

Financial Accounting Foundation

**Independent and Objective Study of the
Scope of Standards of Financial Accounting and Reporting for State and
Local Governments within the United States as established by the
Governmental Accounting Standards Board**

Study Overview

July 2011

STUDY OVERVIEW

In February 2011, the Financial Accounting Foundation (FAF), the parent entity and oversight body of the Governmental Accounting Standards Board (GASB), invited a limited number of qualified academic research teams to submit proposals for conducting an independent academic study of the purposes of financial accounting and reporting by state and local governmental entities and the corresponding role of GASB in establishing standards of financial accounting and reporting for state and local governmental entities within the United States. On May 18, 2011, the FAF announced that it commissioned a research team experienced in governmental accounting to conduct the study ([FAF Press Release May 18](#)).

Purpose

The independent study is an evaluation and analysis of the purposes of financial accounting and reporting by state and local governments. Core to this evaluation is examining the role of financial reporting standards and guidelines issued by the GASB in enabling users of governmental financial reports to assess the accountability of reporting governments. The study will identify organizations, including the GASB, that are currently or potentially best suited to establish standards or guidelines for financial reporting and other measures of accountability of state and local governments. It is anticipated that the study will aid the FAF Board of Trustees in its evaluation of the scope GASB's mission and how the GASB should operate within that mission. To that end, the findings of the study are intended to inform the Trustees in their evaluation of: (i) the types of reporting that should and should not be subject to GASB standards and guidelines and the reasons therefor, and (ii) the appropriate role, if any, of the GASB in setting guidelines for the reporting of non-financial governmental accountability measures and the reasons therefor.

Background

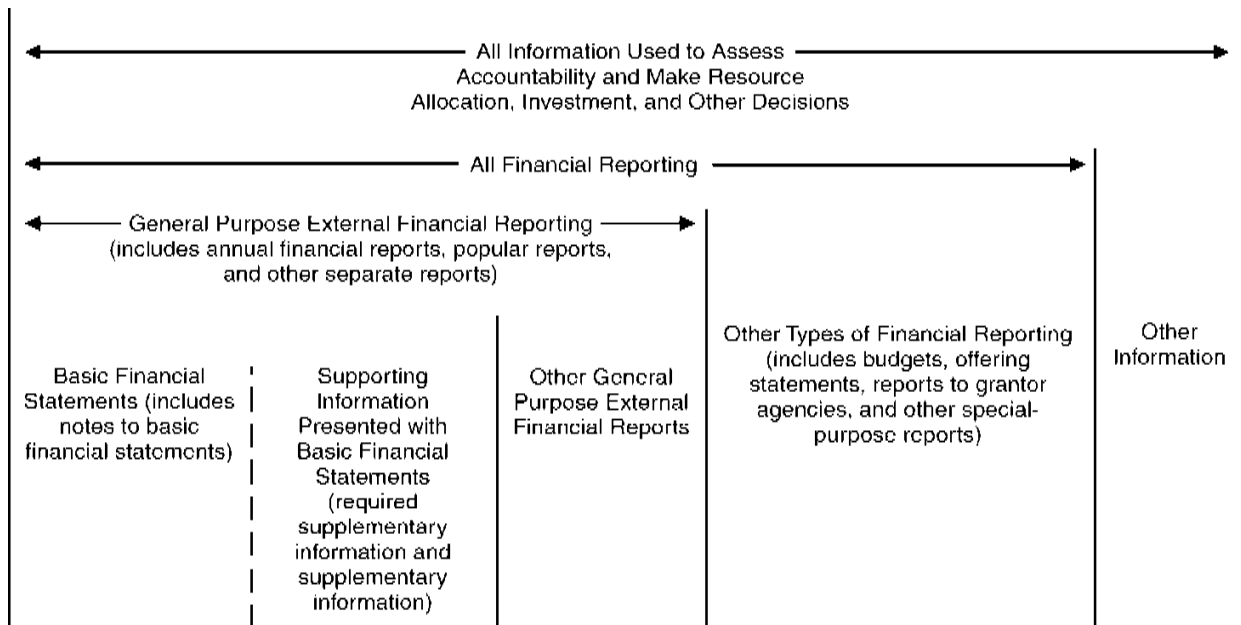
Traditional general purpose financial reporting is primarily focused on the accounting of transaction flows and economic events that are summarized and reflected in an entity's basic financial statements, as well as in its notes to the financial statements and related explanatory financial disclosures needed for the user to understand the financial history and current financial position and financial condition of the reporting entity. Accountability reporting is primarily focused on management's financial and operational stewardship of the entity and considers whether an entity's transactions are in compliance with applicable laws and how those transactions impact its citizenry and other providers of resources to that entity. These impacts include how transactions and economic events affect: equity between periods; the consumption of assets; the costs associated with future periods; the sustainability of revenues and programs over time; and current and forward-looking economic interdependencies among state and local governments and the Federal government.

The GASB and its predecessor organization, the National Council of Governmental Accounting (NCGA) have long held the view, as reflected in their respective Concept Statement No. 1¹, and have established their bodies of standards and related guidelines based on the understanding that "accountability of governments" is a cornerstone of financial reporting for state and local governments and that a primary purpose of financial reporting standards is to assist users in assessing the accountability of governments.

