

The Presentation of Budget Information in Financial Statements - Challenges in Applying IPSAS 24

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Abstract

IPSAS 24, Presentation of Budget Information in Financial Statements, was issued in 2006 and is a public sector-specific standard within IPSASB's literature. There is no equivalent under IFRS given that budget/actual-comparisons are a unique feature of public sector budgeting/accounting. IPSAS 24 requires a comparison of budget and actual amounts to be presented in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s). IPSAS 24 is therefore an important standard in the context of the discharge of accountability obligations by public sector entities and the provision of fiscal transparency. One of the major challenges for applying IPSAS 24 is that budgets and accounts of public sector entities are often not prepared on a comparable basis. Budgets are often prepared on a cash- or modified cash-basis whereas financial statements prepared under IPSAS require to apply the full accrual basis of accounting. This article outlines some of the practical challenges involved in applying IPSAS 24 and uses an illustrative example that shows how these challenges could be overcome.

Keywords: Budget, Budget/actual-Comparison, Budget Execution, Financial Statements, IPSAS 24

1.0 Introduction

IPSAS 24 applies to public sector entities that are required to or elect to make their approved budget(s) publicly available.¹ The Standard is applicable to entities irrespective of the applied budgetary basis, i.e. irrespective of the fact whether an entity has adopted the accrual, cash, or other basis of accounting in the budget that has been approved by the respective legislative body.² It has turned out that especially in cases where the cash or modified cash basis of accounting is applied for budgeting purposes, there are difficulties in practice in how to present the comparison of budget and actual amounts in the financial statements and the related reconciliation, given the fact that the financial statements need to be prepared on an accrual basis. In the following, at first, the general requirements of IPSAS 24 as well as its disclosure requirements are outlined, and its practical implications explained. By using an illustrative example, it is shown how those practical challenges imposed by IPSAS 24 could be overcome.³

2.0 General requirements of IPSAS 24

According to the requirements of IPSAS 24.14, a public sector entity has to 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 IPSASs. The comparison of budget and actual amounts must present separately for each level of legislative oversight:

¹ IPSAS 24.2.

² IPSAS 24.7.

³ The illustrative example focusses on the comparison of budget and actual amounts as well as the required reconciliations. However, it does not cover all disclosures required by IPSAS 24.

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

In general, IPSAS 24 provides that all comparisons of budget and actual amounts must be presented on a comparable basis to the budget.⁴ This means that the applied budgetary basis is decisive for the presentation of the comparison of budget and actual amounts in IPSAS financial statements. In case that an entity applies the full accrual basis of accounting for budgeting purposes, then the comparison of budget and actual amounts is presented on the full accrual basis of accounting.⁵ The other extreme would be that an entity prepares its approved budget on a cash- or modified cash-basis. In such a situation, the comparison of budget and actual amounts would have to be presented on a cash- or modified cash basis in the entity's IPSAS financial statements. In this context it needs to be noted that, often, entities are already legally required to prepare such comparisons for accountability purposes. Such comparisons are known as budget execution or budget implementation reports. Thus, IPSAS 24 does not completely represent a new requirement in terms of financial reporting by public sector entities.

IPSAS 24.15 states in that context that: "Presentation in the financial statements of the original and final budget amounts and actual amounts on a comparable basis with the budget that 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."

2.1 Comparisons of budget and actual amounts where the financial statements and the budget are prepared on a comparable basis

As outlined above, comparisons of budget and actual amounts shall be presented in the financial statements as either a separate additional financial statement (the so-called Statement of Comparison of Budget and Actual Amounts or a similarly titled statement) or as additional budget columns in the financial statements. Following IPSAS 24.21, entities must 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. This means that in cases where the approved budget is prepared on the cash or modified cash basis (which is currently the current practice by many governments) and the financial statements are prepared on the accrual basis, no comparison of budget and actual amounts as additional budget columns is required (or even possible). However, in cases where the financial statements and the approved budget were prepared on a comparable basis (and this is the full accrual basis of accounting when IPSAS financial statements are prepared), additional budget columns are 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

⁴ IPSAS 24.31.

