

United Nations

Corporate Guidance

for

**International Public Sector Accounting
Standards**

**Reporting of Budget Information in
Financial Statements**

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1 INTRODUCTION

While IPSAS generally requires organizations to account for all of its transactions on an accrual basis, many organizations prepare their budgets on a cash basis.

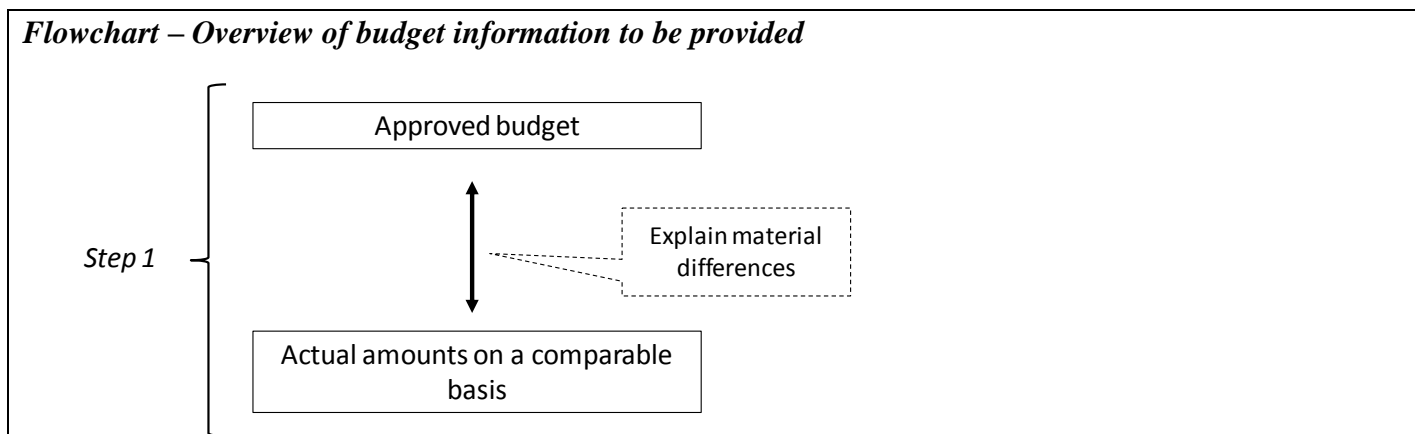
In order to link the information provided in the financial statements on an accrual basis to the budget information and consequently **allow readers** of the financial statements to **assess** whether the **resources** allocated in the budget have been **used in line with any requirements** or stipulations, the IPSAS Board issued *IPSAS 24 Presentation of budget information in financial statements*. This standard requires organizations to reconcile its publicly available budgets to its cash flows reported in the statement of cash flows, which is part of the financial statements.

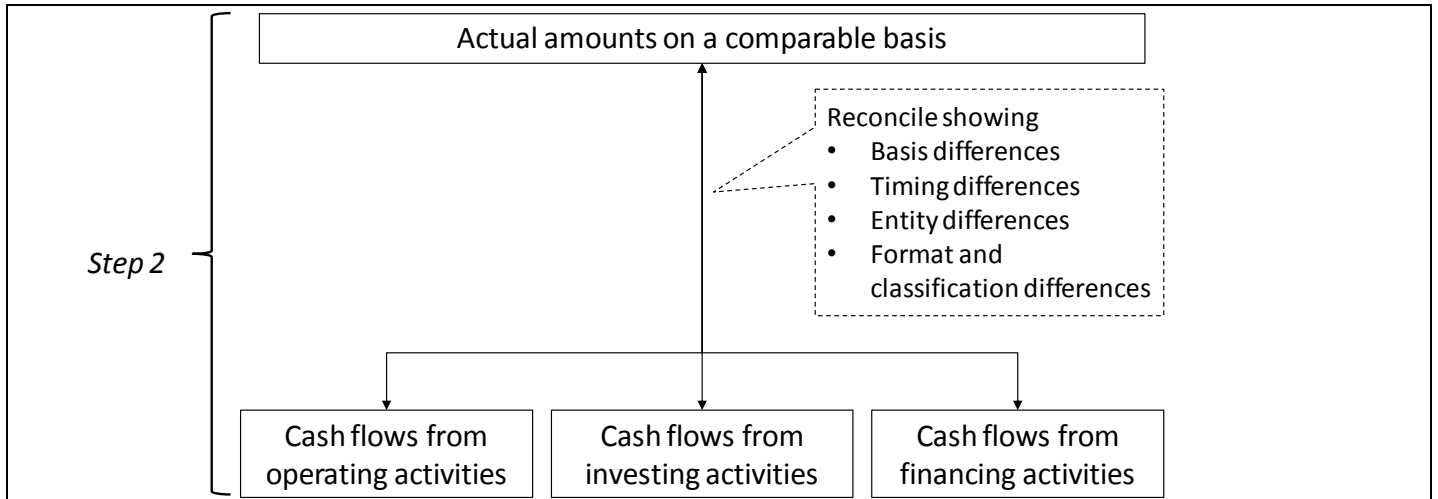
This reconciliation is done in **two steps**:

- 1) Compare amounts included in the budget to actual amounts on the same basis as the budget.
- 2) Reconcile actual amounts on a budget basis to the cash flows reported in the statement of cash flows.

In addition to providing such reconciliations, the standard also asks organizations to explain the differences.

Flowchart – Overview of budget information to be provided





2 DEFINITIONS

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. **Original** and **final budgets** are both forms of **approved budgets**.

An original budget is the initial approved budget for the budget period.

A final budget is the original 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.

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

Accounting basis means the accrual or cash basis of accounting as defined in the accrual basis IPSASs and the Cash Basis IPSAS.

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 presented on the same accounting basis, same classification basis, for the same entities, and for the same period as the approved budget.