¹ GASB Concept Statement No. 1 – *Objectives of Financial Reporting* (May 1987), and NCGA Concept Statement No. 1 – *Objectives of Accounting and Financial Reporting for Governmental Units* (1982).

In Figure 1 of GASB’s Concept Statement No. 1, as amended, (reproduced below), the GASB categorizes into five (5) groupings the full breadth of information consumed by financial report users to assess accountability of governments and to make resource allocation, investment and other decisions in respect to those governments. GASB categorizes the first three (3) of these groupings - *General Purpose External Financial Reporting*, as defining the scope of its mission and the limitations of its authority in establishing standards and guidelines on financial reporting for state and local governmental entities:

Figure 1
Information Used by Financial Report Users



Applying the concept of “governmental accountability” along this spectrum (from left to right) demonstrates the challenges of delineating the demarcation point where general purpose external financial reporting ends and where other types of financial reporting and accountability measures begin.

Scope

The study will address the historical and developing purposes of financial accounting and reporting by state and local governmental entities and the needs and requirements of users of financial reports of these governmental entities. A baseline portion of the study, which is expected to help the FAF Trustees define the goal post of financial reporting (including that which is generated through compliance with financial accounting standards or other forms of reporting, and that which is generated through analysis of reported information) will be dedicated to a historical review of the development and the inputs to the development of Concept Statement No. 1 of the GASB and that of the NCGA. The primary scope of the study is to explore the area of governmental accountability reporting and the roles that the GASB and others should play in setting accountability standards.

The study will explore the breadth of “governmental accountability” that may be aided and assessed through financial reporting and standards of financial reporting established by the GASB. *The primary research question is “what is the proper scope of GASB in regards to information used to assess*

governmental accountability?” Among the questions to be addressed by the research team are the following:

- ***What are the purposes of financial accounting and reporting for state and local governments?***
 - *What role does the GASB currently perform in fostering these purposes?*
 - *What role do financial reporting standards and/or guidelines established by the GASB perform in providing tools for users of financial reports of state and local governmental entities to assess the accountability of the reporting entity, and why?*
 - *What are the current limitations, as reflected in GASB’s current standards and guidelines, on the GASB’s ability to foster the ability of users to assess the accountability of state and local governmental entities?*
- ***Who are the primary users and beneficiaries of financial reports of state and local governments?***
 - *What are the information needs of these users and beneficiaries for assessing the accountability of the reporting government, and for making resource allocation, investment and other decisions?*
 - *Through what means is this needed information acquired by these users and beneficiaries?*
- ***What other standards, guidelines or controls are in place in the United States today for assessing the financial and non-financial accountability of state and local governmental entities, including those provided by public interest groups, governmental organizations, policy makers, legislatures and regulators?***
 - *Are these other controls pervasive, generally accepted, and consistently applied by state and local governmental entities?*
 - *Do these other controls overlap with standards and guidelines established by the GASB, and in what areas?*
 - *Are those responsible for maintaining and improving these other controls better suited than the GASB to perform such functions, and why?*
- ***What is the scope of authority of other national and international financial reporting standards setters for governmental entities, including, but not limited to, the Federal Accounting Standards Advisory Board, the Canadian Public Sector Accounting Standards Board, and the International Public Sector Accounting Standards Board in establishing standards and guidelines on financial reporting of governmental entities?***
 - *How far reaching is their authority and/or are their standards and guidelines on reporting of financial and non-financial accountability measures?*
 - *How does the scope of their authority/ standard-setting activities differ, if at all, from that of the GASB, and why?*

- *Where have these standard-setters drawn the demarcation point at which their authority to establish standards of, and guidelines for, financial reporting ends and where other types of reporting and required or suggested measures of accountability outside the scope of their authority begin?*

The research team will prepare a report that assesses the historical and present needs/desires for accountability information by various stakeholders of governmental financial statements. The report will analyze whether the current state of government accountability reporting is meeting the needs/desires of users, whether reports should expand or reduce the amount or type of information they include, and whether the GASB is the appropriate organization to set standards for the required accountability reporting of state and local governmental entities in the United States.

The research team will not make a definitive recommendation regarding the appropriate standard setter for accountability reporting, but will summarize the evidence regarding whether standards should be set for the various types of information included in the financial reports and the advantages and disadvantages of alternative methods and organizations to be responsible for developing standards. The findings of the study will serve as one of several tools to aid the FAF Board of Trustees in its evaluation of the scope of the GASB's mission and how the GASB should operate within that mission.

Research Team Qualifications and Requirements

The FAF Board of Trustees believes it is critical to the integrity of the study and the Trustees' overall evaluation of the scope of the GASB's mission that the study be conducted by an independent team of researchers. Accordingly, the Trustees imposed a condition that no single researcher be permitted to conduct the study. The team that was ultimately commissioned is comprised of three highly respected researchers from three separate universities.

The research team has also demonstrated its deep knowledge of state and local governmental financial accounting and reporting, its qualifications to conduct the study, its independence and objectivity in addressing the issues presented, and the controls the team will maintain throughout the research and report development process to demonstrate the independence and objectivity of the team's findings.

Timing

The research team is expected to complete its work early in the fourth quarter of 2011. The FAF Trustees will begin their evaluation of the team's findings during the fourth quarter of 2011. The Trustees will make their findings public at the conclusion of their review.