⁵ See Müller-Marqués Berger (2018).

entity so chooses, differences between the budget and actual amounts.⁶ The below table illustrates how the additional column approach could be realized in practice.

Table 1: Additional column approach for the presentation of budget information in financial statements

For Government XYZa for the Year Ended 31 December 20X9

Both annual budget and financial statements adopt the accrual basis of accounting.

Actual 20X8	(in currency units)	Actual 20X9	Final budget 20X9	Original budget 20X9	* Difference: Final budget and actual 20X9
	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 revenue	X	X	X	X
X	Total revenue	X	X	X	X
	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 expenses	(X)	(X)	(X)	(X)
(X)	Finance costs	(X)	(X)	(X)	(X)
(X)	Total expenses	(X)	(X)	(X)	(X)
X	Share of surplus of associates	X	X	X	X
(X)	Surplus/(deficit) for the period	X	X	X	X

*The "Difference..." column is not required by IPSAS 24. However, a comparison between actual and the original or the final budget may be included.

Source: International Federation of Accountants, Handbook of International Public Sector Accounting Pronouncements, 2018 Edition, Volume 1, p. 804

The leading example in that context are the financial statements of the government of New Zealand as they present a comparison of budget and actual amounts for all the primary statements in their annual accounts.⁷ However, it has to be noted that the comparison required by IPSAS 24 does only refer to the statement of financial performance and does not comprise the balance sheet or the cashflow statement even if technically this would be possible.

⁶ IPSAS 24.15.

⁷ See the Financial Statements of the Government of New Zealand for the year ended 30 June 2019, <https://treasury.govt.nz/sites/default/files/2019-10/fsgnz-2019.pdf>

2.2 Comparisons of budget and actual amounts where the financial statements and the budget are not prepared on a comparable basis

When the budget and financial statements are not prepared on a comparable basis, IPSAS 24.23 provides to prepare a separate statement of comparison of budget and actual amounts.⁸ In these cases, the Standard recommends that the financial statements shall 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. By that the Standard wants to ensure that readers do not misinterpret financial information which is prepared on different bases. Table 2 illustrates how such a Statement of Comparison of Budget and Actual Amounts typically looks like:

Table 2: Statement of Comparison of Budget and Actual Amounts for the presentation of budget information in financial statements

For Government XYZb for the Year Ended 31 December, 20X9

Budget on cash basis (Classification of payments by functions)

Note: The budget and the accounting basis are different.

This Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis.

(in currency units)	Budgeted amounts		Actual amounts on comparable basis	* Difference: Final budget and actual 20X9
	Original	Final		
Receipts				
Taxation	X	X	X	X
Aid Agreements	X	X	X	X
Proceeds: Borrowing	X	X	X	X
Proceeds: Disposal of plant and equipment	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)

⁸ For further elaborations on the evolving relationship between budgeting and accounting/financial reporting, see Heiling/Chan (2012) and Heiling/Schühret/Chan (2013).

(in currency units)	Budgeted amounts		Actual amounts on comparable basis	* Difference: Final budget and actual 20X9
	Original	Final		
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 may be included.

Source: International Federation of Accountants, Handbook of International Public Sector Accounting Pronouncements, 2018 Edition, Volume 1, p. 803

In this context it should be noted that the classification of payments as presented in the entity's budget (in table 2 a functional classification is chosen), determines their presentation in the Statement of Comparison of Budget and Actual Amounts.

3.0 Disclosure Requirements of IPSAS 24

Following IPSAS 24.29, an entity must present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors. This can be disclosed in the notes to the financial statements or in a report issued before, at the same time as, or in conjunction with the financial statements (e.g. in the entity's budget execution or budget implementation report). In the latter case, it must include a cross-reference to the report in the notes to the financial statements.

