RECONCILIATION OF AMOUNTS IN BUDGET EXECUTION REPORTS AND FINANCIAL STATEMENTS USING THE EXAMPLE OF THE UNITED NATIONS' FOOD AND AGRICULTURE ORGANIZATION (FAO)

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ABSTRACT

Budget execution reports and financial statements have a complementary function, but present different data on revenues, expenditures and liabilities. In order to make the differences between these reports clearer, the International Public Sector Accounting Standards (IPSAS) require reconciliation of actual amounts from budget execution reports with data in financial statements. This paper analyzes how different entities approach this reconciliation process, which makes comparisons difficult. The paper points to the need for more detailed guidance to increase comparability between these reports. An analysis of available financial statements of international organizations in the public sector, prepared in accordance with IPSAS, has identified differences in practices and insufficient explanations of these differences. Particular emphasis will be placed on the interpretation of the financial report of the UN Food and Agriculture Organization (FAO). The purpose of such measures is to strengthen transparency and ensure greater comparability of public sector financial reports, which contributes to greater credibility of financial reporting in this sector.

Introduction

One of the distinctive aspects of public sector accounting is the disclosure of budget information in financial reports, since the budget execution report is primarily intended for the general public. The budget is a key instrument in overseeing public organizations,

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with legislatures worldwide often focusing more on budgetary allocations than on the actual financial reports. While budget execution reporting has been established for a long time, the use of financial reports in the public sector was adopted at a later stage. IPSAS 24, issued by the International Public Sector Accounting Standards Board (IPSASB) in 2006, establishes guidelines for presenting budget-related information within financial reports. This standard is relevant for entities that compile their financial reports following the guidelines set by IPSASB and include budget information in public reports. However, the IPSASB does not assume responsibility for the process of planning, programming and executing the budget, as this is outside its remit. Researchers, economists, and standard setters continue to discuss whether the principles of budgeting and accounting should be aligned. There are two dominant approaches: one advocates applying the accrual basis to both systems, while the other supports maintaining cash-based budgeting, even when accounting is conducted on an accrual basis. In practice, most countries use a combination of accrual accounting and cash budgeting, which requires a reconciliation process between the two systems. Reconciliation allows financial statement users, researchers, and standard setters to identify and compare the discrepancies between budgeting and accounting practices, both across different organizations and through different time periods. The standards mandate that the actual figures reported during budget execution (management accounting) be reconciled with the financial position statement or statement of cash flows (financial accounting), especially when this information is not prepared on the same basis.

The primary purpose of reconciliation is to clarify the discrepancies between budgetary and accounting information, enabling users of financial reports to comprehend the underlying causes of these differences. In the absence of such a process, the distinctions between budgeted and accrued revenues and expenditures, as well as between cash inflows and outflows, may not be clearly understood. Reconciliation also contributes to the credibility and consistency of financial statements, providing useful data control. This study investigates a central research question: to what extent does the implementation of IPSAS 24 facilitate the proper reconciliation between budget execution reports and statements of financial position? If not, how should the reconciliation be designed so that the differences are presented clearly and comparably? The answers to this question are of importance to the application of the standard, preparers of financial statements and researchers. Authors such as Bellanca (2014) and Adam (2018) emphasize the importance of comparability of financial statements prepared under IPSAS, which is also important for the development of European Public Sector Accounting Standards (EPSAs).

A significant portion of existing research has concentrated on national and subnational government levels, while research on budget and accounting reconciliation in intergovernmental organizations is rare. This paper addresses this aspect, using examples from previous research, including Bergman (2010), Bergman & Fuchs (2017) and Mattei et al. (2020). The paper differs from research that has analyzed the reconciliation of accounting and statistics, such as those by authors such as Jones (2003) and Caruana

(2016), because it focuses on the differences between budgeting and accounting. The research aims to enhance the comprehension, clarity, and reliability of public sector financial reporting, thereby supporting the development of accounting standards and facilitating the international comparability of financial reports.

Methodological approach

This research applied the methodology of analyzing the financial statements of 44 intergovernmental organizations that prepared reports consistent with the International Public Sector Accounting Standards (IPSAS). The organizations included in the analysis are listed in Table 1, and the criterion for their selection was the accessibility of financial reports that are compiled using the accrual accounting method. Of the total number of financial statements analyzed, the majority (95%) refer to 2019, while the remaining refer to 2018 (2%) and 2017 (2%). This distribution indicates that the focus of the research was mainly on the most recent data available at the time of the study.

