



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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

DATE: OCTOBER 1, 2006
MEMO TO: MEMBERS OF THE IPSASB
FROM: PAUL SUTCLIFFE
SUBJECT: BUDGET REPORTING

ACTION REQUIRED

The IPSASB is requested to:

- **Review** the updated draft accrual IPSAS, “Presentation of Budget Information in Financial Statements” with a view to its approval for issue or further development; and
- **Review** the first draft of an addition to the Cash Basis IPSAS on budget reporting, with a view to its approval for issue or further development.

AGENDA MATERIAL:

	Pages
12.2 History Sheet	12.7 – 12.8
12.3 First draft of marked-up proposed accrual IPSAS “Presentation of Budget Information in Financial Statements”	12.9 – 12.43
12.4 First draft of addition to Cash Basis IPSAS to deal with budget reporting	2 nd distribution

BACKGROUND

ED 27, “Presentation of Budget Information in Financial Statements” was issued by the IPSASB in October 2005, with comments requested by February 10, 2006.

IPSASB meeting March 2006

All 31 responses to ED 27 received during January and February 2006 were forwarded to members. A staff summary of these responses was prepared and forwarded to members for consideration at the IPSASB meeting in March 2006. That summary focused on the specific matters for comment identified in ED 27 and other major issues identified by respondents. The IPSASB reviewed the responses to ED 27 and the staff summary thereof, and provided directions for the preparation of a first draft IPSAS for consideration at the July 2006 meeting.

IPSASB meeting July 2006

Five additional submissions were received subsequent to March 1, 2006, were included in agenda materials for the July 2006 meeting, and were reviewed by the IPSASB. All submissions have been made publicly available on the IPSASB website.

A table of drafting and other specific comments made by respondents to ED 27 was prepared by staff, included in agenda materials for the July 2006 meeting and considered by the IPSASB. This table identified additional drafting issues and general issues about such matters as the approach, authority and scope of ED 27 and/or of the IPSASs themselves.

At its July 2006 meeting, the IPSASB commenced its consideration of a first draft of an IPSAS based on ED 27. The draft IPSAS included the text of ED 27 marked-up by staff to respond to matters identified by respondents to the ED.

The IPSASB did not complete its review of the draft IPSAS, but provided staff with directions for amendments to the early sections of the draft IPSAS - up to paragraph 30 of that draft. An extract from the draft minutes which identifies the major revisions agreed at the July 2006 meeting is included as an attachment to this memorandum.

Agenda materials for November 2006 meeting

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

A revised draft accrual IPSAS is included at agenda item 12.3. Staff are currently developing the proposed amendment to the Cash Basis IPSAS for inclusion in the second distribution of agenda materials for this meeting.

The draft accrual basis IPSAS at 12.3 has been marked-up for the amendments agreed at the last meeting, – these relate to paragraphs 1 to 32 and consequential changes to the Introduction, Basis for Conclusions, and Implementation Guidance. The Basis for Conclusion has also been restructured to better reflect the flow of the draft IPSAS.

The mark-ups from paragraph 33 to the end of the document are those made by staff in response to comments from the exposure process. They were included in the draft presented to the July IPSASB meeting and have not been updated, except for changes necessary as a consequence of decisions made at the July 2006 meeting. These paragraphs have not yet been subject to a detailed review by the IPSASB.

Proposed Meeting Process and Objective

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

Staff are seeking approval of the accrual IPSAS and the draft amendments to the cash basis IPSAS, subject to resolution of the outstanding issues as noted below, and any additional revisions or directions emerging from discussion at this meeting.

ISSUES

The issues identified below include those raised by Consultative Group members and others participating in the “round table” discussion at the July 2006 IPSASB meeting.

Whether explanation of the difference between actual and budget amounts should be included in the financial statements or in a report issued in conjunction with, or before, the financial statements.

At the last meeting, the IPSASB agreed that the draft IPSAS would be revised to reflect that the financial statements will include explanation of the reasons for material differences between budget and actual amounts unless: (a) such explanation is included in other public documents issued in conjunction with the financial statements; and (b) the notes include a cross reference to such documents. (The previous draft IPSAS provided that such explanation may also be included in reports issued before or at the same time as the financial statements.)

The IPSASB also agreed to further consider at this meeting whether both the “amounts” and the “explanation” of differences should be included in the financial statements – at issue is whether the explanations should be excluded from the financial statements and only included in reports issued in conjunction with those statements. Similarly, the IPSASB agreed to confirm its decision that explanations of changes between the original and final budget could be included in notes to the financial statements or in reports issued before, at the same time as, or in conjunction with the financial statements, provided a cross reference to the report was included in the notes to the financial statements.

Staff View

Staff is of the view that the decisions made by the IPSASB at the last meeting should be confirmed.

They are consistent with the view that:

- (a) explanation of differences between budget and actual amounts are a key component of accountability in the public sector and are appropriately located with the amounts from which the explanations flow, or at least can easily be referenced to those amounts. This also enables preparers to determine the location of such disclosures within reporting arrangements in place in their own jurisdiction; and
- (b) explanation of differences between original and final budget flow from progressive reviews of budget policy, process or execution and may well (and appropriately) be included in budget monitoring reports issued before or at the same time as the financial statements. A cross reference to those reports in the financial statements will then enable users of the financial statements to be informed about the reasons for the changes in approved budget amounts.

In this context, it is worth noting that at the July 2006 meeting during the round table discussion, some Consultative Group members noted that they would be more comfortable if explanation of differences between actual and budget were included in an Operations Review or Management Discussion and Analysis (or similar) report issued with the financial statements. They encouraged the IPSASB to action a project directed at including such reports within the suite of materials that comprise general purpose financial reports and to clarify the audit status of such reports. That of course is a longer term matter, subject to IPSASB decisions on its work program.

Requirements relating to multi year budgets.

At the last meeting during the round table discussion, it was observed that interpretation of the requirements relating to multi year budgets may cause problems for some adopters (particularly UN agencies), and could usefully be clarified. This was also raised during the IPSASB discussion of the draft IPSAS itself.

Staff are following up to draw out the specific matters of concern and to identify areas for clarification. This is still in process and a report, together with any recommendations for amendment, will be included in the second distribution of agenda materials.

Whether guidance should be included to clarify that The Statement of Comparison of Budget and Actual Amounts may differ from the other financial statements when the budget is not on a comparable basis.

This matter was also raised during the round table discussion. Some Consultative Group members noted that presentation/location of actual to budget comparisons as a distinct component within the notes to the financial statements may overcome concerns about mixed messages arising from different basis of accounting in the financial statements.

During discussion of the draft IPSAS, members noted that they would consider whether guidance should be included in the IPSAS to clarify that the Statement of Comparison of Budget and Actual Amounts may differ from the rest of the statements when the budget is not on a comparable basis. Staff have included commentary on this matter in the draft IPSAS and in the implementation guidance.

Separate cash and accrual IPSASs - Timing of issue of the accrual basis IPSAS on budget reporting and amendment to the Cash Basis IPSAS

Appendix A in the draft accrual IPSAS (item 12.3) identifies consequential amendments to IPSAS 1 which will be necessary if the proposed accrual IPSAS X “Presentation of Budget Information in Financial Statements” is approved.

The IPSASB has already approved revisions to IPSAS 1 to reflect proposed improvements exposed in ED 26 “Improvements to International Public Sector Accounting Standards”. The revised IPSAS 1 will be included in the 2007 version of the IPSAS Handbook and published on IFAC website. Staff are of the view that if the IPSASB approves the IPSAS “Presentation of Budget Information in Financial Statements” at this (November 2006) meeting, the revised IPSAS 1 to be included in the 2007 handbook could usefully be updated for the consequential amendments.