The entity also needs to explain in the notes to the financial statements the budgetary basis and classification basis adopted in the approved budget.⁹ An entity must also disclose in the notes to the financial statements the period of the approved budget (see IPSAS 24.43) and the entities included in the approved budget (see IPSAS 24.45).

In addition, IPSAS 24.47 requires where the financial statements and the budget are not prepared on a comparable basis, that the actual amounts presented on a comparable basis to the budget must be reconciled to the actual amounts presented in the financial statements, identifying separately any basis, timing, and entity differences. Reconciliations must be made for the following items:

- a) 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; or

⁹ IPSAS 24.39.

b) If a basis other than the accrual basis is adopted for the budget, net cash flows from operating activities, investing activities and financing activities

The Standard explains that differences can stem from the accounting basis¹⁰, timing differences between the budget and the financial statements¹¹ and entity differences¹². The reconciliation must be presented either in the comparison of budget and actual amounts or in the notes to the financial statements.

4.0 Illustrative Example

4.1 Background to the illustrative example

It is assumed that Government Entity XYZb prepares its annual budget on a cash basis using a functional classification of its payments. It also prepares and presents IPSAS financial statements under the accrual basis of accounting. There is no difference between the budgetary boundary and the financial reporting boundary, i.e. no entity differences exist. The entity makes its budget publicly available and it uses a functional classification of its payments. Its original and final budget is presented for 20X9 as follows:

Table 3: Annual budget 20X9 of Government Entity XYZb prepared on a cash basis using a functional classification of its payments

Government Entity XYZb	Budgeted Amounts 20X9 ¹³	
	<i>Original</i>	<i>Final</i>
Receipts		
Taxation	1.020	1.000
Sales of goods and services	50	80
Proceeds from borrowing	330	300
Proceeds from disposal of PP&E and other	50	50
Total receipts	1.450	1.430
Payments		
Health	(650)	(660)
Education	(230)	(230)
Public safety	(550)	(560)
Other	(70)	(70)
Total payments	(1.500)	(1.520)

Source: Own presentation.

¹⁰ Such differences occur when the approved budget is prepared on a basis other than the accounting basis. E.g. when the budget is prepared on a cash or modified cash basis and the financial statements are prepared on a full accrual basis of accounting.

¹¹ Timing differences can occur when the budget period differs from the reporting period reflected in the financial statements, e.g. when the entity prepares its budget bi-annually.

¹² There are entity differences when the budget leaves out programs or specific entities that are part of the reporting entity for which the financial statements are prepared.

¹³ All figures used in this example are exemplary in nature and do not correspond to any real life example.

In terms of Government XYZb's cash flow statement, it uses the direct method to account for its cash flows from operating activities. The cash flow statement in accordance with IPSAS 2, Cash flow Statements of the entity presents the following amounts for the year 20X9 (and 20X8 being the comparative period):

Table 4: Cash flow statement 20X9 of Government Entity XYZb

Government Entity XYZb	20X9	20X8
Cash Flows from Operating Activities		
Receipts		
From taxes	1.000	900
From sales of goods and services	50	40
<i>Total receipts</i>	<i>1.050</i>	<i>940</i>
Payments		
To suppliers for goods and services	(600)	(500)
To employees	(550)	(500)
<i>Total payments</i>	<i>(1.150)</i>	<i>(1.000)</i>
Net Cash Flows from Operating Activities	(100)	(60)
Cash Flows from Investing Activities		
Receipts		
From sales of PP&E, intangibles and other long-term assets	50	40
Payments		
To acquire PP&E, intangibles and other long-term assets	(300)	(300)
Net Cash Flows from Investing Activities	(250)	(260)
Cash Flows from Financing Activities		
Receipts		
From issuing debentures, loans and bonds	330	380
Payments		
For amounts borrowed	(70)	(50)
Net Cash Flows from Financing Activities	260	330
Net increase(decrease) in cash and cash equivalents (Total cash flows)	(90)	10

Source: Own presentation.

