathering facts/ideas Innovation workshops	Building strategy Cultivating ideas Innovation feedback	Setting objectives Formalising ideas Setting up structures	Directing, controlling etc Implementing and tracking budget & strategy progress

QUICK REFERENCE GUIDE: SEE COMMENTARY BELOW

PEP – Performance Enhancement Programme		 Overview - Project Status Aug 03		
DRIVING THOUGHT INTO ACTION	BUILDING BUY-IN	CONCEPT FORMULATION	PROJECT DEFINITION	PROJECT IMPLEMENTATION
Transformation Status	Scope Document	Concept Document	Broad Action Plan	Detailed Action Plan
57. Change Management	←			→
58. To Be / Process Mapping	←			→
59. Filling Vacant Posts	←			→
60. Capacity Building	←			→
61. Justice Footprint	←			→
62. Compliance /Forensic Investigations	←			→
63. Asset Management	←			→
64. Regional Re-engineering	←			→
65. Mgt of Monies in Trust	←		→	→
66. Payroll Re-engineering	←		→	
67. Procurement	←			
FOCUS	Goal identification Filtering Researching Goals	Goal testing Generating Immature goals	Goal setting Authorisation Maturing goals	Obstacle mgt Priority setting Achieving goals
DRIVING FORCE	Facilitation Enthusiasm	Co-ordination Motivation	Team Building Energising	Driving Project management
DRIVERS	User Group	Task team	Project team	Departments
PRIMARY FOCUS	Creating a vision Gathering facts/ideas Innovation workshops	Building strategy Cultivating ideas Innovation feedback	Setting objectives Formalising ideas Setting up structures	Directing, controlling etc Implementing and tracking budget & strategy progress

QUICK REFERENCE GUIDE: SEE COMMENTRY BELOW

Budget reports are offered on a monthly basis. The above have been selected to show non financial project driven progress over time. This snapshot approach has been well received and has been preferred to the traditional written reports that take longer to analyze.

Financial actual to budget reports have not been presented above as they are not unique. At the outset the entire process was managed with Microsoft Office programs and more recently the process has migrated to a dedicated Oracle database and report writer with multi-user access to enable “what if” etc scenario planning etc

The above progress tables relate to the financial management sub program within the DoJ&CD but may equally be escalated to a national level reflecting functional productivity improvement, growth, baseline core service delivery etc that provide non-financial information to meet the needs of stakeholders on the question of value for money and progress against preset measurable objectives.

**IFAC-PSC
Steering Committee on Budget Reporting –July 03**

Name	Country	Position
Ron Points (Chair)	USA	Manager, Financial Management for East Asia and Pacific Region, World Bank
Mike Parry	UK- African focus	Chair of IMG (International Management Consultant Group).
Claes-Goran Gustavsson	Sweden	Senior Expert - Swedish National Finance Management Authority
Alan MacKenzie	South Africa	CFO - Department of Justice
Sietso van der Schaaf	Netherlands	Partner - Deloitte Touche
Sophie Mahieux	France	Former head of the Budget Directorate. Currently senior position in public expenditure execution.
Philippe Dujardin	Belgium	Director, Ministry of Finance - Budget and Management Control
Christian Iver Svane	Denmark	Ministry of Finance - Special Adviser, Central Government Accounting and Budget
William L. Dorotinsky	World Bank	Finance Specialist, World Bank
Ms. Torun Reite,	Norway	Deputy Director General, Norwegian Ministry of Finance
Lou Hong	China	Director, Research and Regulation Division, Treasury Department, Ministry of Finance, Peoples Republic of China
Ludo Goubert (NATO)	FEE	Head of Internal Audit (previously Head of Budgets and Finance) NATO
Steve Leith	New Zealand	Principal Advisor – Treasury, Budget and Macroeconomic branch
D Swarup	India	Additional secretary (Budget) Ministry of Finance
Awaiting advice on Nominee	Malaysia	
Andy Wynne	ACCA	Head of Public Sector Technical Issues
Associate Members		
David Shand	World Bank	Senior Public Sector Management Specialist
Michael Ruffner	OECD	Budgeting, Management and Accountability Division