Table 1. List of intergovernmental organizations that participated in the research

No.	Name of organization	No.	Name of organization
1.	European Organization for Nuclear Research (CERN)	23.	United Nations Development Programme (UNDP)
2.	European Union (EU)	24.	United Nations Environment Programme (UNEP)
3.	International Residual Mechanism for Criminal Tribunals	25.	United Nations Educational, Scientific and Cultural Organization (UNESCO)
4.	EU Agency for Law Enforcement Cooperation (Europol)	26.	United Nations Population Fund (UNFPA)
5.	**Food and Agriculture Organization of the UN (FAO)**	27.	UN Human Settlements Programme (UN-Habitat)
6.	International Atomic Energy Agency (IAEA)	28.	UN High Commissioner for Refugees - UNHCR
7.	International Civil Aviation Organization (ICAO)	29.	United Nations Children's Fund (UNICEF)
8.	International Criminal Court (ICC)	30.	UN Industrial Development Organization (UNIDO)
9.	International Labour Organization (ILO)	31.	European Union Intellectual Property Office (EUIPO)
10.	*International Maritime Organization (IMO)*	32.	UN Institute for Training and Research (UNITAR)
11.	Inter Parliamentary Union (IPU)	33.	United Nations Joint Staff Pension Fund (UNJSPF)
12.	International Organization for Migration (IOM)	34.	United Nations Office on Drugs and Crime (UNODC)
13.	International Renewable Energy Agency (IRENA)	35.	United Nations Office for Project Services (UNOPS)
14.	International Trade Centre (ITC)	36.	United Nations University (UNU)

No.	Name of organization	No.	Name of organization
15.	International nuclear fusion research and engineering megaproject (ITER)	37.	United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA)
16.	International Telecommunication Union (ITU)	38.	UN Women
17.	Allied Command Operations (ACO)	39.	UN Tourism
18.	Office of Public Counsel for the Victims (OPCV)	40.	Universal Postal Union (UPU)
19.	Organization for Security and Cooperation in Europe (OSCE)	41.	World Food Programme (WFP)
20.	Pan American Health Organization (PAHO)	42.	World Health Organization (WHO)
21.	United Nations (UN)	43.	World Intellectual Property Organization (WIPO)
22.	Joint United Nations Programme on HIV/AIDS (UNAIDS)	44.	World Meteorological Organization (WMO)

Source: Prepared by the author

Of the 44 organisations analysed, the majority (41 organisations, or 93%) state in the notes to their financial reports indicate that the accounts have been prepared following the requirements of IPSAS. Three organisations (7%) – the European Union (EU), EUIPO and Europol – state that the accounts are prepared in accordance using "accounting guidelines derived from IPSAS". Beginning in 2018, the European Commissioner for Budget and Human Resources has indicated in the preface to the financial statements that the European Union's consolidated annual accounts are prepared in line with IPSAS standards.

Auditors' assessments confirm the high level of credibility of the financial statements. Out of the 44 reports, 42 (95%) have an unqualified opinion, while two (4%) have qualifications not related to budgetary information. Courts of Auditors or Auditors General of the Member States issued opinions on 38 reports, international auditors on five, and one report was conducted by an independent auditing company. The study examined key challenges in presenting budgetary information within financial reports, emphasizing the inconsistencies that hinder comparability between different organizations. Key aspects of budgeting and accounting reconciliation were examined, and the initial review of financial reports revealed significant issues, especially concerning:

- Settling balances – including budgeted revenues, expenditures, or surpluses/deficits, with actual accounting figures or cash flow reports,
- Reconciling items – which affect the understanding and design of the reconciliation process.

The impact of these issues on reconciliation was considered in the context of the requirements of IPSAS 24, which are discussed more thoroughly in the following chapter of this paper. Examples of inconsistencies and problems with comparability of financial statements were analyzed, investigating whether these problems were the result of:

- Insufficiently defined options within IPSAS, or
- Inconsistencies in the application of the standard.

These issues are key to understanding the challenges in ensuring transparency and comparability of budget and accounting data in financial reports, which forms the foundation for the subsequent development and alignment of standards.