As outlined above, IPSAS 24 requires the entity to present a comparison of the budget amounts for which it is held publicly accountable and actual amounts arising from the execution of the budget in its financial statements as the entity prepares and presents IPSAS financial statements under the accrual basis of accounting and makes its approved budget publicly available (see IPSAS 24.3 and IPSAS 24.14).

As the entity prepares its budget on a **cash basis** it has to prepare a **Separate Statement of Comparison of Budget and Actual Amounts** (see IPSAS 24.14, 24.21 and 24.23) and present its comparison of budget and actual amounts on a comparable basis to the budget (see IPSAS 24.31).¹⁴ Government XYZb shall not present a comparison of budget and actual amounts as additional budget columns in its primary financial statements, as the financial statements (accrual basis) and the budget (cash basis) are not prepared on a comparable basis. Therefore, the government's cash flow information must be reclassified in accordance with the budget classification.

The separate **Statement of Budget and Actual Amounts** of Government Entity XYZb shows the following results as of 31.12.20X9:

Table 5: Separate Statement of Budget and Actual Amounts of Government Entity XYZb as of 31.12.20X9

Government Entity XYZb 31.12.2019	Budgeted amounts [A]		Actual amounts on a comparable basis [B]	Difference: Final budget and actual (= [B] – [A.b])
	<i>Original [A.a]</i>	<i>Final [A.b]</i>		
Receipts				
Taxation	1.020	1.000	1.000	0
Sales of goods and services	50	80	50	(30)
Proceeds from borrowings	330	300	330	30
Proceeds from disposal of PP&E and other	50	50	50	0
Total receipts	1.450	1.430	1.430	0
Payments				
Health	(650)	(660)	(670)	(10)
Education	(230)	(230)	(230)	0
Public safety	(550)	(560)	(550)	10
Other	(70)	(70)	(70)	0
Total payments	(1.500)	(1.520)	(1.520)	0

Please note that total payments on the basis of the cash flow statement are payments:

- 1) To suppliers for goods and services = (600) +
 - 2) To employees (550) +
 - 3) To acquire PP&E, intangibles and other long-term assets = (300) +
 - 4) For amounts borrowed = (70)
- In Total = (1.520).

Source: Own presentation.

¹⁴ In this context please note that under a “comparable basis” the actual amounts are presented on the same accounting basis, same classification basis, for the same entities, and for the same period (see IPSAS 24.7).

In terms of the reconciliation, IPSAS 24.47 requires where the financial statements and the budget are not prepared on a comparable basis to the budget that the actual amounts presented in the Statement of Comparison of Actual and Budget Amounts be reconciled to the actual amounts presented in the financial statements, identifying separately any basis, timing, and entity differences¹⁵.

IPSAS 24.47 (b) requires that if a basis other than the accrual basis is adopted for the budget (which is the case here), the actual amounts as presented in the financial statements shall be **reconciled** to

- a) net cash flows from operating activities,
- b) net cash flows from investing activities, and
- c) net cash flows from financing activities.

This reconciliation therefore links the information presented in Government XYZ’s cash flow statement to the information presented in its Statement of Comparison of Budget and Actual Amounts. It shall be disclosed on the face of the statement of comparison of budget and actual amounts, or in the notes to the financial statements (see IPSAS 24.47). The annex of IPSAS 24 provides an illustrative example of how this reconciliation could look like:

Table 6: Exemplary reconciliation of the actual amount on a comparable basis as presented in the Statement of Comparison and Actual Amounts and the actual amounts in the IPSAS Statement of Cash Flows

	Operating	Financing	Investing	Total
Actual amount on a comparable basis as presented in the Statement of Comparison and Actual Amounts	X	X	X	X
<i>Basis differences</i>	X	X	X	X
<i>Timing differences</i>	-	-	-	-
<i>Entity differences</i>	X	X	X	X
Actual amounts in the IPSAS Statement of Cash Flows	X	X	X	X

Source: International Federation of Accountants, Handbook of International Public Sector Accounting Pronouncements, 2018 Edition, Volume 1, p. 806

Applying this approach to our example and extending the approach as suggested by the IPSASB the reconciliation may look like:

¹⁵ IPSAS 24.32 et seq explains those differences.

