

Introduction to Financial Reporting in the Public Sector

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Key concepts, objectives, standards, and best practices

1. Why Financial Reporting Matters in the Public Sector

Purpose	Description
Transparency	Shows how public funds are collected, allocated, and spent.
Accountability	Enables citizens, legislators, and oversight bodies to hold officials responsible.
Decision-making	Provides reliable data for budgeting, policy analysis, and performance evaluation.
Legal compliance	Meets statutory requirements (e.g., Treasury regulations, local government acts).
Comparability	Allows benchmarking across agencies, jurisdictions, and time periods.

2. Core Principles & Concepts

Principle	Public sector nuance
Accrual vs. Cash basis	Most modern public entities use accrual accounting (recognize revenues and expenses when earned/incurred) to reflect true economic activity. Some still rely on cash basis for specific funds.
Fund accounting	Segregates resources into funds (e.g., General Fund, Capital Projects Fund, Special Revenue Fund) to track legal/intentional restrictions.
Budgetary compliance	Financial statements must show conformity with authorized budgets (often presented as a separate “budgetary column”).
Fiscal year	Typically aligns with the government’s financial year (e.g., July 1–June 30 in many countries).
Materiality & relevance	Thresholds are set by policy; even small amounts can be material if they affect public trust.
Consistency	Uniform accounting policies across periods and entities facilitate comparability.

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3. Main Financial Statements (Accrual Basis)

Statement	What it Shows	Typical Public Sector Elements
Statement of Financial Position (Balance Sheet)	Assets, liabilities, net assets (equity) at a point in time.	Capital assets, long-term debt, accrued liabilities, net position categories (net assets without donor restrictions, with restrictions).
Statement of Financial Activities (Income Statement)	Revenues, expenses, gains, losses for the period.	Tax revenues, intergovernmental transfers, grants, operating expenses, depreciation, amortization.
Statement of Cash Flows	Cash inflows and outflows classified by operating, investing, financing activities.	Cash receipts from taxes, disbursements to contractors, debt service payments.
Statement of Changes in Net Position	Reconciles beginning and ending net assets, showing surplus/deficit, other changes.	Surplus/deficit, reclassifications, adjustments for prior-period errors.

Note: In many jurisdictions, a **Budgetary Comparison Statement** is also required, juxtaposing actual results against the authorized budget.

4. International & National Reporting Frameworks

Framework	Scope	Key Features
International Public Sector Accounting Standards (IPSAS)	Adopted by many national, regional, and local governments.	Accrual-based, based on IFRS concepts, includes IPSAS 1–45 covering presentation, assets, liabilities, revenue, etc.
Governmental Accounting Standards Board (GASB) – U.S.	State and local governments.	GASB Statements (e.g., 34 – Financial Reporting, 68 – Fund Balance Reporting). Emphasizes fund accounting and budgetary reporting.

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Framework

Scope

Key Features

International

Governmental Accounting

Standards (IGAS) –

Canada

Federal, provincial,
municipal entities.

Similar to IPSAS but with