It is intended that the Cash Basis IPSAS be amended in 2007 for issues identified by constituents in the process of its implementation, and for requirements and encouragements relating to the disclosure of information by recipients of external assistance (following review of comments on the revised exposure draft on that topic). Staff are of the view that approved amendments to the Cash Basis IPSAS dealing with presentation of budget information could also be processed at that time.

ATTACHMENT:

EXTRACT FROM ATTACHMENT TO MINUTES OF JULY 2006 IPSASB MEETING

14 BUDGET REPORTING

The IPSASB agreed that the draft accrual IPSAS and proposed amendments to the cash basis IPSAS should:

- Include additional explanation in the Introduction and Objective paragraph to make it clear that the objective was to compare actual with the budget that had been approved by the legislature or similar body and had been made publicly available – whether pursuant to requirements imposed on the entity or because the entity had elected to do so;
- Include reference to the two aspects of accountability, accountability for performance and accountability for compliance;
- Amend paragraph 12 to remove the reference to relief from providing comparative information for the previous period. Rather, a new paragraph is to be introduced towards the end of the IPSAS providing such relief for all the requirements required by the IPSAS;
- Amend paragraph 12(c) to remove the phrase “before, at the same time as, or” so that explanation is to be included in the financial statements or reports issued “in conjunction with the financial statements”;
- The heading before paragraph 11 is either to be deleted or changed to “Initial Approved Budget”;
- Amend paragraph IN2, to note that “In addition, some individual entities may be required to make publicly available.....”;
- Amend paragraph IN6(b) for consequences arising from Board directions on location of explanation of variances;
- Amend IN6(c) to note that a reconciliation is not required where budget and actual are on the same basis;
- Amend paragraph 29 to require that the explanation of differences may be made in reports issued before or in conjunction with the financial statements, or in the financial statements, and if such explanations are not in the financial statement, a reference to the relevant report must be made. Members noted they would revisit this decision in conjunction with their review of decisions made on paragraph 12 regarding inclusion of material in reports issued in conjunction with (but not before) the financial statements.
- Members also noted they would revisit paragraphs 12 and 29 to determine if differences regarding the location of disclosures were appropriate when dealing with “amounts of difference” and “explanations of differences”; and
- Clarify that in some jurisdictions “actual” as used in the IPSAS may be referred to as budget out-turn or budget execution in budget reports.

Members did not complete their review of the draft IPSAS at this meeting. It was agreed that the review will continue at the next meeting.

Members also noted the issues raised in discussion with Consultative Group members may be discussed further including:

- (a) implication and interpretation issues in respect of the classification of requirements relating to multi year budgets. Members noted they would consider whether clarification of aspects of this is necessary;
- (b) the need for the IPSASB to include within its suite of IPSASs an IPSAS on operations review or management discussion and analysis, which could then be used to illustrate explanations of variance from budget and changes from original to final budgets; and
- (c) that presentation/location of actual to budget comparisons as a distinct component within the notes could overcome concerns about mixed messages arising from different basis of accounting in the financial statements. In this context, members noted that they would consider whether guidance should be included to clarify that the “Statement of budget vs actual” may differ from the rest of the statements when the budget is not on a comparable basis.

Budget Reporting Project

History Sheet

MEETING DATE	ACTION
NOVEMBER 2001	<ul style="list-style-type: none"> • PSC agreed to action a project on budget reporting. • Established a steering committee (SC) for this project. Mr. Ron Points (USA) agreed to Chair the SC.
MARCH 2002	<ul style="list-style-type: none"> • PSC reviewed a draft project brief • PSC agreed that a 'scoping paper' be prepared to seek views of the financial reporting and budget community on the scope of the project. The 'scoping paper' will be prepared by a contractor with budget development/execution expertise. • Parties that had been nominated for membership of the SC were invited to join a project advisory panel (PAP) on the project.
JULY 2002	<ul style="list-style-type: none"> • PSC engaged Ms. Ilona Castro, consultant to undertake research and write a research report. Ms. Castro, supervised by Mr. Ron Points, chair of the PAP, was involved in the establishment of the PAP, and began preliminary research. • PSC considered membership of PAP
NOVEMBER 2002	<p>The PSC considered a paper on options for the scope of the budget reporting project prepared by Ms Castro. PSC <u>agreed</u> that:</p> <ul style="list-style-type: none"> • the project should be developed in two stages – the first stage is to be a research report which will: <ul style="list-style-type: none"> ▪ provide guidance on current best practice in budget formulation and reporting; and ▪ consider whether an IPSAS on Budget Reporting fits within the PSC mandate, and if so, what issues should be dealt with by the IPSAS. Stage 2 will be actioned in light of Stage 1; and • the SC should be reconstituted as a PAP to reflect the change in focus and timing of the project.
JANUARY 2003	<ul style="list-style-type: none"> • Emeritus Professor Jesse W. Hughes of Old Dominion University, Virginia, USA engaged to write a paper on budget reporting.
APRIL 2003	<ul style="list-style-type: none"> • PSC considered the membership of the reconstituted PAP. • PSC received a grant from the Public Expenditure and Financial Accountability Program (PEFA) to fund the project.
JULY 2003	<p>Dr Hughes, reported on the current status of the paper. Ron Points reported that the composition of the PAP was near finalization and it was intended that the draft paper would be reviewed by the PAP prior to the November 2003 meeting.</p> <p>PSC broadly discussed the extent to which an IPSAS should be developed for reporting of budget information and compliance/execution purposes. PSC discussed issue with Consultative Group.</p>

MEETING DATE	ACTION
NOVEMBER 2003	PSC reviewed draft paper and identified a number of issues for further development. It was agreed that the paper should: <ul style="list-style-type: none"> • be issued as a Study or Occasional Paper; • be structured to include specific recommendations from the author and invite comments on those recommendations from interested parties; and • identify issues for further research.
MARCH 2004	PSC reviewed the draft paper and cleared it for publication as a Research Report, subject to final approval from the Chair and SC Chair. The Research Report was an internal (though publicly available) document, prepared by the consultant for PSC consideration, and subsequent decisions and developments which would reflect PSC views.
MAY 2004	Budget Reporting Research Paper issued.
JULY 2004	PSC considered recommendations from the Research Report; and <ul style="list-style-type: none"> • Actioned the development of an ED on comparisons of actual and budget (ex-post reporting). PAP to provide input in the development of the ED. • Agreed to consider in future (2005+ as resources allow) a longer term project on reporting budget forecast/projection information as GPFSS (ex-ante reporting).
NOVEMBER 2004	PSC reviewed first draft ED on ex-post reporting and identified substantive and drafting issues for amendment. ED circulated to PAP prior to the PSC meeting.
MARCH 2005	IPSASB reviewed the 2 nd draft ED and identified a number of substantive and drafting issues for amendment. Agreed the updated ED to be circulated to PAP members for comment prior to the next meeting.
JULY 2005	IPSASB reviewed 3 rd draft ED and PAP comments thereon. Agreed unanimously to issue ED subject to confirmation that amendments to ED processed as directed. Revised ED to be circulated to all out of session to that end.
AUGUST/SEPT 2006	ED revised as directed, circulated to all members for review, reviewed and approved for issue by Chair.
OCTOBER 2005	ED 27, "Presentation of Budget Information in Financial Statements" issued for comment by February 2005
MARCH 2006	IPSASB considers responses to ED 27 and provides staff with directions for preparation of first draft IPSAS.
JULY 2006	IPSASB continues review of responses to ED 27 and commences review of first draft of IPSAS. Provides directions to staff for amendment, including that separate IPSAS for accrual basis and amendment to Cash Basis IPSAS are to be prepared.
NOVEMBER 2006	IPSASB continues review of accrual IPSAS and reviews draft amendment to Cash Basis IPSAS.