Research results

Compliance with IPSAS 24 requirements

An analysis was conducted on the reconciliation between the figures presented in the budget execution report and those in the financial statements, in accordance with IPSAS 24, which prescribes the principles for disclosing budgetary information in financial reports. This study focuses on the principal elements outlined in IPSAS 24 requirements:

Analyzing the differences between budgeted and actual figures

According to IPSAS 24 (paragraphs 14, 21, and 31), financial reports prepared under its standards are required to present a comparison between the original budget, any revised budget, and the actual amounts achieved. The purpose of this comparison is to offer financial reports users a precise understanding of the differences between budgeted and actual outcomes, thus enhancing transparency and accountability within the public sector. Key requirements for comparison:

- Same accounting basis - Comparisons should be conducted using the same accounting method applied in the preparation of the budget, whether it is cash-based, accrual-based, liability-based, or any other method particular to the organization.
- Same classification basis - Both budgeted and actual figures should be organized according to the same classification scheme. For example, the classification may be economic (revenue and expenditure by type), functional (by sector such as health, education) or programmatic (by specific projects or programmes).
- Same entity and period - The comparison should involve the same type of entity (such as central or local government, or another public organization) and pertain to the same time frame (e.g., calendar year or fiscal year).

According to IPSAS 24, financial reports may present comparisons between budgeted and actual figures using two distinct approaches:

- A distinct report outlining the comparison between budgeted figures and actual expenditures - This is the most commonly used approach and allows a clear separation of budget information from other financial statements.
- A supplementary column included in the financial reports - This option can be applied only when both the budget execution report and the financial statement are prepared in a fully consistent manner, meaning they follow the same accounting principles and classification structure.

The application of these requirements allows users of financial statements (parliaments, auditors, researchers and citizens) to analyze differences between budget plans and actual results. This plays a key role in evaluating how effectively public resources are managed, detecting discrepancies, and enhancing accountability within the public sector.

According to research (Savić et al., 2023), many organizations still face challenges in reconciling budget and actual amounts, especially in cases where they use different accounting bases. These differences further highlight the importance of consistent application of IPSAS 24 and providing clear guidance for better understanding and comparability of budget data.

Examining the discrepancies between budgeted projections and actual outcomes

According to paragraph 14(c) of IPSAS 24, entities are obliged to report and provide explanations for significant variances between the budgeted figures and the actual outcomes, provided that the comparison is made on a comparable basis. These explanations provide context for the differences, helping users of financial statements to understand the reasons why planned budgeted amounts differ from actual results. Key components of the requirement (Zupur & Janjetović, 2023):

– Material differences - Material differences are those differences between budgeted and actual amounts that are significant enough to influence the decisions or estimates of users of financial statements. Such differences may include unforeseen expenses, uncollected revenues, changes in the economic environment or extraordinary circumstances.

– Form of disclosure - Variations can be clarified within the financial reports themselves, often through the accompanying notes that provide additional detail on the figures. Alternatively, the disclosure may be presented in another document accompanying the financial reports, as long as the notes explicitly direct users to that document.

– Comparable basis - Differences should be examined using the same accounting methods, classifications, time frames, and entity parameters as those employed in the comparison between budgeted and actual figures.

The primary aim of this disclosure is to provide financial statement users with insights into the nature and underlying reasons for the observed variances, assess budgetary discipline and efficiency in resource management, and gain insight into the factors that influenced budget execution. The explanation of material variances increases the transparency and credibility of financial reporting. It provides users (parliaments, auditors, citizens, and researchers) with relevant information which can support informed decision-making and enhance the administration of public resources. Research shows that one of the most common challenges in this process is insufficiently detailed explanation of variances. This complicates users' ability to completely comprehend the underlying causes of the variances. Enhancing the uniformity and standard of disclosures in line with IPSAS 24 requirements represents a key measure for fostering greater transparency and accountability within the public sector.

Explanation of the differences between the initial and final budget

The third requirement of IPSAS 24 (paragraph 29) requires an entity to explain differences between the original and final budgets. It is also necessary to state whether these differences are the result of reallocations within the budget or are caused by other factors (Zdravković et al., 2024). Without this explanation, the value of comparisons between budget plans and actual amounts may be limited, particularly in cases when the organization adjusts its budget within the fiscal year to better reflect actual projections.

Publication of the budget base, period and scope

The fourth requirement of IPSAS 24 concerns the required disclosures related to the budget, including the budget basis (paragraph 39), the classification basis (paragraph 39), the period (paragraph 43) and the entities included in the adopted budget (paragraph 45). The budget basis refers to the accounting basis used for the budget, which may be accrual, cash or some other basis adopted by the legislature (IPSAS 24, paragraph 7). An example of a classification approach could be an "economic classification following the GFSM 2014 framework" or a "functional classification based on COFOG" (IMF, 2014).