2.1 Note on UNSAS terminology

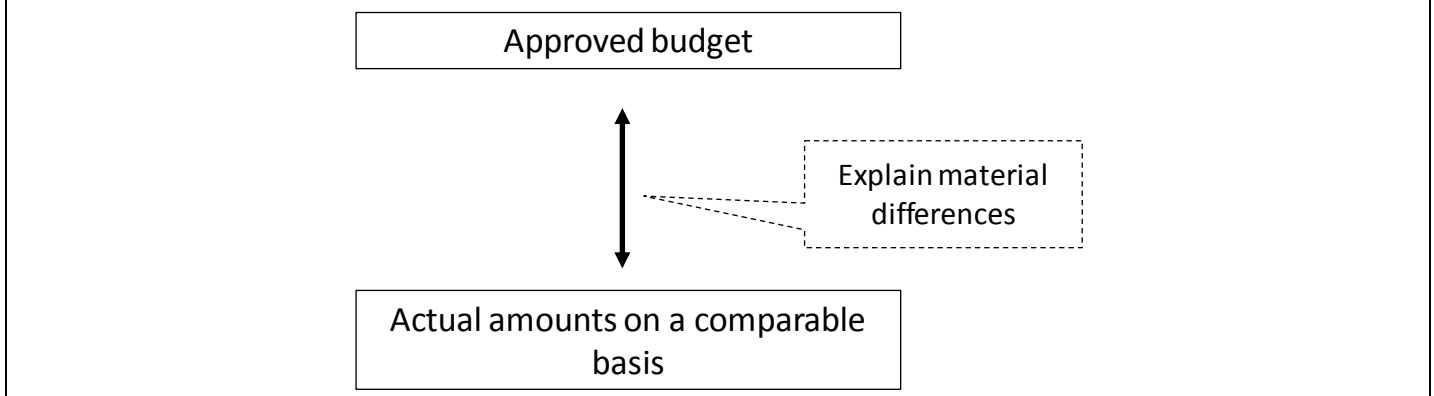
The terms noted above are those specified by IPSAS and may differ to the terms employed under UNSAS, but will share the same definition.

For example, the IPSAS term “**original budget**” may be described as the “original distribution”, “budget appropriations” or “initial budget” within current UNSAS reporting, depending on the terminology used entity in question.

3 COMPARISON OF BUDGET AND ACTUAL AMOUNTS ON A COMPARABLE BASIS

As mentioned in the introduction, IPSAS 24 requires organizations to include a comparison of the budget amounts it is publicly accountable for and actual amounts on a comparable basis and to explain any material differences between such amounts.

Flowchart – comparison of budget and actual amounts on a comparable basis



The United Nations will provide this comparison in form of an **additional financial statement** and will refer to it as the statement of comparison of budget and actual amounts.

When preparing this comparison, there are multiple aspects and questions to be considered which will be discussed in this section.

Such aspects include:

- Which budget should be used?
- How should the budget be presented?
- Multi-year budgets?
- How actuals on a comparable basis are established?
- What differences should be explained?

3.1 Budget information

3.1.1 ORIGINAL, FINAL AND APPROVED BUDGET

As mentioned above, one of the main tasks when preparing the comparison of budget and actual amounts is to decide which budget should be used. For example: There might be an original budget which was approved, but then subsequently changed.

The key here is to ensure that the budget used in the comparison is the one the United Nations is **publicly accountable** for. By using this budget, the United Nations ensures that the accountability cycle is completed: the users of the financial statements will be able to understand whether resources obtained and used throughout the period were in accordance with the approved budget.

Not only does the IPSAS standard require the inclusion of the budget that is publicly available, but it also requires organizations to show the original and final budget numbers.

With regards to the United Nations, the original budget would be the one approved by the General Assembly, prior to the start of the biennium for the regular budget. However, one of the key changes to the information provided in the UNSAS financial statements is that under IPSAS, the information has to be provided on an **annual basis** and not for the biennium budget as done under UNSAS (see section 3.1.3)¹.

Subsequent to the approval of the original budget, changes are occasionally made due to additional appropriations and unexpected expenditure arising from unforeseen events, for example, natural disasters.

An **explanation of the differences** between the original and the final budget is to be provided to the readers of the financial statements. Such an explanation can be provided as part of the financial statements, but can also be provided in another report that is issued before, at the same time or in conjunction with the financial statements².

This requirement stated by IPSAS 24 is not a completely new requirement for the United Nations. The United Nations provides the readers of its UNSAS financial statements with information on changes in the budget and can use this experience as a starting point for its IPSAS disclosure requirements.

¹ Please note that the budget for Peacekeeping operations is already prepared on an annual basis.

² If the information is not included in the financial statements, but another report, the financial statements should include cross reference to that report.

<i>Example – information provided on differences between original and final budget under UNSAS</i>			
Note 4: United Nations Volume I (Extract)			
Thousands of United States Dollars	2012	2013	Total
Budget Appropriations (resolution 66/248 A)	2 576 150	2 576 150	5 152 300
Add: Increased appropriations for the biennium 2012-2013:			
Resolution 67/247	-	243 257	243 257
Resolution 67/269	-	3 808	3 808
Resolution 68/245	-	165 703	165 703
Total 2013-2013 revised budget appropriation	2 576 150	2 988 918	5 565 068
Estimated income (other than staff assessment) for the biennium 2012-2013			
Resolution 67/269	26 193	26 193	52 386
Resolution 68/245	-	5 194	5 194
Less: Decrease in income (other than staff assessment) for the biennium 2012-2013:			
Resolution 67/247 B	-	(18 064)	(18 064)
Total revised estimated income	26 193	13 323	39 516
Total 2013-2014 final budget appropriations less total income	2 549 957	2 975 595	5 525 552

Finally, in some cases, one United Nations reporting entity may have several individual budgets which form its overall budget. In such cases, where the United Nations decides that these budgets should be included within budgetary reporting for the entity in question, the individual budgets may be recompiled for presentation in the financial statements.

For example, United Nations Peacekeeping Operations (Volume II) will report on individual budgets for each separate mission, but will produce one set of IPSAS financial statements. In such a case, the Volume II financial statements should use a compiled budget for the purposes of IPSAS 24 reporting, which can be reconciled to the individual budgets by the user.

3.1.2 AGGREGATION OF INFORMATION

Once the budget(s) to be included in the comparison has been identified, the next question is whether, and if so, how it should be **aggregated**.