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

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Appendix A: Amendments to Other International Public Sector Accounting
Standards

Implementation Guidance – Illustrative Examples

Basis for Conclusions

International Public Sector Accounting Standard XX, “Presentation of Budget Information in Financial Statements” (IPSAS XX) is set out in paragraphs 1-58~~UPDATE~~ and the Appendix. All the paragraphs have equal authority. IPSAS XX should be read in the context of its objective, the Basis for Conclusions, and the “Preface to the International Public Sector Accounting Standards”. International Public Sector Accounting Standard IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” ~~and Cash Basis IPSAS “Financial Reporting Under the Cash Basis of Accounting”~~ provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

INTRODUCTION

Reasons for Issuing the IPSAS

- IN1. Most governments prepare and issue as public documents, or otherwise make publicly available, their financial budgets. The budget documents are widely distributed and promoted. The budget reflects the financial characteristics of the government's plans for the forthcoming period, is 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.
- IN2. In addition, sSome individual entities ~~are~~ may be required, or may elect, to make publicly available their approved budget(s). In such cases, the entity will also be held publicly accountable for its compliance with, and performance against, that budget.
- IN3. Prior to issue of this~~viously,~~ International Public Sector Accounting Standard (IPSAS), IPSAS 1, "Presentation of Financial Statements" encouraged, but did not require, ~~disclosure~~ inclusion in the financial statements of a comparison with budgeted amounts where the financial statements and budget are on the same basis. ~~The Cash Basis IPSAS, "Financial Reporting Under the Cash Basis of Accounting" (the Cash Basis IPSAS) also encouraged the disclosure of a comparison of budgeted amounts with actual amounts for the reporting period.~~ However, the budget(s) for which the entity is held publicly accountable may not be prepared or presented on the same basis as the financial statements, ~~and neither IPSAS 1 Standard did not require or encourage disclosure of a comparison with budget in these circumstances, nor did it provides~~ guidance on the details to be disclosed or the manner of presentation ~~when if an entity elected to make such a comparison.~~ the budget and the financial statements are not prepared and presented on the same basis
- IN4. This ~~International Public Sector Accounting Standard (IPSAS) Standard~~ identifies disclosures ~~of comparisons of actual with budgeted amounts~~ that are to be made by entities which are held publicly accountable for their compliance with, and performance against, their approved budget(s) whether or not the budget and the financial statements are prepared and presented on the same basis. ~~It applies to both entities that prepare financial statements in accordance with the accrual basis IPSASs and entities that prepare financial statements in accordance with the Cash Basis IPSAS.~~

Main features of the IPSAS

Applicability

- IN5. The ~~is~~ Standard IPSAS applies to public sector entities that ~~are required to~~ make their approved budget(s) publicly available, whether in accordance with legislative or other authoritative requirements imposed on the entity or on a voluntary basis to enhance the transparency of their financial reporting. It requires such entities to make certain disclosures about budget and actual amounts in their financial statements or other reports. It does not require that public sector entities make publicly available their approved budgets, nor does it specify requirements for the formulation or presentation of approved budgets that are made publicly available.

Disclosure

- IN6. This ~~IPSAS-Standard~~ requires that the financial statements of public sector entities that ~~are required to~~ make their approved budget(s) publicly available include:
- (a) A comparison of actual amounts with amounts in the original and final budget. This comparison is to be made on the same basis of accounting as adopted for the budget, even if that basis is different from the basis adopted for the financial statements. This Standard uses the term “actual” or “actual amount” to describe the amounts that result from execution of the budget. In other jurisdictions, “budget out-turn”, “budget execution” or similar terms may be used with the same meaning as “actual”;
 - (b) An explanation of material differences between budget and actual amounts, unless such explanation is included in other public documents issued ~~before or at the same time as, or~~ in conjunction with; the financial statements; and
 - (c) A reconciliation of actual amounts on a budget basis with actual amounts presented in the financial statements when the accounting and budget basis differ.
- IN7. This IPSAS allows comparison of budget and actual amounts to be made in the financial statements as additional budget columns in the primary financial statements only where the financial statements and the budget are prepared on a comparable basis, ~~including that they are on the same basis of accounting.~~
- IN8. This IPSAS also requires that an explanation of the reasons for differences between the original and final budget, including whether those differences arise from reallocations within the budget or other factors such as policy shifts, natural disasters, or other unforeseen events be made in a report

issued before, in conjunction with, or at the same time as, the financial statements.

- IN9. The disclosure of cComparative information in respect of the previous period is not required for the disclosures specified by this IPSAS.

~~IN9.~~

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

Objective

1. This Standard requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities which are required to or elect to, make publicly available their approved budget(s) and for which they are therefore, held publicly accountable. The Standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Compliance with the requirements of this Standard will ensure that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budget(s) for which they are held publicly accountable and, where the budget and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results.

Scope

2. An entity that prepares and presents financial statements under the accrual ~~or cash~~ basis of accounting ~~in accordance with International Public Sector Accounting Standards~~ shall apply this Standard.
3. This Standard applies to public sector entities, other than Government Business Enterprises, that are required or elect to make publicly available their approved budget(s).
4. This Standard applies to all entities that are required to make publicly available their approved budget(s), other than Government Business Enterprises (GBEs). ~~It deals with both reporting under the accrual basis and the cash basis of accounting. If the accrual basis of accounting is adopted, this Standard should be read in conjunction with the accrual basis International Public Sector Accounting Standards (IPSASs). IPSAS 1 “Presentation of Financial Statements” establishes that under the accrual basis a complete set of financial statements includes a statement of financial position; statement of financial performance; statement of changes in net assets/equity; cash flow statement; and accounting policies and notes to the financial statements. If the cash basis of accounting is adopted, this Standard should be read in conjunction with the Cash Basis IPSAS, “Financial Reporting Under the Cash Basis of Accounting” (the Cash Basis IPSAS). The Cash Basis IPSAS requires that an entity should prepare and present financial statements~~

~~which include a statement of cash receipts and payments and accounting policies and explanatory notes.~~

5. This Standard does not require approved budgets to be made publicly available, nor does it require that the financial statements disclose information about, or make comparisons with, approved budgets which are not ~~required to be~~ made publicly available.
6. In some cases, approved budgets will be compiled to encompass all the activities controlled by a public sector entity. In other cases, separate approved budgets may be required to be made publicly available for certain activities, groups of activities or entities included in the financial statements of a government or other public sector entity. This may occur where, for example, a government's financial statements encompass government agencies or programs that have operational autonomy and prepare their own budgets, or where a budget is prepared only for the general government sector of the whole-of-government. This Standard applies to all entities which present financial statements when approved budgets for the entity, or components thereof, are ~~required to be~~ made publicly available.
7. The "Preface to International Public Sector Accounting Standards" issued by the International Public Sector Accounting Standards Board (IPSASB) explains that GBEs apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB). ~~Therefore, this Standard does not apply to GBEs.~~ GBEs are defined in IPSAS 1.

Definitions

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

Accounting basis means the accrual or cash basis of accounting as defined in the accrual basis International Public Sector Accounting Standards and the Cash Basis International Public Sector Accounting Standard.

