GOVERNMENTAL ACCOUNTING, AUDITING, AND FINANCIAL REPORTING 2001 pdf

1: Summary of Statement No. 34

The revision of the Yellow Book is effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, , and for performance audits beginning on or after July 1,

Summary of Statement No. When implemented, it will create new information and will restructure much of the information that governments have presented in the past. We developed these new requirements to make annual reports more comprehensive and easier to understand and use. Some of those objectives reaffirm the importance of information that governments already include in their annual reports. Other objectives point to a need for new information. For this reason, this Statement requires governments to retain some of the information they currently report, but also requires them to reach beyond the familiar to new and different information. This Statement will result in reports that accomplish many of the objectives we emphasized in that concepts Statement. Retaining the Familiar Annual reports currently provide information about funds. Most funds are established by governing bodies such as state legislatures, city councils, or school boards to show restrictions on the planned use of resources or to measure, in the short term, the revenues and expenditures arising from certain activities. For this reason and others, this Statement requires governments to continue to present financial statements that provide information about funds. In current annual reports, fund information is reported in the aggregate by fund type, which often makes it difficult for users to assess accountability. Fund statements also will continue to measure and report the "operating results" of many funds by measuring cash on hand and other assets that can easily be converted to cash. These statements show the performanceâ€”in the short termâ€”of individual funds using the same measures that many governments use when financing their current operations. On the other hand, when governments charge a fee to users for servicesâ€”as is done for most water or electric utilitiesâ€”fund information will continue to be based on accrual accounting discussed below so that all costs of providing services are measured. Many citizensâ€”regardless of their professionâ€—participate in the process of establishing the original annual operating budgets of state and local governments. Governments will be required to continue to provide budgetary comparison information in their annual reports. Many governments revise their original budgets over the course of the year for a variety of reasons. Requiring governments to report their original budget in addition to their revised budget adds a new analytical dimension and increases the usefulness of the budgetary comparison. Budgetary changes are not, by their nature, undesirable. However, we believe that the information will be importantâ€”in the interest of accountabilityâ€—to those who are aware of, and perhaps made decisions based on, the original budget. Most governmental utilities and private-sector companies use accrual accounting. It measures not just current assets and liabilities but also long-term assets and liabilities such as capital assets, including infrastructure, and general obligation debt. It also reports all revenues and all costs of providing services each year, not just those received or paid in the current year or soon after year-end. These government-wide financial statements will help users: In short, the new annual reports should give government officials a new and more comprehensive way to demonstrate their stewardship in the long term in addition to the way they currently demonstrate their stewardship in the short term and through the budgetary process. We especially appreciate the input of those who participated by becoming members of our various task forces, which began work on this and related projects as early as The GASB is responsible for developing standards of state and local governmental accounting and financial reporting that will a result in useful information for users of financial reports and b guide and educate the public, including issuers, auditors, and users of those financial reports. We have an open decision-making process that encourages broad public participation. Summary This Statement establishes financial reporting standards for state and local governments, including states, cities, towns, villages, and special-purpose governments such as school districts and public utilities. It establishes that the basic financial statements and required supplementary information RSI for general purpose governments should consist of: The basic financial statements should include:

