



# ADAA – IPSAS Accounting briefing paper

IPSAS 24 by ADAA's Amr Whaby

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## Abu Dhabi government entity regulatory requirements

The budget implementation guidance and budget approval letters issued by the Abu Dhabi Department of Finance (DOF) require government entities to provide DOF on a quarterly basis a comparison on a line by line basis of:

- Actual revenue compared to budget.
- Actual operating cost compared to budget.
- Actual spending on capital projects compared to budget.

IPSAS 24 requires a comparison of actual and budget included in the financial statements of entities that are required or elect to make public their approved budget. Abu Dhabi Government entities are not required to make public their approved budget although they can choose to do so, and therefore do not meet this criteria.

However, if an entity chooses to apply IPSAS 24 on a quarterly basis the entity will also comply with the regulatory disclosure reporting requirements of DOF.

IPSAS 24.IN1 *“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 oversight of the financial dimensions of operations.”* Compliance with IPSAS 24 assists government entities to discharge their accountability obligations, enhances transparency of their reporting by demonstrating compliance with the budget for which they are accountable and provides comparative information of actual financial performance to the budgeted result.

Another reason for applying accounting standards even when an entity is not required to do so is embedded in IPSAS 1.15 *“The objectives of...financial statements are to provide information...that is useful...in making and evaluating decisions about the allocation of resources. Specifically...to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it by providing information:*

- A) About the sources allocation and uses of financial resources.*
- B) About how the entity financed its activities and met its cash requirements.*
- C) That is useful in evaluating the entities ability to finance its activities and to meet its liabilities and commitments.*
- D) About the financial condition of the entity and changes in it.*
- E) Useful in evaluating the entity’s performance in terms of service costs, efficiency, and accomplishments.”*

This is because financial statements have a prospective role in predicting the level of resources required for continuing to operate at the determined level of service.

The IPSASB utilize the knowledge and experience of the IASB gained in formulating IFRSs, in creating IPSAS. IPSAS 1 is based on IAS 1. IAS 1 does not contain the prescriptive information requirement of IPSAS 1E).

The focus of IAS 1 is on information that is useful in making economic decisions. There is no further information in illustrative examples or in Basis of Conclusions to IPSAS 1.

Government entities will need to determine the information to present that is most useful in evaluating their performance in terms of service costs and efficiency and accomplishments.

Most entities are good at describing their accomplishments. It is not difficult to describe the things we have done well.

Providing useful information on matters such as service costs and efficiency is more difficult because it can highlight where services are costly and inefficiencies lie.

However, that is the point, the objective of IPSAS 24 is to *“ensure public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budgets...in achieving their results.”*

## IPSAS 24 requirements

IPSAS 24.14 *“an entity shall provide a comparison of the budget amounts for which it is held publicly accountable and the actual amounts... 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.*
- c) By way of note disclosure an explanation of material differences between the budget, for which the entity is held publically accountable and actual amounts.”*

IPSAS 24.25 encourages entities to aggregate information and to present it at the level of legislative or other authoritative body so that comparison are made at that level.

We agree on an entity comparative basis this makes sense so that KPIs such as cost of service per employee can be made.

However, the cost of service for each service provided is just as relevant to understand.

We therefore encourage entities to provide disaggregated information on the cost of services too.

IPSAS 24.29 requires presentation of an explanation for whether changes between the original and the final budget amounts represents reallocations between the budget line items (chapters), or other factors (additional budget):

- By way of note disclosure in the financial statements, or
- In a report issued before, at the same time as, or in conjunction with the financial statements, and include cross reference to the report in the notes to the financial statements.

Understanding the reasons why budgeted amounts changed assists users in understanding government policy for delivery of the service.



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IPSAS 24.34 *“Entities may adopt different bases of accounting for the preparation of their financial statements. For example, a government may adopt the accrual basis for its financial statements and the cash basis for its budget...”* For this reason an entity shall explain in the notes to the financial statements the budgetary basis and classification basis adopted of the information to assist users to understand the relationship between the budget and accounting information disclosed.