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

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

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

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

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

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

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

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

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Approved Budgets

9. An approved budget as defined by this Standard reflects the anticipated revenues or receipts expected to arise in the annual or multi-year budget period based on current plans and the anticipated economic conditions during that budget period, and expenses or expenditures approved by a legislative body, being the legislature or other relevant authority. An approved budget is not a forward estimate or a projection based on assumptions about future events and possible management actions which are not necessarily expected to take place. Similarly, an approved budget differs from prospective financial information which may be in the form of a forecast, a projection or a combination of both – for example, a one year forecast plus a five year projection.
10. In some jurisdictions, budgets may be signed into law as part of the approval process. In other jurisdictions, approval may be provided without the budget becoming law. Whatever the approval process, the critical feature of approved budgets is that the authority to withdraw funds from the government treasury or similar body for agreed and identified purposes is provided by a higher legislative body or other appropriate authority. The approved budget establishes the expenditure authority for the specified items. The expenditure authority is generally considered the legal limit within which an entity must operate. In some jurisdictions, the approved budget for which the entity will be held accountable may be the original budget and in others it may be the final budget.

Original Budget

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

Actual Amounts

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

Presentation of a Comparison Between-of Budget and Actual Amounts

- ~~12.13.~~ Subject to the requirements of paragraph ~~1920~~, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with International Public Sector Accounting Standards. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- (a) The original and final budget amounts;
- (b) The actual amounts on a comparable basis; and
- (c) By way of note disclosure, an explanation of material differences between the budget for which it is held publicly accountable and actual amounts unless such explanation is included in other public documents issued ~~before, at the same time as, or in conjunction with,~~ the financial statements, and a cross reference to those documents is made in the notes.

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

- ~~13.14.~~ Presentation in the financial statements of the original and final budget amounts, and actual amounts on a comparable basis with the budget which is made publicly available will complete the accountability cycle by enabling users of the financial statements to identify whether resources were obtained and used in accordance with the approved budget. Differences between the actual amounts and the budget amounts, whether original or final budget (often referred to as the “variance” in accounting), may also be presented in the financial statements for completeness.

- ~~14.15.~~ An explanation of the material differences between actual amounts and the budget amounts ~~which are made publicly available~~ will assist users in

understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable.

~~15.16.~~ An entity may be required, or may elect, to make publicly available its original budget, its final budget or both its original and final budget. In circumstances, wWhere both original and final budget are required to be made publicly available, the legislation, regulation or other authority will often provide guidance on whether explanation of material differences between the actual and the original budget amounts or actual and the final budget amounts is required in accordance with paragraph 12(c). In the absence of any such guidance, material differences may be determined by reference to, for example, differences between actual and original budget to focus on performance against original budget, or differences between actual and final budget to focus on compliance with the final budget.

~~16.17.~~ In many cases, the final budget and the actual amount will be the same. This is because budget execution is monitored over the reporting period and the original budget progressively revised to reflect changing conditions, changing circumstances and experiences during the reporting period. Paragraph 29-33 of this Standard requires the disclosure of an explanation of the reasons for changes between the original and final budget. These disclosures, together with the disclosures required by paragraph 12 above, will ensure that entities which ~~are required to~~ make publicly available their approved budget(s) are held publicly accountable for their performance against, and compliance with, the relevant approved budget, ~~as intended by the legislature or similar authority.~~

~~17.18.~~ Management discussion and analysis, operations review or other public reports which provide commentary on the performance and achievements of the entity during the reporting period, including ~~explanations of any material differences from budget amounts, are often issued at the same time as, or in conjunction with,~~ the financial statements. ~~In some jurisdictions, such commentary may also be included in budget out turn or similar public reports issued before the financial statements.~~ In accordance with paragraph 12 (c) of this Standard, explanation of material differences between actual and budget amounts will be included in notes to the financial statements unless included in other public reports or documents issued ~~before, at the same time as, or in conjunction with,~~ the financial statements, and the notes to the financial statements identify the documents in which the explanation can be found.

~~18.19.~~ Where approved budgets are only ~~required to be~~ made publicly available for some of the entities or activities included in the financial statements, the requirements of paragraph 12 will apply to only the entities or activities reflected in the approved budget. This means that where, for example, a budget is prepared only for the general government sector of a whole of government reporting entity, the disclosures required by paragraph 12 will be made only in respect of the general government sector of the government.

Presentation and Disclosure

19.20. An entity shall present a comparison of budget and actual amounts as additional budget columns in the primary financial statements only where the financial statements and the budget are prepared on a comparable basis.

21. Comparisons of budget and actual amounts may be presented in a separate financial statement (“statement of comparison of budget and actual amounts” or a similarly titled statement) included in the complete set of financial statements under the accrual or cash basis of accounting as specified in IPSAS 1. Alternatively, where the financial statements and the budget are prepared on a comparable basis – that is, on the same basis of accounting for the same entity and reporting period, and adopt the same classification structure, additional columns may be added to the existing primary financial statements presented in accordance with IPSASs. These additional columns will identify original and final budget amounts and, if the entity so chooses, differences between the budget and actual amounts.

~~22. When the budget and financial statements are not prepared on a comparable basis a separate Statement of Comparison of Budget and Actual Amounts is presented. In these cases, the financial statements could usefully clarify that the budget and the accounting bases differ and the Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis.~~

~~21.23.~~ In those jurisdictions where budgets are prepared on the accrual basis and encompass the full set of financial statements, ~~or where budgets are prepared on the cash basis and adopt a format for presentation consistent with the Cash Basis IPSAS,~~ additional budget columns can be added to all the primary financial statements required by IPSASs. In some jurisdictions, budgets prepared on the accrual basis may be presented in the form of only certain of the primary financial statements that comprise the full set of the financial statements as specified by IPSASs – for example, the budget may be presented as a statement of financial performance or a cash flow statement, with additional information provided in supporting schedules. In these cases, the additional budget columns can be included in the primary financial statements that are also adopted for presentation of the budget.

Level of Aggregation

~~22.24.~~ Budget documents may provide great detail about particular activities, programs or entities. These details are often aggregated into broad classes under common “budget heads”, “budget classifications” or “budget headings” for presentation to, and approval by, the legislature or other authoritative body. The disclosure of budget and actual information consistent with those broad classes and budget heads or headings will ensure that comparisons are made at the level of legislative or other authoritative body oversight identified in the budget document(s).

23.25. IPSAS 1 and the Cash Basis IPSAS require financial statements to provide information that meets a number of qualitative characteristics, including that the information is:

- (a) Understandable;
- (b) Relevant to the decision-making and accountability needs of users; and
- (c) Reliable in that it:
 - (i) represents faithfully transactions and other events;
 - (ii) reflects the economic substance of transactions and other events and not merely their legal form;
 - (iii) is neutral, that is, free from bias;
 - (iv) is prudent; and
 - (v) is complete in all material respects.

24.26. In some cases, the detailed financial information included in approved budgets may need to be aggregated for presentation in financial statements in accordance with the requirements of this Standard. Such aggregation may be necessary to avoid information overload and to reflect relevant levels of legislative or other authoritative body oversight. Determining the level of aggregation will involve professional judgment. That judgment will be applied in the context of the objective of this Standard and the qualitative characteristics of financial reporting as outlined in paragraph ~~19-24~~ above. ~~Appendix 4 of the Cash Basis IPSAS and Appendix B2~~ of IPSAS 1 summarizes the qualitative characteristics of financial reporting.