Government-wide financial statements, consisting of a statement of net assets and a statement of activities. Prepared using the economic resources measurement focus and the accrual basis of accounting, these statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Each statement should distinguish between the governmental and business-type activities of the primary government and between the total primary government and its discretely presented component units by reporting each in separate columns. Governmental fund financial statements including financial data for the general fund and special revenue, capital projects, debt service, and permanent funds should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements including financial data for enterprise and internal service funds and fiduciary fund financial statements including financial data for fiduciary funds and similar component units should be prepared using the economic resources measurement focus and the accrual basis of accounting. Required supplementary information RSI. This Statement also requires RSI for governments that use the modified approach for reporting infrastructure assets. Special-purpose governments that are engaged in only governmental activities such as some library districts or that are engaged in both governmental and business-type activities such as some school districts generally should be reported in the same manner as general purpose governments. In addition, it should provide an analysis of significant changes that occur in funds and significant budget variances. It should also describe capital asset and long-term debt activity during the year. Important Aspects of the Government-wide Financial Statements Governments should report all capital assets, including infrastructure assets, in the government-wide statement of net assets and generally should report depreciation expense in the statement of activities. Infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as the government manages those assets using an asset management system that has certain characteristics and the government can document that the assets are being preserved approximately at or above a condition level established and disclosed by the government. The net assets of a government should be reported in three categoriesâ€”invested in capital assets net of related debt, restricted, and unrestricted. This Statement provides a definition of the term restricted. Permanent endowments or permanent fund principal amounts included in restricted net assets should be displayed in two additional componentsâ€”expendable and nonexpendable. Program expenses should include all direct expenses. General revenues, such as taxes, and special and extraordinary items should be reported separately, ultimately arriving at the change in net assets for the period. Special items are significant transactions or other events that are either unusual or infrequent and are within the control of management. Important Aspects of the Fund Financial Statements To report additional and detailed information about the primary government, separate fund financial statements should be presented for governmental and proprietary funds. Required governmental fund statements are a balance sheet and a statement of revenues, expenditures, and changes in fund balances. Required proprietary fund statements are a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows. To allow users to assess the relationship between fund and government-wide financial statements, governments should present a summary reconciliation to the government-wide financial statements at the bottom of the fund financial statements or in an accompanying schedule. Each of the fund statements should report separate columns for the general fund and for other major governmental and enterprise funds. Nonmajor funds should be reported in the aggregate in a separate column. Internal service funds also should be reported in the aggregate in a separate column on the proprietary fund statements. Fund balances for governmental funds should be segregated into reserved and unreserved categories. Proprietary fund net assets should be reported in the same categories required for the government-wide financial statements. Proprietary fund statements of net assets should distinguish between current and noncurrent assets and liabilities and should display restricted assets. Proprietary fund statements of revenues, expenses, and changes in fund net assets should distinguish between operating and nonoperating revenues and expenses. These statements should also report capital contributions, contributions to permanent and term endowments, special and extraordinary items, and transfers separately at the bottom of the statement to arrive at the all-inclusive change in fund net assets. Cash flows statements should be prepared using the direct method. Separate fiduciary fund statements including component units that are fiduciary in nature also should be presented as part of the fund financial statements. Required fiduciary fund statements are a statement of fiduciary net assets and a statement of changes in fiduciary net assets. Interfund activity includes interfund loans, interfund services provided and used, and interfund transfers. This activity should be reported separately in the fund financial statements and generally should be eliminated in the aggregated government-wide financial statements. Earlier application is encouraged. If a primary government chooses early implementation of this Statement, all of its component units also should implement this standard early to provide the financial information required for the government-wide financial statements. Prospective reporting of general infrastructure assets is required at the effective dates of this Statement. Retroactive reporting of all major general governmental infrastructure assets is encouraged at that date. For phase 1 and phase 2 governments, retroactive reporting is required four years after the effective date on the basic provisions for all major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, Phase 3 governments are encouraged to report infrastructure retroactively, but may elect to report general infrastructure prospectively only. Components of This Statement This Statement consists of several components. The detailed authoritative standards established by this Statement are presented in paragraphs 3 through Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments, public benefit corporations and authorities, public employee retirement systems, utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 2 and 3 discuss the applicability of this Statement.