As a starting point, the budget shown should be structured based on the classifications and headings submitted to the General Assembly for approval to ensure that the information provided is on the **same** level as the information **approved by the governing body**. Following the same structure will enhance the transparency of the financial statements and will simplify an assessment whether the United Nations operated within the scope of its approved budget.

Having said that, budgets are often on a very detailed basis and may need to be aggregated for purposes of inclusion in the financial statements to avoid information overload.

The United Nations should apply professional judgment to assure the aggregation of the budget is meaningful, reliable and relevant to the decision-making of the readers of the financial statements.

Example – aggregation of budget

The budget for Volume I is generally based on budget sections and one way of aggregating the information in the financial statements would therefore be based on such budget parts and / or sections. In practice, presenting 36 budget sections is impractical and therefore 14 budget parts is the optimal aggregation level.

The different budget parts and sections include:

- Overall policy-making, direction and coordination
- Political affairs
- International Justice and law
- International cooperation for development
- Regional co-operation for development
- Human rights and humanitarian affairs
- Public information
- Common support services
- Internal oversight
- Jointly financed administrative activities and special expenses
- Capital expenditures
- Security and Safety
- Development account
- Staff assessment

3.1.3 MULTI-YEAR BUDGETS

Unlike for its UNSAS financial statements, the United Nations will provide IPSAS financial statements on an **annual basis** and consequently will also provide a statement of comparison of budget and actual amounts on an annual basis.

This however is easier said than done, as the United Nations prepares its budget on a biennium basis.

In situation where an organization prepares multi-year budgets, IPSAS 24 requires organizations to split such multi-year budgets into individual annual budget so they can be compared to actual amounts, which are reported annually. Depending on how the multi-year budget is prepared, **judgment** is required to determine how to split it into annual budgets.

Some multi-year budgets might be based on individual, annual budgets summarized in a multi-year budget, whereas others might truly be based on a long-term budget cycle.

Example – Splitting biennial budgets into two annual budgets

While the process of splitting a multi-year budget that is based on individual, annual budgets into its components is relatively straight forward, the process of splitting a multi-year budget without such individual building stones into annual components is more complex.

As mentioned above, management will have to apply judgment when splitting such budgets into annual parts and decide on the right approach to do so, incorporating the unique aspects of the organization's budget process.

IPSAS 24 does provide an example of how a biennial budget could be split, which is as follows:

The budget for the first year could include all approved capital acquisitions (property, plant and equipment, intangibles, etc.) that occurred in the first year together with the revenue and expenses attributable to that year.

After accounting for such transactions, any amount remaining in the biennial budget will be considered to reflect the budget for the second year.

The United Nations reviewed its own process of establishing the biennium budget and has developed its own method to split its biennium budget into two annual budgets. This method will be applied by all reporting entities³ and is specified in detail in the following example for Volume I.

Example – Splitting biennium budget for Volume 1 into two annual budgets⁴***Budget for year 1:***

Initial Budget – The portion of the initial appropriation for the biennium approved by the General Assembly which is anticipated to be committed during the first year, as indicated by Programme Managers;

Final Budget – The initial budget of year 1 plus the adjustments included in the revised appropriation.

Budget for year 2:

Initial Budget – The portion of the revised appropriation not included in the Final Budget of Year 1;

Final Budget – The Initial Budget of year 2 plus the adjustments included in the final appropriation.

Please note that the guidance included in 3.1.1 on original and final budgets should be implemented using annual budgets (i.e. the split budgets), not the biennium budgets.

³ As Peacekeeping operates on an annual budget cycle, there is no need to split Peacekeeping's budget into individual years.

⁴ As per the United Nations' IPSAS Policy Framework.

3.2 Actual amounts on a comparable basis

The aim of the statement of comparison of budget and actual amounts is to increase transparency and close the cycle of accountability: Were resources used in line with the approved budget?

In order to do such a comparison, the actual amounts have to be provided, on a basis that is comparable to the budget.

The actual amounts on a comparable basis for the period should be presented in line with the budget: same basis, same scope and same presentation.

3.2.1 BASIS OF BUDGET

As mentioned above, the United Nations' budget is prepared on a modified cash basis, and for comparative purposes, actual amounts shown in the statement of comparison of budget and actual amounts should consequently also be on a **modified cash basis**.

3.2.2 SCOPE OF BUDGET

Besides being prepared on the same basis as the budget, actual amounts should also cover the **same scope** as the budget, or in other words should cover the same period and extent of activities.

For example, the budget might only cover certain programs or activities of the organizations. To make the comparison meaningful, actual amounts for activities that are not covered by the budget should not be included.

Similarly, if the budget covers a different period than the financial statements, the actual amounts used in the comparison should be amended to be in line with the budget.

United Nations reporting entities should only report on Regular Budget and Voluntary Contributions in the **statement of comparison of budget and actual amounts**. Other extra-budgetary amounts should not be included in this statement. See section 6.3 below for a complete list of budgets which should be reported on under IPSAS 24.

Other extra-budgetary funds are however in most cases received in cash from other entities and will therefore appear in the cash-flow statement. These amounts will therefore represent an entity difference in the reconciliation of the actual amounts in the financial statements and actual amounts on a comparable basis as per section 4 below.

3.2.3 PRESENTATION OF BUDGET

Depending on the focus of the budget and the decisions made in the financial statements, it is possible that expenses are classified differently in the budget and the financial statements. Such differences should be avoided in the comparison and **the presentation** should be based on the **approach** chosen for the **budget**.

In order to establish actual amounts on a comparable basis, adjustments for these potential differences need to be made. IPSAS 24 refers to this concept in the terms of the reconciliation of actual amounts in the financial statements to actual amounts on a comparable basis and requires the inclusion of this reconciliation in the notes to the financial statements. The potential differences mentioned above are referred to as **basis, timing, entity and presentation differences** and the topic is discussed in detail in section 4⁵.

3.2.4 ESTABLISHING ACTUAL AMOUNTS ON A COMPARABLE BASIS

When thinking about the nature of the actual amounts on a comparable basis, there are generally two ways to establish them:

- Starting with actual cash flows included in the statement of cash flows and adjusting such amounts for any non-cash transactions included in the budget.
- Starting with budgeted amounts and adjusting for actual performance levels.

IPSAS 24 is silent on how to establish the actual amounts and the United Nations can therefore freely choose its approach based on the established processes and the existing flows of information.