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

Original and Final Budget

26.28. **The final budget shall include all changes approved by legislative actions or other designated authority to revise the original budget.**

27.29. The original budget may include residual appropriated amounts automatically carried over from prior years by law. For example, governmental budgetary processes in some jurisdictions include a legal provision that requires the automatic rolling forward of appropriations to cover prior year commitments. Commitments encompass possible future liabilities based on a current contractual agreement. In some jurisdictions, they may be referred to as obligations or encumbrances ~~and Commitments~~ include outstanding purchase orders and contracts where goods or services have not yet been received.

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

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

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

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

Comparable Basis

27.33. **All comparisons shall be presented on a comparable basis to the budget.**

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

29.35. ~~GPFSs~~Financial statements consolidate entities and activities controlled by the entity. As noted in paragraph 6, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the consolidated ~~GPFSs~~financial statements. Where this occurs, the separate budgets may be recompiled for presentation in the ~~GPFSs~~financial statements in accordance with the requirements of this Standard. Where such re-compilation occurs, it will not involve changes or revisions to approved budgets. This is because this Standard requires a comparison of actual amounts with the approved budget amounts.

30.36. Entities may adopt different bases of accounting for the preparation of their ~~GPFSs~~financial statements and for their approved budgets. For example, a government may adopt the accrual basis for its ~~GPFSs~~financial statements and the cash basis for its budget. In addition, budgets may focus on, or include information about, commitments to expend funds in the future and changes in those commitments, while the financial statements will report cash flows, revenues, expenses, assets, liabilities, net assets/equity and changes therein. However, ~~notwithstanding this difference,~~ the budget entity and financial reporting entity will often be the same. Similarly, the period for which the budget is prepared and classification basis adopted for the budget will often be reflected in ~~GPFSs~~financial statements. This will ensure that the accounting system records and reports financial information in a manner which facilitates the comparison of budget and actual data for management and for accountability purposes – for example, for monitoring progress of execution of the budget during the budget period; and for reporting to the government, the public and other users on a relevant and timely basis.

31.37. In some jurisdictions, budgets may be prepared on a cash or accrual basis consistent with a statistical reporting system that encompasses entities and activities different from those included in the ~~GPFSs~~financial statements. For example, budgets prepared to comply with a statistical reporting system may focus on the general government sector and encompass only entities fulfilling the “primary” or “non-market” functions of government as their major activity, while ~~GPFSs~~financial statements report on all activities controlled by a government, including the business activities of the government. IPSAS 22~~Exposure Draft 28~~, “Disclosure of Financial Information about the General Government Sector” (~~ED-28~~) specifies requirements for note disclosure of financial information about the general government sector of a whole of government entity ~~by entities~~ which adopts the accrual basis of accounting and elects to make such disclosures. In many cases, disclosures made in accordance with ~~ED-28~~IPSAS 22 will encompass the same entities, activities and classification bases as adopted in budgets prepared consistent with the general government sector as defined in statistical reporting models. In these cases, disclosures made in accordance with ~~ED-28~~IPSAS 22 will also facilitate the disclosures required by this Standard.

~~32.38.~~ In statistical reporting models, the general government sector may comprise national, state or provincial and local government levels. In some jurisdictions, the national government may control state/provincial and local governments, consolidate those governments in its ~~GPFSSfinancial statements~~ and develop, and require to be made publicly available, an approved budget that encompasses all three levels of government. In these cases, the requirements of this Standard will apply to the ~~GPFSSfinancial statements~~ of those national governmental entities. However, where a national government does not control state or local governments, its ~~general-purpose~~ financial statement will not consolidate state, provincial or local governments. Rather, separate ~~GPFSSfinancial statements~~ are prepared for each level of government. The requirements of this Standard will only apply to the ~~GPFSSfinancial statements~~ of governmental entities when approved budgets for the entities and activities they control, or subsections thereof, are ~~required to be~~ made publicly available.

Multi-year Budgets

~~33.39.~~ Some governments and other entities approve and make publicly available multi-year budgets, rather than separate annual budgets. Conventionally, multi-year budgets comprise a series of annual budgets or annual budget targets. The approved budget for each component annual period reflects the application of the budgetary policies associated with the multi-year budget for that component period. In some cases, the multi-year budget provides for a roll forward of unused appropriations in any single year.

~~34.40.~~ Governments and other entities with multi-year budgets may take different approaches to determining their original and final budget depending on how their budget is passed. For example, a government may pass a biennial budget that contains two approved annual budgets, in which case an original and final approved budget for each annual period will be identifiable. If unused appropriations from the first year of the biennial budget are legally authorized to be spent in the second year, the “original” budget for the second year period will be increased for these “carry over” amounts. In the rare cases in which a government passes a biennial or other multi-period budget that does not specifically separate budget amounts into each annual period, judgment may be necessary in determining which amounts are attributable to each annual period. For example, the original and final approved budget for the first year of a biennial period will encompass any approved capital acquisitions for the biennial period that occurred during the first year, together with the amount of the recurring revenue and expenditure items attributable to that year. The unexpended amounts from the first annual period would then be included in the “original” budget for the second annual period and that budget together with any amendments thereto would form the final budget for the second year. Where multi-period budgets are adopted, entities are encouraged to provide additional note disclosure about the relationship between budget and actual amounts during the budget period.

Note Disclosures of Budgetary Basis, Period and Scope

~~35. IPSAS 1 and the Cash Basis IPSAS require entities to present in notes to the financial statements, information about the basis of preparation of the financial statements and the accounting policies adopted. Entities may adopt different accounting policies for the preparation and presentation of their GPFs and for the preparation and presentation of their approved budgets. The inclusion in the notes to the financial statements of the policies adopted for the preparation and presentation of approved budgets will enable users to better understand the basis on which the approved budget has been prepared, and whether and how it differs from the financial statements.~~

STAFF NOTE: PARA ABOVE DELETED BECAUSE MATTERS ADDRESSED IN IT REPEATED IN PARAS FOLLOWING THE BLACK LETTER PRINCIPLE.

36.41. **An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget.**

37.42. There may be differences between the accounting basis (cash, accrual, or some modification thereof) used in preparation and presentation of the budget and the accounting basis used in the GPFs financial statements. These differences may occur when the accounting system and the budget system compile information from different perspectives – the budget may focus on cash flows, or cash flows plus certain commitments, while the financial statements report cash flow and accrual information.

38.43. Formats and classification schemes adopted for presentation of the approved budget may also differ from the formats adopted for the GPFs financial statements. An approved budget may classify items on the same basis as is adopted in the GPFs financial statements, for example, by economic nature (for example compensation of employees, use of goods or services), function (for example, health, education) as is adopted in the GPFs financial statements. ~~However~~ Alternatively, the budget may classify items by specific programs (for example, poverty reduction, control of contagious diseases) or program components linked to performance outcome objectives (for example, tertiary education – students graduating, hospital emergency services – surgical operations performed), which differ from classifications adopted in the GPFs financial statements. Further, a recurrent budget for ongoing operations (for example, education, health) may be approved separately from a capital budget for capital outlays (for example, infrastructure, buildings).

39.44. IPSAS 1 requires entities to present in notes to the financial statements, information about the basis of preparation of the financial statements and the accounting policies adopted. Disclosure of the budgetary basis and classification basis adopted for the preparation and presentation of approved budgets will assist users to better understand the relationship between the budget and accounting information disclosed in the GPFs financial statements.

40.45. An entity shall disclose in notes to the financial statements the period of the approved budget.

41.46. ~~GPFSs~~Financial statements are presented at least annually. Entities may approve budgets for an annual period or for multi-year periods. Disclosure of the period covered by the approved budget where that period differs from the reporting period adopted for the ~~GPFSs~~financial statements will assist the user of those financial statements to better understand the relationship of the budget data and budget comparison to the ~~GPFSs~~financial statements. Disclosure of the period covered by the approved budget where that period is the same as the period covered by the ~~GPFSs~~financial statements will also serve a useful confirmation role, particularly in jurisdictions where interim budgets and financial statements and reports are also prepared.