Aligning actual figures on a consistent basis with the amounts presented in the financial report

Entities that fail to prepare their financial statements and budgets on a comparable basis are the only ones to which the fifth requirement applies. Entities are required to present in their financial reports a reconciliation that links the actual amounts prepared on a comparable basis with those reported in the financial statements. Table 2 provides an overview of the reconciliation requirements under paragraph 47 of IPSAS 24.

Table 2. Requirements for compliance under paragraph 47 of IPSAS 24

Preparing financial statements and the budget on a comparable basis implies applying the same accounting framework, identical classification criteria, an identical scope of entities, and the same reporting period as defined in the approved budget. In this case, the financial statements and budget are reconciled and can be directly compared, which allows for easier monitoring and analysis of differences between planned and actual amounts.	The circumstances necessary for reconciliation are absent.
If the budget is formulated according to the accrual principle.	The budgetary framework needs to be aligned with: – Overall income and expenditures – This means that actual revenues and expenses must be compared with planned budget income and expenditures, for the purpose of show the differences and select the appropriate procedures for further analysis. – Net movements of cash arising from operations, investments, and financing transactions – Reconciliation is also done with actual cash flows coming from different areas of the business. This step assists in understanding actual cash inflows and outflows compared to budget plans. These reconciliations allow for better analysis and control of budget reality compared to actual flows.
If a different basis from accrual accounting is chosen for the budget.	The budget must align with the net cash flows generated through operating, investing, and financing activities. This means that actual financial inflows originating from various activities must be brought into agreement with budget plans to provide an accurate picture of how actual cash flows match budget forecasts. This process helps assess the accuracy of budget forecasts in terms of cash flows and allows for the identification of potential variances or the need for adjustments.

Source: paragraph 47 of IPSAS 24

When the budget is prepared on an accrual basis, IPSAS 24 mandates reconciliation of the budgeted figures with total revenue and expenditure, but it does not necessitate reconciliation with the accounting surplus or deficit. This approach diverges from the stipulations of IPSAS 1 (Presentation of Financial Statements), which does not mandate the disclosure of total costs. Conversely, IPSAS 24 requires matching of accounts n of the actual budget amount with net cash flows but does not necessitate matching of accounts with overall inflows and outflows. This aligns with IPSAS 1 and 2, as neither standard obliges the reporting of overall inflows and outflows. According to IPSAS on a cash flow basis (IPSASB, 2017), actual budget amounts should be reconciled to total receipts and payments. This study aims to matching of accounts, according to the IPSASB, is "to enable an entity to better and more responsibly discharge its obligations by identifying the main sources of differences between actual amounts on a budget basis and the amounts recognized in the financial statements" (IPSAS 24, paragraph 49) and "to enable users to identify the relationship between the budget and the financial statements" (IPSAS 24, paragraph 17).

Aligning the figures reported in the budget with those recorded in the accounting records or reflected in the financial statements

Under IPSAS, entities are required to match the actual amounts reported on a budget-comparable format with overall cash movement, but does not clarify which specific amounts should be reconciled. The standard, while accommodating different budget formats, refers only to "the main totals presented in the budget statement and the actual comparison" (paragraph 51). It also highlights that "this standard does not preclude the reconciliation of each main total and subtotal, or each group of items, presented in the comparison of budget and actual amounts to the equivalent amounts in the financial statements" (paragraph 49). Understanding the concept of "real figures shown in a manner comparable to the budget" varied among the financial statements reviewed. These amounts were either budgeted expenditure/receipts only or budgeted surplus/deficit (Vladisavljević et al., 2023). Organizations that present financial statements in accordance with IPSAS should provide a clear definition of 'expenditure,' since the term is not a standard accounting concept and is not explicitly defined within IPSAS. GFSM 2014 (IMF, 2014) defines expenditure for statistical purposes as "total costs and net investments in non-financial assets".

All the reports reviewed include a section comparing planned financial figures with the amounts actually reported. Table 3 presents these comparisons by category, based on the selected sample. Among the 44 international organizations examined, nine prepare two separate comparisons, while three provide comparisons that do not fit into any predefined category (see Table 3). In total, 51 comparisons were evaluated. Some show the alignment of planned figures with actual cash movements in accordance with the relevant standard, others with actual income and expenditures, and a few present both approaches. Notably, some reports do not include the standard-required comparison of planned figures with cash movements, instead presenting only a comparison with revenues and expenses.