While this might seem complex, one thing to bear in mind is that the actual amounts on a comparable basis are very similar to the information reported under UNSAS accounting framework which is a modified cash basis accounting framework. To a certain extent, the United Nations can therefore fall back on the approach taken under UNSAS to prepare its actual numbers.

Flowchart – Actual amounts on a comparable basis

According to its budget for 2017, the United Nations expected to spend \$250,000,000 in cash on ongoing maintenance of its properties.

At the end of the year, the United Nations goes through an exercise of assessing how much was actually spent on ongoing maintenance and how much is still obligated and then records the sum of the two amounts as the actual on a comparable basis.

⁵ More practical guidance in terms of how actual amounts on a comparable basis could be established can be found in 6.1.2.

Please note that the total amount established for actual amounts on a comparable basis will be used as the starting point for the reconciliation of actual amounts on a comparable basis and cash flows recorded in the cash flow statement (section 4).

3.3 Explanation of material differences

Once the organization has prepared its statement of comparison of budget and actual amounts, it is in a position to identify differences between those amounts. In addition to explanation for material differences between the original and final budget, IPSAS 24 requires that the United Nations provide an **explanation for those differences between budget and actual amounts** that are material to ensure readers of the financial statements understand the significant departures from the approved budget that the United Nations is publicly accountable for.

To simplify the identification of material differences, the United Nations has decided to consider any such differences as material that exceed **10%** of the budget amount.

Similar to the information to be provided for material differences between the original and final budget, the United Nations has the option to provide the explanations of material differences in other documents than the financial statements, as long as that document is issued and cross referenced in conjunction with the financial statements.

4 RECONCILIATION OF ACTUAL AMOUNTS AND ACTUAL AMOUNTS ON A COMPARABLE BASIS

As mentioned above, in addition to providing an overview of the approved budget and actual amounts on a comparable basis, IPSAS 24 also requires the United Nations to provide a reconciliation from its actual amounts on a comparable basis to its cash flows from operating, investing and financing activities presented in the statement of cash flows (see section 4.5).

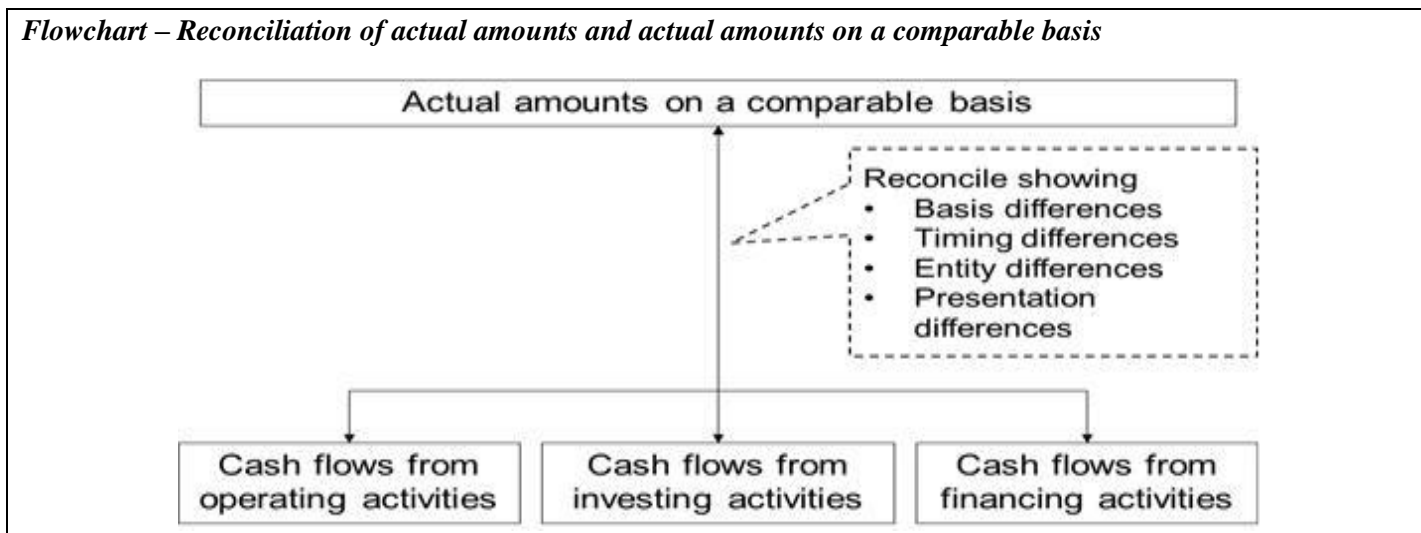
While the standard provides the option to include the reconciliation as part of the statement of comparison of budget and actual amounts, the United Nations has decided to provide the reconciliation as a separate item in **the notes to the financial statements**.

Rather than simply provide a list of reconciling items, the standard requires organizations to group the reconciling items into specific categories in order to assist the users of the financial statements in understanding the differences between the actual amounts on a comparable basis and the cash flows recognized in the basic financial statements.

The categories to be used by the United Nations are given by the standard and are as follows:

- Basis differences;
- Timing differences;
- Entity differences; and
- Presentation differences.

Flowchart – Reconciliation of actual amounts and actual amounts on a comparable basis



The starting point of this reconciliation would be the total of actual amounts on a comparable basis, as included in the statement of comparison of budget and actual⁶.

4.1 Basis differences

Basis differences occur when the approved **budget** is prepared on a **basis other** than the **accounting basis**.

As mentioned above, IPSAS 24 requires organizations to reconcile their actual amounts on a comparable basis to the cash flows from operating, investing and financing activities. As the United Nations' budget is prepared on a modified cash basis, whereas the statement of cash flows included in the financial statements under IPSAS only includes actual cash flows, the expectation would be that all **non-cash elements of the budgetary results** would be shown as reconciling items.

Example – basis differences

Examples of the basis differences to be included in the United Nations' reconciliation of actual on a comparable basis and cash flows from operating, investing and financing activities would be as follows:

- Unliquidated obligations;
- Payments against prior year obligations;
- Payments against future year obligations.