42.47. An entity shall identify in notes to the financial statements the entities included in the approved budget.

43.48. IPSASs require entities to prepare and present ~~GPFSs~~financial statements that consolidate all resources controlled by the entity. At the whole-of-government level, a GPFS prepared in accordance with IPSASs will encompass budget-dependant entities and GBEs controlled by the government. However, as noted in paragraph ~~374~~, approved budgets prepared in accordance with statistical reporting models may not encompass operations of the government that are undertaken on a commercial or market basis. Consistent with the requirements of paragraph ~~2733~~, budget and actual amounts will be presented on a comparable basis. Disclosure of the entities encompassed by the budget will enable users to identify the extent to which the entity's activities are subject to an approved budget and how the budget entity differs from the entity reflected in the ~~GPFSs~~financial statements.

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

44.49. The actual amounts presented on a comparable basis to the budget in accordance with paragraph ~~27–33~~ shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the following actual amounts presented in the ~~general purpose~~ financial statements, identifying separately any basis, timing and entity differences:

- (a)—~~When the cash basis is adopted for the presentation of the general purpose financial statements: total cash receipts and total cash payments; and~~**
- (b)—~~When the accrual basis is adopted for the presentation of the general purpose financial statements:~~**
 - (ai) if the accrual basis is adopted for the budget, total revenues, total expenses and net cash flows from operating activities, investing**

activities and financing activities ~~if the accrual basis is adopted for the budget~~; or

- (bii) if a basis other than the accrual basis is adopted for the budget, net cash flows from operating activities, investing activities and financing activities ~~if a basis other than the accrual basis is adopted for the budget~~.

The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements.

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

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

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

46.51. ~~This Standard requires that the actual amounts on a comparable basis to the budget presented in a budget and actual comparison be reconciled to certain equivalent amounts presented in the GPFSs, identifying separately amounts attributable to basis, timing or entity differences.~~ The reconciliation required by paragraph 49 of this Standard will enable the entity to better discharge its accountability obligations by identifying major sources of difference between the actual amounts on a budget basis and the amounts recognized in the GPFSs financial statements. This Standard does not preclude reconciliation of each major total and subtotal, or each class of items, presented in a comparison of budget and actual amounts with the equivalent amounts in the GPFSs financial statements.

47.52. For some entities adopting the same basis of accounting for ~~both~~ preparation of both the budget documents and the GPFSs financial statements, only the identification of differences between actual amounts in the budget and the equivalent amounts in the GPFSs financial statements will be required. This will occur where the budget is prepared for the same period, encompasses the same entities and adopts the same presentation format as the GPFSs financial statements. In these cases, a reconciliation is not required~~the comparison may~~

~~be affected by the inclusion of an additional budget column in the financial statements consistent with the requirements of paragraphs 12 and 15 of this Standard.~~ For other entities adopting the same basis of accounting for the budget and the financial statements, there may be a difference in presentation format, reporting entity or reporting period – for example, the approved budget may adopt a different classification or presentation format to the ~~GPFSs financial statements~~, may include only non-commercial activities of the entity, or may be a multi-year budget. A reconciliation would be necessary where there are presentation, timing or entity differences between the budget and the ~~GPFSs financial statements~~ prepared on the same accounting basis.

48.53. For those entities using the cash basis (or a modified cash or modified accrual basis) of accounting for the presentation of the approved budget and the accrual basis for their ~~GPFSs financial statements~~, the major totals presented in the statement of budget and actual comparison will be reconciled to net cash flows from operating activities, net cash flows from investing activities, and net cash flows from financing activities as presented in the cash flow statement prepared in accordance with IPSAS 2, “Cash Flow Statements”.

~~STAFF NOTE: IF RELIEF FROM COMPARATIVES IS TO BE PROVIDED AN ADDITIONAL PARAGRAPHS MAY BE INCLUDED HERE:~~

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

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

Effective Date

49.56. An entity shall apply this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after ~~MM January 1, 2009~~~~DD, YYYY (2 years after issue of the Standard).~~ Earlier application is encouraged. If an entity applies this Standard for a period beginning before ~~January 1, 2009~~~~MM DD, YYYY~~ it shall disclose that fact.

STAFF NOTE : January 1 2009 reflects expectation that standard will be issued by January 2007 – if this is not the case, it is proposed that application date be revised to ensure it is 2 years after issue.

50.57. When an entity adopts the accrual ~~or cash~~ basis of accounting, as defined by International Public Sector Accounting Standards, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

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

Appendix A

Amendments to Other International Public Sector Accounting Standards

STAFF NOTE: SUBJECT TO TIMING OF APPROVAL OF THIS IPSAS, AND IPSASB DECISION REGARDING TIMING OF ISSUE OF IPSAS 1, THE FOLLOWING PROPOSED AMENDMENTS COULD BE PROCESSED IN THE IMPROVED IPSAS 1 FOR ISSUE.

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

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

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

19. ...
- (a) ...
 - (b) ...
 - (c) ...
 - (d) ...
 - (e) When the entity ~~is required to make~~ publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in ~~other the~~ financial statements; and
 - (ef) Accounting policies and notes to the financial statement

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

22. ...Entities which make publicly available their approved budget(s) are required to comply with the requirements of IPSAS XX, "Presentation of Budget Information in Financial StatementsComparison of Budget and Actual Amounts". For other entities, where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period. Reporting against budget(s) for these entities may be presented in various different ways, including:
- (a) The use of a columnar format for the financial statements, with separate columns for budgeted amounts and actual amounts. A

column showing any differences from the budget or appropriation may also be presented, for completeness; and

- (b) A statement by the individual(s) responsible for the preparation of the financial statements that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements.

~~A2. Cash Basis IPSAS, "Financial Reporting Under the Cash Basis of Accounting" is amended as described below:~~

~~Add the following (identified by underlining) to paragraph 1.3.4:~~

~~1.3.4~~

~~(a);~~

~~(b); and~~

~~(c) When the entity is required to make publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the Statement of Cash Receipts and Payments.~~

~~Insert an additional paragraph following paragraph 1.3.8:~~

~~1.3.8A Entities which are required to make publicly available their approved budgets are required to comply with the requirements of Cash Basis IPSAS, "Comparison of Budget and Actual Amounts".~~

~~Rewrite paragraph 2.1.33 as follows:~~

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

~~Add a new paragraph following paragraph 2.1.34:~~

~~2.1.34A Entities other than those which make publicly available their approved budgets and are required to disclose budget and actual comparisons in accordance with IPSAS XX, are encouraged to include in the financial statements a comparison with the budgets.~~

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

~~2.1.36 ... In some jurisdictions, this requirement is reflected in legislation. Entities which are required to make publicly available their approved budgets are required to comply with the requirements of IPSAS XX, "Comparison of Budget and Actual Amounts". This~~

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

Implementation Guidance – Illustrative Examples

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

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

A. Statement of Comparison of Budget and Actual Amounts For Government XX for The Year Ended 31 December 20XX Budget On Cash Basis

(Classification Of Payments By Functions)

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

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

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

B. Separate Column Approach

For Government YY for the Year Ended 31 December 20x2

Both Annual Budget And ~~General Purpose~~ Financial Statements Adopt Accrual Basis

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

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

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

STAFF NOTE The “difference” column has been relocated to follow the ~~original~~ budget column as per the previous illustration – it has not been marked up.