Table 3. Comparison of budgeted actuals with accounting or cash figures in the financial reports in accordance with IPSAS

RECONCILIATION	Budget expenditures	Positive or negative budget balance	Overall
Outlays	8 (15%)	-	8 (15%)
Positive or negative accounting balance	1 (2%)	15 (29%)	16 (31%)
Net movements of cash from operations, investments, and financing	18 (35%)	10 (19%)	28 (54%)
Overall	27 (52%)	25 (48%)	52 (100%)

Source: Prepared by the author based on analyzed financial reports of international institutions

Most organizations start their reports by comparing figures with the approved budget (top line) and finish with income and expenses in the statement of financial position (bottom line). However, some entities, such as FAO, follow the opposite order, which deviates from the IPSAS requirement that "actual amounts presented on a comparable basis to the budget shall be reconciled to the actual amounts presented in the financial reports." To make reconciliations more comparable, all organizations should report in accordance with the standard and present the actual budget as the top line of the reconciliation (Savić & Bonić, 2022). Furthermore, in cash flow alignments, organizations are expected to display the budgeted actuals at the top and the net cash flows at the bottom of the report.

Of the 51 reconciliations analyzed, 27 (53%) present only expenditures in their budget and no revenues (Budget Expenditure column in Table 3), while 24 (47%) present a surplus/deficit in their budget (Budget Surplus/Deficit column in Table 3). his variability is inherent in the budget preparation process, resulting in an unavoidable lack of comparability between the reported figures. For example, seven international organizations (14%) reconcile only budget expenditures, which is not aligned with the IPSAS 24 standards, paragraph 47(a). One organization, the Universal Postal Union (UPU), prepares a budget-to-actual analysis expenditures and accounting positive/negative variance (2%), extending the standard practice, while 19 organizations (37%) reconcile budget expenditures to rather than the net cash movements arising. This is a practice that may be in accordance with IPSAS 24, paragraph 47, although the standard does not specify which amounts should be reconciled. In addition, 14 organizations (27%) provide a reconciliation between the budgeted and accrual-based surplus or deficit. This approach offers additional insight, extending beyond the requirements of IPSAS 24, which mandates reconciliation with total revenues and expenditures rather than with the positive or negative variance. For example, the EU presents a reconciliation of budget positive/negative variance and accrual positive/negative variance, but does not reconcile to net cash flows (Škrbić et al., 2023). Ten organizations, representing 20% of the sample, provide a reconciliation of the budget positive or negative variance than the net cash movements arising. For all entities using the accrual basis of budgeting, it is necessary to reconcile budget amounts to net cash flows. For instance, the ILO provides three separate comparisons between budgeted and actual figures and reconciles the total budget positive variance to net cash flows. Ten other international organizations prepare two types of budget-to-actual reconciliations: one aligning with the report of financial position and another with the report of cash flows. While preparing both alignments is mandated for entities applying the accrual basis for budgeting, none of these organizations follows the accrual method. The alignment to the report of financial position goes beyond the standard's requirements.

Differences between actual amounts in the budget and financial statements

Under IPSAS, the actual figures reported in the budget are required to be reconciled with the actual amounts shown in the financial reports, with any discrepancies clearly identified according to their basis, timing, and organizational entity. This requirement does not preclude the identification of other differences that may arise, and many organizations identify differences in presentation when reporting (Pejišević et al., 2024). Nevertheless, the majority of organizations consider it sufficient to report only the total amounts of differences in terms of accounting methods, period variations, organizational factors, and reporting formats. Some organizations, however, provide a more detailed analysis of each type of difference. The IPSASB could enhance the comparability of reconciliations across entities by offering clearer guidance on certain requirements, thereby specifying more precisely how these differences should be presented. For instance, the EU (2008) reconciles the figures reported in the budget and financial statements, but does so by separately highlighting the main revenue and expense differences rather than categorizing them according to accounting methods, period variations, and organizational factors as stipulated by the standard.

The EU (2019) emphasizes that comparing actual budget figures with recorded accounting amounts is an important method for ensuring consistency. This check is only effective if the organization does not rely on balancing items when performing the comparison. Problems can occur when different systems are used to record budgeted figures and the amounts reported in the financial records and liquidity reports, and any unexplained differences should be assigned to other comparison categories. To guarantee data reliability, balancing items should be avoided in any comparison, as their use may reduce the accuracy and comparability between budget data and financial records.