Example – Payments against prior year obligations

According to the budget for one of its peacekeeping missions, the United Nations expects to make a payment to one of its implementing partners in **late June 2017**. The funds for this payment have been approved and committed and therefore included as an **expense in the budget for the financial year ending 30 June 2017**.

Due to some delays in the project, the cost related to the approved amounts was however not incurred until July 2017 and only **settled in August 2017**. Consequently, the **cash flow occurred in the financial year ending 30 June 2018**, whereas the expenditure for budget purposes was recorded in the year ending 30 June 2017.

This situation would lead to a **basis difference** to be recorded in the reconciliation of cash flows and actual amounts on a comparable basis.

⁶ As noted in section 4.4, the expectation is that the total for actual amounts on a comparable basis would be included as an operating cash flow and not split into investing and financing. This is due to the fact that the United Nations' budget is not split or presented in such detail.

Example – Unliquidated obligations

At the end of the year, the budget of the United Nations still shows \$20m of unliquidated obligations for open commitments and purchase orders.

As these items are still open, no cash flows have occurred relating to such transactions and consequently, the \$20m would not be reflected in the statement of cash flows included in the IPSAS financial statements. Consequently, these \$20m would be a reconciling item between actual amounts on a comparable basis and the cash flows from operating, investing and financing activities.

As the amount is included as an expense for budget purposes, but does not reflect a cash flow for IPSAS purposes, it is added to the actual amounts on a comparable basis.

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Total
Actual amounts on comparable basis as presented in the comparison of budget and actual amounts	X	-	-	X
Basis differences				
Unliquidated obligations	\$20,000,000 ⁷	X	X	X
XXX	X	X	X	X
Timing differences				
XXX	X	X	X	X
Entity differences				
XXX	X	X	X	X
Presentation differences				
XXX	X	X	X	X
Actual amounts in the Statement of Cash Flows	X	X	X	X

When assessing basis differences, it is important not to confuse them with presentation differences (see section 4.4).

⁷ For purposes of this example, the assumption is that the \$20m relates to operating activities.

4.2 Timing differences

Timing differences occur when the **budget period differs from the reporting period** reflected in the financial statements.

While the budget of the United Nations is generally prepared on a biennium basis, it will be split into the two years to facilitate the reconciliation to the financial statements. The expectation is therefore that no timing differences will exist that should be included in the reconciliation.

4.3 Entity differences

Entity differences occur when the **budget omits programs** or entities that **are part of** the entity for which the **financial statements** are prepared.

Example – entity differences

While the Regular Budget prepared for Volume I includes the assessed contributions made by member states, it does not include any voluntary contributions received for one of its specific trust funds.

As voluntary contributions would be included in the cash flow statements for Volume I, any voluntary contributions received for one of its trust funds would consequently result in an entity difference.

Let's assume for the purposes of this example that the amount received as a voluntary contribution is \$50,000,000.

As the voluntary contributions would be excluded from the actual amounts on a comparable basis, but included in the cash flows, they should be added to the former (i.e. added to the actual amounts on a comparable basis).

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Total
Actual amounts on comparable basis as presented in the comparison of budget and actual amounts	X	-	-	X
Basis differences				
XXX	X	X	X	X
Timing differences				
XXX	X	X	X	X
Entity differences				
Voluntary contributions	\$50,000,000	X	X	X
XXX	X	X	X	X
Presentation differences				
XXX	X	X	X	X
Actual amounts in the Statement of Cash Flows	X	X	X	X

4.4 Presentation differences

Presentation **differences** are due to differences **in the format and classification** approaches adopted for the presentation of the statement of cash flows and the statement of comparison of budget and actual amounts.

An example of format and classification differences would be the fact that the amounts included in the comparison of budget and actual amounts tend not to be separated in operating, investing and financing activities, which is the classification of transactions shown in the statement of cash flows.

Generally, all of the expenses included in the budget of the United Nations are for operating purposes and the expectation is therefore that the total for actual amounts on a comparable basis would be shown as an operating cash flow.

Example – presentation differences

During the year, the United Nations paid \$10,000,000 for a new office building.

When comparing the statement of comparison of actual and budget and the cash flow statement, the treatment of this outflow is similar in both. As it was budgeted for the current year, it shows up as an expense in the comparison of budget and actual amounts and also shows up as a cash outflow in the statement of cash flows.

However, the presentation of the transaction is slightly different in each statement: In the statement of comparison of budget and actual, it shows up as one of many transactions that occurred as part of the United Nations’ operations. In the statement of cash flows, it is classified as a cash flow from investing activities.

This difference in format and classification should be included in the reconciliation as a presentation difference.

As it was included as expenditure under operating activities for budget purposes, it should be added to that amount and deducted in the column summarizing cash flows from investing activities.

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Total
Actual amounts on comparable basis as presented in the Budget and Actual Comparative Statement	X	-	-	X
Basis differences				
XXX	X	X	X	X
Timing differences				
XXX	X	X	X	X
Entity differences				
XXX	X	X	X	X
Presentation differences				
Purchase of office building	\$10,000,000	(\$10,000,000)		
XXX	X	X	X	X
Actual amounts in the Statement of Cash Flows	X	X	X	X

4.5 Cash flow considerations

As IPSAS 24 requires reconciliation of actual amounts on a comparable basis with cash flows from operating, investing and financing activities, some general information on the differentiation between such cash flows is provided in this paper. More detailed guidance on the statement of cash flows can be found in the United Nations Policy Framework.

4.5.1 CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operating activities generally represent the movements in cash and cash equivalents **resulting from the operations** shown in the statement of financial performance to arrive at surplus or deficit for the period. Cash flows from operating activities also include any cash flows that do not meet the definition of cash flows from investing and financing activities.

The separate disclosure of operating activity cash flows allows the user of the financial statements to assess the extent to which the operating activities generate cash flows to maintain the operating capability of the entity and support the cash flows for financing and investing activities.

Typical examples of cash flows from operating activities are as follows:

- Cash receipts from grants, donations and other appropriations paid with the intention to fund the United Nations' main programs and operations;
- Cash receipts from charges for goods and services provided by the United Nations;
- Cash payments to suppliers for goods and services; and
- Cash payments to and on behalf of employees.