C. Extract of Note Disclosures for Government X

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

1. The budget is approved on a cash basis by functional classification. The approved budget covers the fiscal period from 1 January 20XX to 31 December 20XX and includes all entities within the general government sector. The general government sector includes all entities identified as government departments in note xx (prepared in accordance with IPSAS 6 “Consolidated and Separate Financial Statements”).
2. The original budget was approved by legislative action on (date) and a supplemental appropriation of XXX for disaster relief support was approved by legislative action on (date) due to the earthquake in the Northern Region on (date). The original budget objectives and policies, and subsequent revisions are explained more fully in the Operational Review and Budget Outcomes reports issued in conjunction with the financial statements.
3. The excess of actual expenditure over the final budget of 15% (25% over original budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final approved budget and the actual amounts.
4. The budget and the accounting bases differ. The ~~general-purpose~~ financial statements for the whole of government are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance. The ~~general-purpose~~ financial statements are consolidated statements which include all controlled entities, including government business enterprises for the fiscal period from 1 January 20XX to 31 December 20XX. The ~~general-purpose~~ financial statements differ from the budget which is approved on the cash basis and which deals only with the general government sector which excludes government business enterprises and certain other non-market government entities and activities.
5. The amounts in the ~~general-purpose~~ financial statements were recast from the accrual basis to the cash basis and reclassified by functional classification, to be on the same basis as the final approved budget. In addition, adjustments to amounts in the ~~general-purpose~~ financial statements for timing differences associated with the continuing appropriation, and differences in the entities covered (government business enterprises) were made to express the actual amounts on a comparable basis to the final approved budget. The amount of these adjustments are identified in the following table:

6. A reconciliation between the actual amounts on a comparable basis as presented in the Statement of Comparison of Budget and Actual ~~Amounts Comparative Statement~~ and the actual amounts in the Statement of Cash flows for the Year Ended 31 December 20XX is presented below. The financial statements and budget documents are prepared for the same period. There is an entity difference: the budget is prepared for the general government sector and the financial statements consolidate all entities controlled by the government; and a basis difference: the budget is prepared on a cash basis and the financial statements on the accrual basis.

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

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

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

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

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

Item 12.3 Budget Reporting – second draft IPSAS

IPSASB Norwalk, November 2006

Basis for Conclusions

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

Scope of the Standard

- BC1. In many jurisdictions, legislation or other authority requires public sector entities, whether the government or a particular government entity~~ies~~, to make public the approved budget(s) for which it is~~they are~~ held accountable. Such disclosure is ~~made~~required in the interest of transparency of government. In some cases, a government or government entity not subject to such legislation or other authority may voluntarily elect to make its approved budget publicly available. This ~~proposed~~ Standard applies to governments and government entities that ~~are required to~~ make publicly available the approved budget(s), for which they are held accountable.
- BC2. The approved budget reflects the financial characteristics of the government's or other entity's plans for the forthcoming period and, in respect of activities funded from the government budget, represent the authority to expend funds. ~~The International Public Sector Accounting Standards Board (IPSASB) is of the view that r~~Reporting the results of budget execution against those financial plans will enhance the transparency of ~~general purpose~~ financial statements and is an important element in the discharge of accountability of entities which are required to, or elect to, make their budget(s) publicly available. The inclusion of a comparison of budget and actual amounts in ~~general purpose~~ financial statements (~~GPFSs~~) will provide financial information to assist users to assess whether resources were raised as anticipated and used in accordance with budgets approved by the legislature or ~~similar other~~ authoritative body. This Standard uses the term "actual" or "actual amount" to describe the amounts that result from execution of the budget. In other jurisdictions, "budget out-turn", "budget execution" or similar terms may be used with the same meaning as "actual" or "actual amount".
- BC3. Many governments and government entities which ~~are required to~~ make publicly available their approved budget(s) already report actuals against budgeted amounts in their financial statements. They also include an explanation of material differences between actual and budget in management discussion and analysis or similar reports which accompany the financial statements, or in budget out-~~turn~~come reports or similar documents issued in conjunction with their financial statements. For these governments and government entities, comparisons of budget and actual amounts are generally made at the levels of ~~legislative~~ oversight approved by the legislature or similar authority, and explanations of material

differences are made where budgetary authority is exceeded. ~~The IPSASB is of the view that this practice is appropriate and has issued this is proposed Standard to reinforces that the practice, and to requires that it be adopted by all entities that are required to make publicly available their approved budgets.~~

~~BC4. Many governments and government entities not specifically required to make publicly available their approved budgets do so in the interests of enhanced transparency and accountability. These governments and government entities may also include in their GPFs comparisons of budget and actual amounts in accordance with the requirements of this proposed Standard.~~

BC4. This ~~proposed~~ Standard does not require entities to make publicly available their approved budgets, or specify presentation requirements for approved budgets that are made publicly available. ~~That is beyond the scope of this project. However, t~~The IPSASB has indicated that in the future it will consider whether an International Public Sector Accounting Standard (IPSAS) should be developed to deal with these matters.

Need for an International Public Sector Accounting Standards

BC5. IPSAS 1, "Presentation of Financial Statements" explains that the purpose of financial statements encompasses the disclosure of information to discharge the entity's obligation to be accountable for such matters as its financial position, performance and cash flows and to provide information useful to assess its performance in terms of its service costs, efficiency and accomplishments. It also notes that financial reporting may provide users with information about an entities compliance with, for example, the legally adopted budget.

BC6. ~~Prior to issue of this Standard, Currently IPSAS 1, "Presentation of Financial Statements", encourageds but did not oes not require financial statements to include a comparisons of budget and actual amounts where the financial statements and the budget are on the same basis. The Cash Basis IPSAS, "Financial Reporting Under the Cash Basis of Accounting" also eneourages a comparison between the budget and actual amounts. However, in some cases, an entity may make public an approved budget prepared and presented on a different basis to the financial statements and elect to include in financial statements a comparison of actual and budget. IPSAS 1 did not provide guidance on the details to be disclosed or the manner of presentation in such circumstances. The IPSASB is of the view that IPSASs should deal with such circumstances.~~

BC7. ~~The IPSASB considered whether compliance with this proposed Standard should be encouraged or required by entities that are required to make publicly available their budgets and prepare and present their financial~~

~~statements in accordance with the Cash Basis IPSAS or with accrual basis IPSASs. This Standard applies where an entity is required to make publicly available its approved budget(s), or elects to do so. The IPSASB is of the view that in such cases, the intent and effect of the legislature or other authority, or the voluntary action of the entity itself, is clear – the entity is held publicly accountable for its performance against and compliance with the budget. The IPSASB ~~it concluded~~ is also of the view that disclosure of information about budget and actual amounts is a necessary element for the discharge of accountability for such entities, and requirements to ensure appropriate disclosure in financial statements should be included in an IPSAS.~~

BC8. ~~The requirements of this Standard for the disclosure of a comparison of actual and budget amounts where the financial statements and the budget are prepared on the same basis will further enhance the discharge of the entity's accountability for its performance. The application of the requirements of this Standard where the budget and the financial statements are prepared on different bases will reinforce the role of financial statements in discharging the entity's obligation to be accountable for its compliance with approved budgets, should be prepared to specify appropriate disclosure requirements. Accordingly this proposed Standard applies to financial statements prepared on the cash basis and the accrual basis in accordance with IPSASs.~~