IPSAS 24.47 *“The actual amounts presented on a comparable basis to the budget in accordance with paragraph 31 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 financial statements, identifying separately any basis, timing and entity differences:*

- 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*
- 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 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.”*

Providing an explanation of the material differences between actual and budget amounts assists users to understand the reason for material departures from the approved budget.

Explaining differences may be perceived negatively and provide temptation for explanations to be opaque. This is opposite to the truth. Differences should be seen positively.

It is very easy with a spending budget to match actual costs to budget one simply spends or does not spend accordingly. That action could have a significant impact on service delivery.

- Not enough spend could mean service delivery fails.
- Too much spend means the service might have been delivered at lower cost.

Differences should therefore be embraced and a careful explanation of them provided in conjunction with an explanation of the impact of the difference on service delivery. This achieves the objectives transparency and accountability.



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### Example Statement of Comparison of Budget and Actual Amounts

	Original Budget 2016 AED	Final Budget 2016 AED	Actual on comparable basis 2016 AED	Difference 2016 AED
<b>RECEIPTS</b>				
Government grants and subsidies	X	X	X	X
Rendering of services	X	X	X	X
Sale of goods	X	X	X	X
Finance income	X	X	X	X
Other income, rentals and agency fees	X	X	X	X
<b>Total receipts</b>	X	X	X	X
<b>PAYMENTS</b>				
<b>Salaries, wages and other benefits</b>				
Basic salary and other allowances	(X)	(X)	(X)	(X)
Tuition allowance	(X)	(X)	(X)	(X)
Contributions to pension fund and retirements benefit plan	(X)	(X)	(X)	(X)
End of service benefits	(X)	(X)	(X)	(X)
Medical insurance	(X)	(X)	(X)	(X)
Staff training	(X)	(X)	(X)	(X)
Other expenses	(X)	(X)	(X)	(X)
<b>Total salaries, wages and other benefits</b>	(X)	(X)	(X)	(X)
<b>Other Operating expenditure</b>				
Recruitment fees	(X)	(X)	(X)	(X)
Consultancy fees	(X)	(X)	(X)	(X)
Office rent and other related expenses	(X)	(X)	(X)	(X)
Motor vehicles expenses (insurance, maintenance and fuel)	(X)	(X)	(X)	(X)
Operation and maintenance of computers, furniture and office equipment	(X)	(X)	(X)	(X)
Books and professional subscription	(X)	(X)	(X)	(X)
Advertising and corporate identity expenses	(X)	(X)	(X)	(X)
Business travel expenses	(X)	(X)	(X)	(X)
Miscellaneous expenses	(X)	(X)	(X)	(X)
<b>Total other operating expenditure</b>	(X)	(X)	(X)	(X)
<b>Capital expenditure and other</b>				
Motor vehicles	(X)	(X)	(X)	(X)
Furniture and office equipment	(X)	(X)	(X)	(X)
Computer equipment	(X)	(X)	(X)	(X)
Leasehold improvements	(X)	(X)	(X)	(X)
Intangible assets	(X)	(X)	(X)	(X)
Investments	(X)	(X)	(X)	(X)
Other assets	(X)	(X)	(X)	(X)
<b>Total capital expenditure and other</b>	(X)	(X)	(X)	(X)
<b>Total PAYMENTS</b>	(X)	(X)	(X)	(X)

The budget amounts and the financial statement amounts are prepared on a different basis. The statement of comparison of budget and actual amounts above is prepared on the same basis as the budget. Additional information about the budget and a reconciliation of amounts as per the above statement and the actual amounts in the statement of cash flows is disclosed in note X to the financial statements.

**Note:** the above statement shall be presented in accordance with the chapters and classifications indicated in PSE's approved budget.



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*Accounting briefing papers are designed to assist readers in determining their accounting treatments. However a briefing paper cannot provide a definitive answer since the treatment will depend on the facts and circumstances of each situation.*

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