4.5.2 CASH FLOWS FROM INVESTING ACTIVITIES

IPSAS 2 *Cash flow statements* defines investing activities as the **acquisition and the disposal of long-term assets and other investments** not included in cash equivalents.

Cash flows from investing activities, therefore, generally include the cash effects of transactions relating to the acquisition and disposal of any long-term asset or current asset investment (other than those regarded as cash equivalents). This includes cash flows relating to the acquisition or disposal of equity interests in other entities.

The disclosure of cash flows from investing activities provides users of the financial statements with information on the extent of expenditure that has been incurred in order to generate the future cash flows and profits of the business.

Please note that only cash outflows that result in an asset being recognized in the statement of financial position are eligible for classification as investing activities.

Typical examples of cash flows arising from investing activities are:

- Payments to acquire long-term assets (including property, plant and equipment, intangibles and payments relating to capitalized development costs and self-constructed property, plant and equipment);
- Receipts from sales of long-term assets;
- Payments to acquire equity or debt instruments of other entities;
- Receipts from the sale of equity or debt instruments of other entities;
- Advances and loans made to other parties; and
- Receipts from the repayment of advances and loans made to other parties.

4.5.3 CASH FLOWS FROM FINANCING ACTIVITIES

IPSAS 2 provides a very specific definition of financing activities:

Financing activities are activities that result in **changes in the size and composition of the contributed capital and borrowings of the entity**.

Cash flows from financing activities therefore generally comprise receipts or payments in relation to the obtaining, servicing and repayment or redemption of debt and equity sources of finance.

Separate disclosure of the cash flows from financing activities is useful to the users of the financial statements when determining the manner in which operating and investing activities are being financed.

Considering the nature of the United Nations' operations, the expectation would be that the cash flows from financing activities would be fairly limited.

Having said that, typical examples of such cash flows are as follows:

- Repayments of amounts borrowed; and
- Capital element of finance lease repayments.

5 DISCLOSURES

Besides providing a statement of comparison of budget and actual amounts and reconciliation from such actual amounts to cash flows from operating, investing and financing activities, IPSAS 24 also requires organizations to disclose some other specific information regarding the budget in the notes to the financial statements.

Such specific requirements are as follows:

- 1) Provide information as to the **budgetary and classification basis** used in the approved budget. The expectation would be that this information would be included as part of the disclosure note providing details on the budget reconciliation (section 4).

Example – disclosure note on basis of budget

The budget and financial statements of the United Nations are prepared using a different basis for preparation and classification.

The statement of financial position, statement of financial performance, statement of changes in net assets and statement of changes in cash flows are prepared on a full accrual basis using a classification based on the nature of expenses in the statement of financial performance.

The United Nations' budget is established on a modified cash basis and the statement of comparison of budget and actual amounts is prepared on that basis. As the budget is generally summarized by budget part and section, the expectation would be that the statement of comparison of budget and actual amounts would also follow that presentation. The different budget parts are:

- Overall policy-making, direction and coordination
- Political affairs
- International Justice and law
- International cooperation for development
- Regional co-operation for development
- Human rights and humanitarian affairs
- Public information
- Common support services
- Internal oversight
- Jointly financed administrative activities and special expenses
- Capital expenditures
- Security and Safety
- Development account
- Staff assessment

- 2) The disclosure notes to the financial statements should include some information as to what **period** is covered by the approved budget. This information is also relevant for the identification of timing differences (section 4.2).
- 3) The disclosure notes to the financial statements should also provide information as to what is included in the **scope of the approved budget**, i.e. what organizations and what programs. This assessment is important when determining whether any entity differences exist (section 4.3).

Finally, please note that IPSAS 24 does not require the disclosure of comparatives for the information required by the standard.

6 CASE STUDY

6.1 Budget vs. actual amounts on a comparable basis for Volume I

This case study provides an example of what the comparison of budget and actual amounts on a comparable basis for Volume I could look like. Specifically, it also addresses the question of which differences should be explained.

As required by IPSAS 24, the comparison will be provided in a separate financial statement referred to as the **statement of comparison of budget and actual amounts**.

When preparing this statement for its financial statements, the United Nations goes through three key steps:

1. Identify budget amounts to be used;
2. Establish actual amounts on a comparable basis; and
3. Identify and explain material differences.

6.1.1 BUDGET AMOUNTS TO BE USED IN COMPARISON

While details on the budget amounts to be included in the comparison can be found in section 3.1 of this paper, the key aspects are as follows:

- The actual amounts on a comparable basis should be compared to the budget the United Nations is publicly accountable for. Information on changes between the original budget and the final budget should be provided.
- Professional judgment should be applied to determine the appropriate aggregation of budget levels, but generally the classification should be in line with the classes and headings provided to the authoritative bodies for approval.
- Multi-year budgets should be broken down into annual budgets.

Incorporating this guidance, in its Volume I, the United Nations will compare actual amounts on a comparable basis to the Regular Budget, which was approved by the General Assembly. Information on changes between this original budget and the final budget will be provided in the notes to the financial statements alongside information on any differences greater than 10%.

As the Regular Budget for Volume I is a biennium budget, the United Nations has decided to split the budget into annual parts as follows:

Budget for year 1:

Initial Budget – The portion of the initial appropriation for the biennium approved by the General Assembly which is anticipated to be committed during the first year, as indicated by Programme Managers;

Final Budget – The initial budget of year 1 plus the adjustments included in the revised appropriation.

Budget for year 2:

Initial Budget – The portion of the revised appropriation not included in the Final Budget of Year 1;

Final Budget – The Initial Budget of year 2 plus the adjustments included in the final appropriation.

Finally, as per UN policy framework, the comparison will be made on the level of individual budget sections.

6.1.2 ESTABLISH ACTUAL AMOUNTS ON A COMPARABLE BASIS

As a next step, the United Nations needs to establish the actual amounts on a comparable basis to the budget.

Specifically, this means that the actual amounts and the budget should have the same basis of preparation, cover the same period and scope, and present information in the same way.