BC9. ~~The IPSASB considered whether it should require or encourage all public sector entities other than GBEs to make publicly available their approved budgets and comply with the requirements of this Standard. The IPSASB noted that such requirements were outside the scope of this IPSAS as originally conceived, and agreed that it should not impose such requirements on entities or add to existing encouragements until it had further considered its role in respect of developing requirements for budget reporting. The IPSASB also noted that public sector entities were not prohibited from applying the requirements of this Standard if they so chose.~~

Comparisons with approved budget

~~BC8-BC10.~~ This ~~proposed~~ Standard requires disclosure of the original and final budget amounts and actual amounts on a comparable basis with the budget amounts. This reinforces the compliance component of accountability identified in IPSAS 1. Users of the financial statements will be able to identify and determine the differences between amounts in the original and/or final approved budget and their equivalent actual amounts (often referred to as “variances” in accounting) for each level of legislative oversight disclosed. ~~Entities may elect, but are not required, to present these differences in the financial statements.~~

BC11. This ~~proposed~~ Standard requires an explanation of material differences (whether positive or negative) between actual and budget amounts to be made by way of note disclosure in the financial statements, unless such explanation is included in other publicly available documents issued ~~at the same time as, or~~ in conjunction with, the financial statements. The IPSASB is of the view that disclosure of this information will enhance the transparency of financial statements and strengthen the accountability of entities that make their budgets publicly available. The explanation of such differences may be included in a management discussion and analysis, operations review, budget overrun or similar report issued in conjunction with the financial statements. The IPSASB is of the view that where explanation is included in such reports, and notes to the financial statements direct readers to those reports, it is not necessary to repeat that explanation in the financial statements.

Disclosure of Original and Final Budget

~~BC7:BC12. This proposed Standard requires the disclosure of the original budget and the final budget and, in a report issued in conjunction with, or at the same time as, the financial statements, an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors.~~

BC8:BC13. Budgets are prepared in advance of the reporting period and the occurrence of natural disasters and changes in political or economic conditions may dictate a need for revisions to the initially approved budget during the budget period. In some jurisdictions, the authority for such revision is delegated to the Minister of Finance (within specified limits) or similar office holder. In other jurisdictions, the revisions must be approved by the legislature. Where those revisions are authorized by the appropriate authority, they comprise the final budget for the reporting period. The IPSASB is of the view that disclosure of the original and final budget is necessary to ensure that readers of the financial statements are aware of the nature and extent of changes to the original budget that have been approved during the course of the reporting period.

BC9:BC14. Revisions to the original budget may occur as a result of policy shifts, including changes in government priorities during the reporting period, or of unanticipated economic conditions. The IPSASB is of the view that disclosure of an explanation of the reasons for changes between the original and final budget during the reporting period, including whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors is necessary for the discharge of accountability and will provide useful input for analysis of the financial effects of changing economic conditions and of policy shifts. ~~The~~

~~IPSASB is of the view that such disclosures are more appropriately made in reports accompanying the financial statements, rather than as part of the financial statements themselves. The explanation may be included in the notes to the financial statements or in a report issued in conjunction with, at the same time as, or before the financial statements. As noted above in respect of explanations of budget variances, the IPSASB is of the view that where an explanation is included in such reports, and notes to the financial statements direct readers to those reports, it is not necessary to repeat that explanation in the financial statements.~~

Comparisons with approved budget

~~BC14. This proposed Standard requires disclosure of the original and final budget amounts and actual amounts on a comparable basis with the budget amounts. Users of the financial statements will be able to identify and determine the differences between amounts in the original and/or final approved budget and their equivalent actual amounts (often referred to as “variances” in accounting) for each level of legislative oversight disclosed. Entities may elect, but are not required, to present these differences in the financial statements.~~

~~BC15. This proposed Standard requires an explanation of material differences (whether positive or negative) between actual and budget amounts to be made by way of note disclosure in the financial statements, unless such explanation is included in other publicly available documents issued at the same time as, or in conjunction with, the financial statements. The IPSASB is of the view that disclosure of this information will enhance the transparency of financial statements and strengthen the accountability of entities that make their budgets publicly available. The explanation of such differences may be included in a management discussion and analysis, operations review, budget overrun or similar report issued in conjunction with the financial statements. The IPSASB is of the view that where explanation is included in such reports, and notes to the financial statements direct readers to those reports, it is not necessary to repeat that explanation in the financial statements.~~

STAFF NOTE – THESE PARAGRAPHS HAVE BEEN RELOCATED TO BECOME BC 10 and 11.
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Adoption of the budget basis and reconciliation of budget and accounting bases

BC12-BC15. Entities may adopt different accounting bases for the preparation of their GPFSSfinancial statements and for their approved budgets. In particular, some entities that adopt the accrual basis of accounting for preparation of their GPFSSfinancial statements prepare their budgets on the cash basis. ~~In these circumstances, the financial reporting and budget basis will differ.~~ Differences between the budgetary basis and the GPFSSfinancial

statements may also arise as a consequence of timing, entity or classification differences.

BC13:BC16. This Standard requires that the comparisons of budget and actual amounts shall be presented on the same basis (format, terminology, budgetary basis and classification) and for the same entities and period as for the approved budget. This is necessary to enable the financial statements to demonstrate the extent to which actual amounts were used in accordance with legally authorized budgets. It will ensure that disclosures are made on a comparable basis, and the financial statements demonstrate compliance with the approved budget. Consequently, amounts reflected in the ~~GPFSs financial statements under the accrual IPSASs or the Cash Basis IPSAS~~ will need to be recast to be comparable to the final approved budget where there are basis, timing or entity differences.

BC18:BC17. To better enable users to identify the relationship between the budget entity and the financial reporting entity, the ~~proposed~~ Standard requires that, when the financial statements and the budget are not prepared on a comparable basis, actual amounts on the budget basis are to be reconciled to specified equivalent amounts presented in the ~~GPFSs financial statements~~, identifying separately any basis, timing and entity differences..

Presentation of budget and actual information

BC15:BC18. This ~~proposed~~ Standard allows the budget and actual information to be presented in a separate statement or as an additional budget column in existing financial statements. Flexibility in the method of presentation allows entities to present the comparison in a manner that best serves user needs, while at the same time retaining the prominence that comes from inclusion in the ~~GPFSs financial statements~~. The prohibition on adopting the additional column approach for presentation when the financial statements and budget are prepared on a different basis of accounting is necessary to ensure that budget and actual amounts are presented on comparable basis.

Initial application

BC19. This Standard was issued by the IPSASB in (month year). Its application is not required for 2 years from its issue date. The deferred application is intended to provide sufficient time for entities to develop and, as appropriate, align their budget and financial reporting procedures, time periods and coverage. Earlier adoption of this Standard is encouraged.

BC20. The IPSASB considered whether to also provide relief from application of this standard for two years from initial adoption of IPSASs, but considered that such relief was not necessary. This was because entities would assess,

and factor into their timing for initial adoption of all IPSASs, the requirements of this IPSAS.

Relief from the requirement to disclose Comparative amounts

BC21. This Standard does not require that the financial statements of the current period include the disclosure of a comparison of actuals of a previous period with the budget of that previous period, nor does it require that the related explanations of differences between the actuals and budget of that previous period be disclosed in the financial statements of the current period.

BC22. The focus of this Standard is on supporting the discharge of the entity's obligation to be accountable for its compliance with the approved budget made public for the current reporting period. Many explanatory disclosures required by this IPSAS may be located in other documents issued in conjunction with but not as part of the financial statements. The IPSASB is concerned that the requirement for disclosure of comparative information would result in information overload and an over-complex network of reporting requirements, and would not be in the interests of users of the financial statements.