Table 7: Reconciliation of the actual amount on a comparable basis to the budget as presented in the Statement of Comparison and Actual Amounts for Government Entity XYZb and the actual amounts in its IPSAS Statement of Cash Flows using the functional classification

<i>Actual amounts presented on a comparable basis to the budget</i>		<i>Health</i>	<i>Education</i>	<i>Public safety</i>	<i>Other</i>	<i>Total (classified per IPSAS 24.47)</i>
Total Receipts						
Operating activities	Taxation	300	100	600	0	1.000
	Sales of goods and services	50	0	0	0	50
<i>Total receipts from operating act.</i>		<i>350</i>	<i>100</i>	<i>600</i>	<i>0</i>	<i>1.050</i>
Investing activities	Proceeds from disposal of PP&E and other	10	5	35	0	50
	<i>Total receipts from investing act.</i>		<i>10</i>	<i>5</i>	<i>35</i>	<i>0</i>
Financial activities	Proceeds from borrowings	0	0	0	330	330
	<i>Total receipts from financial act.</i>		<i>0</i>	<i>0</i>	<i>0</i>	<i>330</i>
Total Receipts (Actual)		360	105	635	330	1.430
Total Payments						
Operating activities	To suppliers for goods and services	(250)	(60)	(290)	(0)	(600)
	To employees	(390)	(150)	(10)	(0)	(550)
<i>Total payments from operating act.</i>		<i>(640)</i>	<i>(210)</i>	<i>(300)</i>	<i>0</i>	<i>(1.150)</i>
Investing activities	To acquire PP&E, intangibles and other long-term assets	(30)	(20)	(250)	(0)	(300)
	<i>Total payments from investing act.</i>		<i>(30)</i>	<i>(20)</i>	<i>(250)</i>	<i>(0)</i>
Financing activities	For amounts borrowed	(0)	(0)		(70)	(70)
	<i>Total payments from financial act.</i>		<i>(0)</i>	<i>(0)</i>	<i>(0)</i>	<i>(70)</i>
Total Payments (Actual)		(670)	(230)	(550)	(70)	(1.520)

Source: Own presentation

Table 8: Reconciliation of the actual amount on a comparable basis to the budget as presented in the Statement of Comparison and Actual Amounts for Government Entity XYZb and the actual amounts in its IPSAS Statement of Cash Flows outlining basis, timing and entity differences

	Operating Cash Flows	Investing Cash Flows	Financing Cash Flows	Total Cash Flows
Actual amount on a comparable basis as presented in the Statement of Comparison and Actual Amounts (A) (see table before)	1.050+(1.150) = (100)	50+(300) = (250)	330+(70)=260	(90)
<i>Basis differences (B)</i>	0	0	0	0
<i>Timing differences (T)</i>	0	0	0	0
<i>Entity differences (E)</i>	0	0	0	0
Actual amounts in the IPSAS Statement of Cash Flows	(100)	(250)	260	(90)

Source: Own presentation

Please note that such a presentation format as outlined in Table 7 is not required by IPSAS 24, however it helps in explaining how the actual amounts as presented on a comparable basis to the budget of Government Entity XYZb can be reconciled to the actual amounts as stated in the cash flow statement in the financial statements using a functional classification. It also provides additional information to what is presented in Table 8.

The challenges identified for preparing such a reconciliation in practice are:

- Cash flows need to be “flagged” for both their a) functional category and b) their activities category (operating/investing/financing).
- Difficulties when entities are using different chart of accounts.

References

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