With regards to Volume I, the details for these aspects are as follows:

Basis of preparation	Modified cash basis
Period covered	In line with IPSAS requirements, the period covered will be the same as the statement of financial performance and the cash flow statements: one year
Scope include	Operations covered by Regular Budget
Presentation	Presentation based on budget sections submitted to authoritative bodies

As mentioned in section 3.2.4, there are generally two ways to establish the nature of the actual amounts on a comparable basis:

- Starting with actual cash flows included in the statement of cash flows and adjusting such amounts for any non-cash transactions included in the budget.
- Starting with budgeted amounts and adjusting for actual performance levels.

IPSAS 24 is silent on how to establish the actual amounts and the United Nations can therefore freely choose its approach based on the established processes and the existing flows of information.

While this might seem complex, one thing to bear in mind is that the actual amounts on a comparable basis are very similar to the information reported under UNSAS as the UNSAS accounting framework is a modified cash basis accounting framework.

To a certain extent, the United Nations can therefore fall back on the approach taken under UNSAS to prepare its actual numbers.

6.1.3 IDENTIFY AND EXPLAIN MATERIAL DIFFERENCES

Having said all this, an example of how the statement of comparison of budget and actual amounts could look like is as follows:

In \$ thousands (unless otherwise indicated)	Original budget ⁸	Final budget	Actual amounts on a comparable basis	Difference ⁹	Difference ¹⁰ (%)
Overall policy-making, direction and coordination	388,720	399,892	352,982	-46,910	<i>-11.73%</i>
Political affairs	624,219	714,537	653,981	-60,556	-8.47%
International Justice and law	48,428	46,733	44,672	-2,061	-4.41%
International cooperation for development	217,156	223,127	212,982	-10,145	-4.55%
Regional co-operation for development	263,228	259,328	243,010	-16,318	-6.29%
Human rights and humanitarian affairs	150,969	155,441	127,821	-27,620	<i>-17.77%</i>
Public information	93,354	95,859	92,673	-3,186	-3.32%
Common support services	288,985	297,445	289,122	-8,323	-2.80%
Internal oversight	19,720	17,608	16,892	-716	-4.07%
Jointly financed administrative activities and special expenses	62,624	59,464	54,928	-4,536	-7.63%
Capital expenditures	30,633	30,522	28,126	-2,396	-7.85%
Security and Safety	119,645	117,077	112,892	-4,185	-3.57%
Development account	11,826	11,826	10,829	-997	-8.43%
Staff assessment	258,511	279,360	267,102	-12,258	-4.39%
Total	2,578,015	2,708,217	2,508,012	-200,205	-7.39%

While the above statement will be included as a separate financial statement, the additional narrative information required on differences will be provided in the notes to the financial statements.

⁸ For example purposes, the budget included in the financial statements for the period ending December 2011 were used as the basis for the example. The budget shown in those financial statements was divided by 2 to reflect the split into annual budgets.

⁹ Reflects \$ difference between final budget and actual on a comparable basis.

¹⁰ Reflects percentage difference between final budget and actual on a comparable basis. Based on the thresholds set by the United Nations, the differences shown in bold and italic need to be explained.

6.1.3.1 Differences between original and final budget

The provision of information on differences between the original and final budget is not a completely new requirement for the United Nations. Under UNSAS, the United Nations also provided such information, which it can now use as a starting point for the required IPSAS disclosure.

The information provided under UNSAS for a Peacekeeping Operation (UNIFIL) for 2011-12 was as follows:

United Nations Interim Force in Lebanon (UNIFIL)

Expenditure for the period from 1 July 2011 to 30 June 2012 as at 30 June 2012

(Thousands of United States dollars)

	Appropriation			Expenditure			Balance (7)=(3)-(6)
	Original distribution ^a (1)	Redeployment (2)	Revised distribution (3)	Disbursements (4)	Unliquidated obligations (5)	Total expenditure (6)	
Military and police personnel	312 578	(15 835)	296 743	268 713	27 939	296 652	91
Civilian personnel	98 656	14 085	112 741	112 567	119	112 686	55
Operational requirements	134 237	1 750	135 987	88 123	47 842	135 965	22
Subtotal	545 471	–	545 471	469 403	75 900	545 303	168
Prorated costs							
United Nations Logistics Base	5 320	–	5 320	5 320	–	5 320	–
Support account for peacekeeping operations	29 541	–	29 541	29 541	–	29 541	–
Subtotal	34 861	–	34 861	34 861	–	34 861	–
Total^b	580 332	–	580 332	504 264	75 900	580 164	168

^a In accordance with General Assembly resolution 65/303.

^b In addition, voluntary contributions in kind of \$323,764 and \$163,484 were received from France and Portugal, respectively, for accommodations equipment and supplies, for which budgetary provisions have not been made.

This includes the **original budget** (1 - original distribution) and **final budget** (3 - revised distribution), the **actual amounts on a comparable basis** (6 - total expenditure), and also the difference between final budget and actual amounts (7 – balance). It is these amounts that can be used for the statement of comparison of budget and actual amounts in 6.1.3 above.

Ideally, the information to be provided in the disclosure notes to the IPSAS financial statements would follow the same classification as the statement of comparison of actual amounts and budget. In addition, the

disclosure note should also include a brief summary of the actual reasons for differences in the original and final budget, as well as the differences between final budget and actual amounts on a comparable basis ¹¹.

Note – it is not compulsory to present the differences between original and final budget in the statement of comparison of budget and actual amounts. As noted in 6.1.3 above, this information will not be presented in the United Nations financial statements. It is however an IPSAS requirement to provide a narrative disclosure describing any material differences between original and final budgets.

6.1.3.2 Differences between final budget and actual amounts on a comparable basis

As mentioned above, any material differences between the final budget and the actual amount on a comparable basis should be included in the notes to the financial statements. In the example above, all such material differences (>10%) are identified in bold and italic. Each of these differences should be explained on its own.

Example – explanation of material difference for human rights and humanitarian affairs

The United Nations spent less than budgeted on human rights and humanitarian affairs during the year as the various projects ongoing during the year required less than expected support from General Temporary Assistance, funding for which was included in the final budget ¹².

6.2 Reconciliation of actual amounts on a comparable basis and actual amounts in financial statements

Following the preparation of the **statement of comparison of budget and actual amounts**, it is also necessary to reconcile the actual amounts on a comparable basis and the actual amounts in the cash flow statement. This may be disclosed on the face of the statement of comparison of budget and actual amounts but is usually instead disclosed in a note to the accounts.