Discrepancies in the calculation basis

According to IPSAS 24, paragraph 48(a), differences in the basis of accounting arise when the authorized budget is formulated using an accounting basis other than either accrual or cash. These differences can significantly affect the understandability of the budget and its consistency with the information in the financial reports, especially when the financial reports do not provide sufficient explanation for a budget that has been prepared on an accrual basis. This reduces the value of this information for its users, as it is not clear to them how the underlying accounting differences have been reflected in the budget data. n many UN organizations, budgets are typically prepared on a cash basis, while financial reports are usually compiled on an earned basis. This method allows the use of the earned basis exclusively for financial reporting, while the budget remains cash-based. An example of this is the World Food Programme (WFP), which describes its budget basis as an “accrual basis”, with expenses and liabilities recognised only when the entity incurs the obligation. However, budget liabilities are not recognised in the financial statements, which creates a difference in reporting between the budget and the financial statements (Neševski & Bojičić, 2024). The European Union prepares its financial statements by recognizing revenues and expenses when they are incurred, whereas its budget is prepared using a combination of this approach and the cash basis. Some UN organizations, such as the ILO, IMO, UNOPS, UNWTO, UPU and WIPO, use a modified accrual basis for their budgets, while many others (such as UNCDF, UNEP, UNITAR and UNDP) refer to their basis as the modified cash basis. The ambiguity in terminology, along with the absence of widely accepted accounting definitions for these adjusted bases, often leads to confusion for financial statement users. Numerous international organizations describe their budgetary basis in general terms, such as “modified cash basis,” without clarifying the specific deviations from the underlying accounting principles. This is not in line with IPSAS, which requires such differences to be clearly presented to ensure understandability and comparability. The lack of a clear explanation of these fundamental differences reduces the consistency of financial reports and makes it difficult for users to make informed decisions based on them.

Weather differences

According to IPSAS 24, paragraph 48(b), timing differences occur when the duration of the budget period does not coincide with the reporting period covered by the financial reports. This problem becomes particularly acute when organizations prepare biennial budgets, which leads to discrepancies between the period for which the budget is approved and the timeframe of the financial reports, which according to IPSAS 24 must be prepared at least annually. Many UN organizations, as mentioned, prepare biennial budgets but do not separate the amounts for the two different periods. This creates a challenge in reconciling with the financial statements that cover only one period, which makes it difficult to compare data and can create misunderstandings among users of those reports. Among the 37 UN organizations included in the sample, 28 (76%) adopt a biennial budgeting approach. However, only a few of them, such as the ILO, report timing differences in reconciling the budget with the financial reports. Variations exist in how timing differences across the budget period are present and the financial statement period can reduce the understandability and comparability of the financial statements. In this way, users cannot clearly see the extent to which differences in timing affect budget data and these data illustrate the connection between the reported figures and both the statement of financial position and the cash flow statement. Taking these challenges into account, IPSAS 24 requires organizations to consistently identify and report timing differences, in order to ensure greater comparability and clarity of financial statements.

Differences in entities

As stated in IPSAS 24, paragraph 48(c), differences occur when certain programs or components, which belong to a larger reporting entity, are excluded from the budget while the financial reports cover the entire entity. These differences typically arise from the fact that a budget may only cover a specific part of an entity or organization, whereas consolidated financial statements present a comprehensive view of the financial position of the entire entity, including all its parts (Mitrović et al., 2024). In international organizations, such as the UN and the ICC, situations may arise where entities that are part of the budget are reported but are excluded from the consolidated financial reports, which can lead to inconsistencies and complicates the comparison between the budgeted figures and the amounts reported. For example, UNOPS might provide a reconciliation between budgeted and actual figures for both its management budget and specific project allocations, but differences in the coverage of entities may cause discrepancies between those reconciled figures and those in the consolidated financial statements. These cases illustrate that variations among entities are not consistently reported, which can significantly limit the comparability of financial statements and make it difficult for users to identify all aspects of the organization's financial position. IPSAS 24 requires organizations to clearly identify and report all differences across entities, to guarantee uniformity and clarity in the analysis of budgetary and financial data, which is crucial for making informed decisions.

Differences in presentation

IPSAS 24 does not explicitly require the identification of differences in presentation, but notes that such differences may arise from the different formats and classifications used in budgets and financial statements (paragraph 28). Many organizations, particularly within the UN system, report revenue as a difference in presentation because the budget execution report often contains only expenditures (Milenković et al., 2023). This means that revenue, although part of the total financial flows, is not included in the budget execution report but is shown as a difference in the process of matching actual budget results to actual cash movements. For example, UNRWA and UNICEF state that revenue is not included in the budget reconciliation but is treated as a difference in presentation, which is not always consistent across organizations. This approach can make comparability of financial statements difficult because differences in presentation are not always clearly identified or reconciled across organizations, thereby reducing transparency and comparability.