2: GASB #34 Reporting Model

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Advanced Search Abstract From the early s, Australia and New Zealand pioneered the application of business-style accounting practices to all government activities. Although accounting might seem purely technical, accounting practices can carry with them significant constitutional and political social implications. This article urges those in other countries to consider constitutional and political implications before proceeding with this development. The country was described as a late starter, but an extreme and rapid mover following a change of government in July Ferlie et al. The Treasury identified the conversion of governmental financial management and reporting to business-style accrual accounting and financial reporting as a core component of those neo-liberal reforms: It is not entirely clear where economic restructuring ends and public sector management reform begins, or where the latter ends and financial management reform begins. All are related components of a set of reforms designed to improve the performance of the New Zealand economy in delivering social and economic outcomes. In , New Zealand legislated the adoption of accrual-based budget appropriations and business-sector style accounting throughout the public sector, with full conversion to take effect from the financial year commencing on 1 July The first accrual-based financial statements for the central government were for the year ended 30 June http: Despite the seemingly technical nature of accounting, this adoption and dissemination of business-style accounting for all governments is constitutionally and politically socially significant and, therefore, requires wider attention. Although the accounting profession typically presents accounting and financial reporting techniques as neutral, and intended to allow the impartial and representationally faithful presentation of financial reports, such claims have long been refuted Lehman, , p. A potential constitutive effect of adopting business-style practices is to make governments seem like businesses and, eventually, to become thought of and treated as businesses. Accounting is accounting and auditing is auditing, and â€¦ the techniques, whether they are used in the private or public sector, are the same. Anon, , p. A government is significantly different from a business, and the purpose of governmental accounting also differs significantly. The finance of the country is ultimately associated with the liberties of the country. It is a powerful leverage by which English liberty has been gradually acquired. Business-style accounting practices were never devised to address such serious consequences of financial mismanagement, and this article argues that business-style financial reporting is not suitable for application to governments. Public policy literature on how particular policy reform ideas take root, develop and spread provides some explanation of how policy developments may occur that are not necessarily appropriate responses to the particular policy issue. That is the focus of the next section which also provides a brief outline of events leading to the world-wide advocacy of business-style accounting for governments. A brief explanation of business-style accrual accounting and its implications follows, and three examples of governmental financial reporting in New Zealand illustrate our concerns about the inappropriateness of business-style accounting. Policy reform is most likely when these processes come together. Such an opportunity may be provided through either problem recognition or politics. For example, a crisis may prompt recognition of a problem, or implementation elsewhere of a similar solution may bring the matter to political attention. Some neo-liberal reformers advocate forcing open the policy window by, for example, deliberately prompting a crisis. Williamson and Kaufman , p. This garbage can model of the policy-making process may be applied to governmental financial reporting developments. In the United States, in the mids, a financial crisis in New York City aroused widespread concern about financial management practices, thus prompting problem recognition. That the application of business-style accounting as a solution was already available in the policy community was apparent from earlier largely unsuccessful efforts to reform budgeting and accounting at the federal level and to introduce business-style processes, including in the Department of Defence see, for example, Mosher, ; Staats, Major accounting firms, such as Arthur Andersen and Peat Marwick, were involved in these federal efforts in the mids Anthony, and, subsequently, in New York City. Despite the limited success of these efforts, Arthur Andersen and other major accounting firms promoted business-style governmental accounting reforms in Australia in the early s, claiming success in New York Christenson, This garbage can model of policy-making suggests that business-style financial reporting came to be seen as appropriate for governments because it was promoted by influential and well-connected players in the policy-making process. It was during these developments that Voormeulen , quoted above visited New Zealand arguing that business-style accounting should be applied. Governmental accounting and the application of business-style accounting The development of any accounting system requires consideration of the underlying purpose of that system. Under the Westminster government convention, the purpose of governmental accounting is democratic i. The power to scrutinize and control was achieved only after many years of struggle against the ruling power see Pallot, A Westminster parliamentary system relies on some separation and balancing of power between parliament the legislature , the executive government the ruling power and the judiciary. The cash accounting previously used for government accounting purposes in New Zealand involved an annualized focus on cash appropriations which allowed parliamentary scrutiny and control over expenditure in the current year. Its shortcomings had become problematic as government activities expanded and became increasingly complex. It did not assist the planning of longer term programmes, or track goods held for longer than a year such as inventories of armaments and larger equipment such as vehicles and buildings, nor did it contribute to monitoring performance in respect of longer term concerns. Accrual accounting extends the focus of cash accounting by including in financial reports, transactions and events which occurred in the current year even though they have not necessarily involved the receipt or payment of cash. This extended focus supports the reporting in financial terms of changes in inventories and larger equipment. However, accrual accounting shifts the focus away from cash control and has other shortcomings, just one notorious example being the problem of off-balance sheet financing techniques which are potentially dangerous in a governmental environment of unlimited liability. Careful consideration is therefore required to develop a governmental accounting system that maintains constitutional controls and addresses adequately matters of particular concern to governments. Business-style accrual accounting addresses some longer term concerns, but it was devised for the circumstances and conditions of businesses. In this form, accrual accounting leads to two key reports, one representing stocks and the other representing flows. The report showing stocks is a balance sheet which purportedly represents, in financial terms, all assets and liabilities of an organization, the difference between those two amounts being regarded as the amount financed by the owners of the organization and called equity. The report showing flows is an income statement which focuses attention on the resulting balance of the flows for the year, which is known as profit or loss. The point of articulation between the two statements is the reported profit or loss. In the s, for several reasons, including the collapse of seemingly profitable and successful companies and the focus on financial performance for capital markets, concerns about the shortcomings of accrual accounting prompted the introduction of a third statement, the statement of cash flows. This statement, however, is created by working backwards from accrual-based statements to approximate cash flows. Evidently, the