¹¹ Please note that the United Nations does not have to include the information in the financial statements, but can also refer to another reporting containing this information as long as this other report is issued before, at the same time or in conjunction with the financial statements. Cross references should be incorporated in the financial statements disclosure note.

¹² In the actual financial statements, more project specific explanations should be provided.

Example – reconciliation between actual amounts on a comparable basis and cash flow statement

Building on the example above in section 6.1.3 above, the statement of comparison of budget and actual amounts shows a total actual amount on a comparable basis of \$2,508,012,000.

By contrast, the cash flow statement shows the following cash flows:

	\$
• Cash flows from operating activities	401,484,000
• Cash flows from investing activities	(54,691,000)
• Cash flows from financing activities	0
• Net increase in cash and cash equivalents	346,793,000

Investigation showed the following differences which were included in the actual amounts on a comparable basis but excluded from the cash flow statement, or vice-versa:

Difference	Value (\$'000)
ULOs for open commitments	65,488
Payments against prior-year obligations	23,786
Payments against future-year obligations	12,897
RB funds received in cash	2,500,000
XB funds received in cash	326,000
Purchase of PPE	55,341
Sale of PPE	650

Presentation within reconciliation:

Using the above information, the reconciliation between the actual amounts on a comparable basis and the cash flow statement can be created, using the actual amounts on a comparable basis of \$2,508,012,000 as a starting point.

Note – *for the purposes of this example, as per section 4.4 above, the expectation is that the actual amount on a comparable basis would be shown as an operating cash flow in this reconciliation.*

The actual amounts on a comparable basis should be reconciled to the cash flow statement in the following categories:

- Cash flows from operating activities;
- Cash flows from investing activities; and
- Cash flows from financing activities.

Once the differences have been identified, as per the table above, they should be reviewed in order to determine what type of difference they represent. In addition, this review can also assist in determining whether the differences are to be added or subtracted to the actual amounts on a comparable basis to arrive at the values in the cash flow statement.

The analysis below summarises how the differences identified in this example have been classified:

Difference	Value (\$'000)	Included in actual amounts on a comparable basis	Included in cash flow statement?	Difference type	Explanation
ULOs for open commitments	65,488	✓	✗	Basis	Obligations are unliquidated thus cash has not yet been paid in the year; difference arises as budget is prepared on a basis other than the accounting basis.
Payments against prior-year obligations	23,786	✗	✓	Basis	Cash is paid by the United Nations in the year but this is not reflected in the budget for the year; difference arises as budget is prepared on a basis other than the accounting basis.
Payments against future-year obligations	12,897	✗	✓	Basis	
RB funds received in cash	2,500,000	✗	✓	Basis	Actual amounts on a comparable basis do not report cash funding received but these amounts are included in the cash flow statement. This is not an entity difference as these funds relate to the regular budget of Volume I.
XB funds received in cash	326,000	✗	✓	Entity	Extrabudgetary funding (e.g. voluntary contributions) sits outside of the regular budget but it is however included in the cash flow statement.
Purchase of PPE	55,341	✓	✓	Presentation	This is included in both statements, however in different categories, hence this is a presentation difference only; the net impact on the totals is zero.
Sale of PPE	650	✓	✓	Presentation	

Note – as the budgetary information and the financial statements cover the same reporting period, there are no timing differences noted.

Using this analysis, the following reconciliation may be prepared:

In \$ thousands (unless otherwise indicated)	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Total
Total actual amount on a comparable basis	(2,508,012)	-	-	(2,508,012)
Basis differences	2,528,805	-	-	2,528,805
<i>ULO for open commitments</i>	<i>65,488</i>	-	-	<i>65,488</i>
<i>Payments against prior-year obligations</i>	<i>(23,786)</i>	-	-	<i>(23,786)</i>
<i>Payments against future-year obligations</i>	<i>(12,897)</i>	-	-	<i>(12,897)</i>
<i>RB funds received</i>	<i>2,500,000</i>	-	-	<i>2,500,000</i>
Timing differences	-	-	-	-
Entity differences	326,000	-	-	326,000
<i>XB funds received</i>	<i>326,000</i>	-	-	<i>326,000</i>
Presentation differences	54,691	(54,691)	-	-
<i>Purchase of PPE</i>	<i>55,341</i>	<i>(55,341)</i>	-	-
<i>Sale of PPE</i>	<i>(650)</i>	<i>650</i>	-	-
Actual Amount in the Statement of Cash Flows	401,484	(54,691)	0	346,793

The figures in italics highlight the identified differences from the above analysis. These do not need to be presented on the face of the reconciliation, but can instead be described in a narrative note below the table if material.

The final reconciliation may be presented in the notes to the accounts as follows:

In \$ thousands (unless otherwise indicated)	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Total
Total actual amount on a comparable basis	(2,508,012)	-	-	(2,508,012)
Basis differences	2,528,805	-	-	2,528,805
Timing differences	-	-	-	-
Entity differences	326,000	-	-	326,000
Presentation differences	54,691	(54,691)	-	-
Actual Amount in the Statement of Cash Flows	401,484	(54,691)	0	346,793

6.3 Budget to be used for each reporting entity

UN Secretariat Reporting Entities	Budgets to be Included in Financial Statements
Volume I	UN Regular Budget approved by the General Assembly
Volume II	Peacekeeping Operations Budget (All PK missions and support) approved by the General Assembly
UNEP	1. The Environment Fund Budget approved by UNEP’s Governing Council
	2. Multilateral Environmental Agreements Budgets
	3. The Multilateral Fund Budget
UNHABITAT	The Foundation Budget approved by UNHABITAT's Governing Council
UNODC	UNODC's budget approved by the 1) Commission on Crime Prevention and Criminal Justice and the 2) Commission on Narcotic Drugs
ITC	ITC's Regular Budget (50% UN and 50% WTO)
ICTR, ITY, Residual Mechanism	Budget approved by the General Assembly
UNITAR	UNITAR's budget approved by its Board of Trustees
UNCC	UNCC's budget approved by its Governing Council, however as this is not publicly available, it is not in the scope of IPSAS 24.