Also, although IPSAS 24 allows reconciliations either displayed on the front page of the budget execution report or described in the notes accompanying the financial reports, only a small number of organizations (4%) separate the reconciliation on the front page of the document. This practice can contribute to inconsistencies in the way reconciliations are presented and reduce the clarity of the information. To increase consistency and comparability, it could be useful to introduce a requirement for all organizations to report reconciliations in the Explanatory sections of the financial reports. This would facilitate the comparison of financial data across organizations and provide greater openness in reporting of budgetary and financial information.

Example of reconciling amounts in the budget execution report and financial statements

This section offers practical examples of reconciling budgetary data with financial reports, aligned with the main qualitative characteristics of financial information, such as relevance, faithful representation, clarity, timeliness, comparability, and verifiability. Qualitative characteristics enable users of financial statements to interpret and use the information appropriately, while constraints such as materiality and cost require a balance between these characteristics and practical applicability (Majstorović & Obrić, 2023).

The Food and Agriculture Organization of the United Nations (FAO) serves as a clear example of an entity that adheres to these guidelines. Its reconciliations are examples of best practice because they provide sufficient detail to clarify differences between budgeted and actual amounts, while avoiding information overload (Golubović & Janković, 2023). The specification of order items and the precise reconciliation to the accounting surplus/deficit allow for a clear presentation of differences and clarification of differences between budgeted and actual amounts, which is key to transparency and effective decision-making.

Table 4, presenting the reconciliation of actual figures on a comparable basis when aligning budgeted amounts with the accounting surplus or deficit, adds significant analytical value. It enables a meaningful comparison between planned and actual outcomes using defined accounting criteria.

Table 4. FAO reconciliation of the current budget and the accounting surplus/deficit

		u 000 dolara
Financial Operating Surplus Statement		1,717
Variations in Volume		
Other Ownership Surplus	(1,225)	
Surplus of Program Trust Fund	(21,986)	
Surplus of Staff Trust Fund	(4,008)	
Total		**(27,219)**
General Fund Deficit		**(25,502)**
Adjustment for Accounting Methods		
Income Recognition		
Inflation or Constant Currency Adjustment	(4,995)	
Allocation-Based Budget Adjustment	(55,002)	
Foreign Exchange and Supplementary Income	(13,920)	
	(73,917)	
Expenses		

Staff Compensation	42,950	
Constant Dollar Adjustment	3,432	
Exchange Rate Losses	2,345	
Prior Year Budget Expenditure	3,940	
Additional Allowance for Unpaid Contributions from Member States	69,018	
Payment related to 38 C/5 surplus allocated in 2019	4,045	
Addition, depreciation and amortization of fixed assets	15,002	
Repayment of renovation loan	(6,800)	
	133,932	
Adjustment of budget base		
Outstanding liabilities	(7,950)	
Total adjustments		**52,065**
Outcome of the budget using a modified cash approach		**26,563**

Source: Prepared by the author based on FAO financial report (https://www.fao.org)

Table 4, presenting the reconciliation of the budget outcome on a modified cash basis with the outcome on an accrual basis, highlights notable variations in how results are reported depending on the accounting basis used. The budget surplus/deficit on a modified cash basis usually exceeds the accrual surplus/deficit, which is common for public sector organizations (Dašić et al., 2023). This is because many entities, such as public institutions, do not budget for post-employment benefits or other liabilities that are recognized on an accrual basis but not on a cash basis. These differences can be significant in interpreting an organization's financial position, as significant discrepancies can arise in the amounts presented in the financial reports compared to the planned amounts in the budget.

Table 5, presenting a reconciliation between the budgeted figures and the cash flow statement amounts (broken down by core, investment-related, and financing activities), also offers valuable insights into the alignment between budgeted amounts and actual cash flows. This reconciliation helps to understand how actual cash flows, which reflect the organization's actual liquidity, correlate with budgeted expenditures and revenues. Displaying this information provides better insight into the efficiency of resource management, compared to what was planned in the budget

Table 5. FAO reconciliation of budget amounts and cash flow statements

	Core	Investment-related	Financing activities	Total (in 000 dollars)
Realized Net Surplus Report comparing budget and actual amounts	26,563			26,563
Basic Differences				
Unpaid Liabilities	8,315			8,315

	Core	Investment-related	Financing activities	Total (in 000 dollars)
Unreceived Contributions for the Year	(88,920)			(88,920)
Other Basic Differences	49,401			49,401
Presentation Differences	8,504	(1,404)	(7,100)	
Cash Budget Result	2,808	(1,301)	(7,010)	(5,503)
Entity Differences	37,045	(64,844)		(27,799)
Actual Amounts Report	38,920	(6,980)	(7,010)	(33,302)

Source: Prepared by the author based on FAO financial report (https://www.fao.org)

The explanation provided by FAO in its financial statements clearly indicates several key adjustments that occur when reconciling budget and financial amounts. Each of these adjustments plays a significant role in how budget data and financial statements are compared and how financial information is accurately presented (Bakić, 2024).