structure of these reports suits business activities, given the understood business objectives of profitable performance and increasing equity because those items are the focus of attention in financial reporting. The manner in which those items are changed during the year receives variable attention, considerable attention usually being paid to the components of the income statement through which profit is determined, but relatively little attention being paid to the changes in the balance sheet. Management of the balance sheet tends to be seen as the responsibility of those operating the company, and a corporate financial controller is typically granted considerable discretion to manage investments and liabilities. Financial control is, therefore, centred at the management level of a business, albeit within broader policies set by the board of directors. It does not follow that the same structure, focus and approach to control is suitable for governments, and the argument of this article is that business-style accrual accounting is constitutionally inappropriate for application to governments. We illustrate this point by observing first that business-style accrual accounting carries with it a centralized financial control function that undermines the fundamental constitutional principle of democratic control. Secondly, we argue that the business-style accrual accounting practices used to produce the financial reports for a group of companies i. A basic constitutional safeguard for citizens and taxpayers is that no money shall be collected or spent except in ways and means approved by Parliament. Integral to the separation and balancing of powers are the roles of the Auditor-General and the Treasury. In New Zealand, the Auditor-General is an officer of Parliament whose role is to advise and assist the whole Parliament in its scrutiny and control role. The Treasury is an agent of the executive government, which forms just one part of the whole parliament. This implies that financial control is perceived as a management function to be conducted by the executive government, through its agent, the Treasury. This disabling and removal was achieved by legislating for a budgeting process which focuses attention on accrual appropriations for outputs i. The Auditor-General retains the power to prevent payments if there is cause to suspect they are being made without lawful authority. How the Auditor-General can hope to obtain the information required to ascertain that cause exists is not clear see Newberry and Pallot, , for further explanation. The accrual-based output budgeting and appropriations structure adopted in New Zealand is a procurement contracting out model which might make sense if all government services were purchased procured from non-government suppliers. Arguably, this is an intended outcome of the reformed financial management system, Savas , p. While services are still provided by government departments, however, this procurement model form of budgeting and appropriations misrepresents the financial activities of the government and further undermines parliamentary scrutiny processes. The model is based on the idea that the focus of attention at budget time should be on the procurement of outputs such as provision of custodial services for prison inmates rather than inputs such as the salaries of prison officers, cleaning and maintenance of prisons, etc. Budgets are presented as if the government were a client procuring services in the form of the outputs generated by various government departments, and they therefore facilitate contracting out. The accrual-based budgets are stated at the full cost of outputs, determined by allocating all expenses, some of which are not cash expenses, over the outputs. The accrual-based budgets thus bring into the appropriation process items that do not require the expenditure of taxpayer funds, depreciation being just one example of a fictional amount. Other accrual items have been introduced simply to pretend that costs are similar to those incurred by businesses and to include proxy amounts for interest charges, cost of capital and taxes. This introduction of accrual-based appropriations has, therefore, weakened constitutional controls because parliamentary approval of these budgets means parliamentary approval for the executive government to spend up to the full-cost amount of outputs which include fictitious amounts. Not only does this increase the discretion available to the executive government because the full amount of money made available is greater than the amount required for cash expenditure on the outputs, the inclusion of arbitrary, imaginary accrual items is more likely to confuse readers of the financial reports rather than to improve transparency and accountability Pallot, ; Guthrie, An additional delegated power granted to the Minister of Finance and the Treasury to manage balance sheet items provides the potential for diversion of public money to purposes not approved or contemplated by Parliament Pallot, While output-based budgeting means Parliament has largely relinquished its cash controls over the executive government, a paradox arises because the Treasury imposes strict cash controls. Although the budgets must be presented to Parliament in this accrual-based output form, this veneer conceals a cash-based budget baseline regime which limits the amount of funding cash provided to departments Newberry, Government departments are not permitted to borrow. In some cases the cash funding provided has been so limited that departments have been unable to function Newberry, These cash controls produce effects to which parliament has not necessarily assented. For example, in the State Services Commission observed that resource erosion in government departments meant departments were losing their capability to perform even core functions effectively, and that morale was low State Services Commission, Similarly, the Auditor-General , p. The manner in which this financial resource erosion occurs has since been documented Newberry, At the detailed level, largely escaping parliamentary scrutiny, financial resource erosion processes are designed into the system Newberry, In summary, the accrual-based budgeting and financial reporting practices adopted have shifted the balance of power to favour centralized controls exercised by the executive government and the Treasury. This shift has, therefore, undermined constitutional conventions. Broadly, three types of governmental bodies were established. State-owned enterprises SOEs were created as limited liability companies, with their shares owned by two ministers on behalf of the government. SOEs conduct commercial activities, funding their operations through user charges, and they are required to function as if they are private companies and to observe normal commercial accounting requirements. Many SOEs were privatized, but some remain in government hands, including some that generate electricity. The second type of government body is the Crown Entity. These were created for activities that require government funding for their operations, but they may impose some user charges. Crown entities include hospitals, universities and schools. Early intentions were that these be privatized, but the idea is so unpopular politically that direct privatization has not occurred, although reductions by forcing mergers and through financial constraints are occurring. The third type is government departments, including the central agencies of the government, the Treasury and the State Services Commission and the Department of the Prime Minister and the Cabinet, as well as departments that provide advice and deliver services such as the Corrections Department, which is responsible for the incarceration of prisoners and the Department of Statistics. Most of the service-providing departments have been restructured several times in recent years. Offices of Parliament, such as the Auditor-General and Clerk of the House of Representatives, are treated similarly to departments, but in keeping with the idea of separation of powers, as parliamentary services they report to Parliament, rather than to a minister.

3: AGA - Study References

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Chapter 1, "Accounting, Financial Reporting, and the Financial Statement Audit: an Overview," explains how accounting, auditing, and financial reporting relate to each.

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