– Capitalization of capital expenditures: In the budget, capital expenditures are usually recognized as expenses in the current year, whereas under accrual accounting, these expenditures must be recorded as capital assets and depreciated over their estimated useful life. This means that expenditures that are recognized immediately as an expense in the budget will be recognized in the financial statements in accordance with depreciation, resulting in a difference between the amounts shown in the budget and those in the financial statements (Gojkov, 2024).

– Conversion of currency contributions and expenditures: When estimated contributions received in euros are converted into US dollars for budget purposes, a constant dollar exchange rate is used. In its financial reports, however, FAO applies the UN operational exchange rate effective on the transaction date. Differences in exchange rates can result in variances between amounts reported in the budget and those shown in the financial reports.

– Employee benefit obligations: In accrual-based accounting, obligations related to employee benefits are recorded on the Statement of Financial Position (balance sheet), whereas any changes in these obligations are reported in the Statement of Financial Performance (income statement). These obligations are not recognized in the budget, but are recognized in the financial statements, which creates a difference between the budget presentation and the actual amounts in the financial statements (Gojković, 2024).

– Outstanding liabilities: The budget recognizes outstanding liabilities, which include obligations that have not resulted in the delivery of services by the reporting date, in addition to accrued amounts for goods and services that have not yet been billed. However, these pending liabilities are not reflected in the financial reports, whereas actual accruals are recorded in line with IPSAS requirements. Such differences in liability recognition also lead to variations between budgeted amounts and those reported in the financial reports.

These explanations indicate that adjustments made between budget and financial statements must be carefully explained and documented to enable clear comparability and understanding of financial data. Proper understanding of these differences is critical to interpreting the reconciliation between budget and financial reports, along with analyzing the organization's financial stability.

Conclusions

This paper examines financial reports that are prepared in accordance with the IPSAS (International Public Sector Accounting Standard) and highlights differences in the way actual budget amounts are reconciled to actual amounts, which can vary significantly across entities. Some entities reconcile budget amounts to cash flows, while others do so to income and expenses or accounting surplus/deficit. Differences in methods also include the level of detail in the presentation of the differences, with some entities providing only basic information and others providing a detailed overview. Moreover, the definitions of certain terms in IPSAS 24 can be subject to multiple interpretations, which may result in inconsistencies in how different public sector entities reconcile budgeted amounts with accounting figures.

Based on the research, the following recommendations were proposed to the IPSASB:

- Mandate the preparation of two separate reconciliations between budgeted and accounting figures: one linking budgeted and actual amounts to the accounting surplus or deficit, and another linking them to net cash flows from operating, investing, and financing activities.
- Specify that any significant variances between actual budgeted amounts and the corresponding figures in the financial reports should be clearly explained.
- Highlight that differences identified in the reconciliations should not be used to offset each other, in line with IPSAS 1, which prohibits the netting of assets and liabilities.
- The Board should require that reconciliations between budget and accounting amounts be disclosed in the notes to the financial reports.
- Provide clarification on the concept of timing differences.
- Encourage further research regarding the disclosure of the budget basis, due to frequent inconsistencies in the use of terminology.

Recommendations for entities preparing financial statements under IPSAS include:

- Ensure that a reconciliation between budgeted amounts and net cash flows is prepared in every instance.
- Disclose the budget basis and clearly define the terminology used.
- Report any timing differences when the budget period does not coincide with the reporting period.

Although the research has certain limitations, such as a limited sample (international organizations only) and a focus on comparability only, the research could be replicated within the broader framework of public sector organizations. This study could also expand the analysis to consider how differences in the design of budget and accounting reconciliations affect how users perceive the reports' relevance and clarity.

Based on the findings of this study, it is recommended that the IPSAS Board provide clearer guidance to enhance the consistency between budgeted figures and reported accounting amounts.

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Conflict of interests

The authors declare no conflict of interest.

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