



Accountability Has Always Been the  
**Cornerstone  
of Accounting**

By: Sam M. McCall, Ph.D., CGFM,  
CPA, CIA, CGAP, and William Earle  
Klay, Ph.D., CGFM,

Since its establishment in 1984, the Governmental Accounting Standards Board (GASB) has promoted the century-old belief that accountability is fundamental to governmental accounting and, therefore, both financial statement reporting and performance measurement reporting are properly included within the term General Purpose External Financial Reporting (GPEFR). The history of governmental reform over the last 100 years, the actions of the American Institute of Certified Public Accountants in the 1970s, and concept statements



of the National Council on Governmental Accounting and the Financial Accounting Standards Board in the 1980s, shows GASB has been following in the footsteps of predecessor organizations. Even so, several organizations have vehemently opposed GASB's efforts to promote performance measurement reporting within the context of GPEFR.

This article describes how different viewpoints regarding the inclusion of the concept of accountability within government accounting reflect fundamentally different beliefs about the responsibilities of the accounting profession. Our study of these issues has made us aware of the possibility that defining accountability as being outside GASB's authority could threaten accounting itself. To reject accountability in government accounting could weaken the role of accounting in achieving accountability in private sector and not-for-profit organizations as well as in governments. The ultimate outcome of this issue could affect GASB's jurisdiction, authority, direction and agenda for decades to come.

## Opposition to Including Performance Reporting in GPEFR

The Government Finance Officers Association (GFOA) and seven additional public/political organizations (the Big Seven) have consistently objected to GASB including performance measurement reporting as part of GPEFR. Performance measurement reporting is also referred to as service efforts and accomplishments, or SEA, reporting. They believe GASB's efforts to promote reporting performance information to citizens infringes on elected officials' policy-making prerogatives. They argue GASB has an "ill-defined" concept of accountability, one that is outside the scope of GASB's authority, and that performance reporting should be restricted to the budget process, where neither GASB nor any other organization has authority to establish reporting standards.<sup>1</sup>

In 2007, GFOA sought to abolish GASB and transfer the responsibility for establishing governmental accounting standards to the Financial Accounting Standards Board (FASB). The Financial Accounting Foundation (FAF) that oversees both FASB and GASB rejected the request and reaffirmed its support for GASB. GFOA has decided not to pursue the issue at this time because of the possible effect that international accounting standards may have on FASB, and not because it agrees with the FAF reaffirmation.

GFOA believes that the concept of accountability applies primarily to the making and execution of public policy as it is decided in the budgetary process. They see citizens as responsible for holding elected officials accountable through the ballot box. The GFOA/Big Seven perspective, however, limits the responsibility of government accounting to reporting financial transactions-based information. Arguing that GASB only has authority to address the financial transactions aspects of accounting, they conclude that accountability is beyond GASB's jurisdiction.

GASB has said that accountability is a cornerstone of accounting and involves the responsibility to explain one's actions to external stakeholders including citizens. GASB Concepts Statement No. 1 states:

*"Government accountability is based on the belief the citizenry has a 'right to know,' a right to openly declared facts that may lead to public debate by the citizens and their elected representatives. Financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society."*

Accordingly, GASB has included within GPEFR the reporting of both financial transaction-based information and performance measurement information.

## Accountability Frameworks

Accountability is integral to private sector accounting. The private sector accountability framework promulgated in law and through FASB, is based upon the concept of stewardship. Business directors and managers are obligated to report the results of their stewardship, especially through financial statements, to owners and other investors. Accounting is *primarily* obligated to serve the decision needs of investors. The information needs of business directors and managers are important but secondary. The primary measures of performance, profitability and shareholder return on investment, are ascertainable from the financial statements.

The government accountability framework that GASB promotes is also based upon stewardship. As stewards of money received from taxpayers and bond buyers, government officials are obligated to report the results of their stewardship, but they face a dilemma—governments' financial statements alone exclude the primary measures of the stewards' performance. Profitability is not the objective of government. Its stewardship reporting obligation, therefore, can only be fulfilled by linking financial information to information about the quantity and quality of services rendered. As in the private sector, accountants' reporting obligations extend first to owners (citizens) as well as other investors. Stewardship obligations clearly elevate the responsibility for financial reporting in government beyond reporting to management.

## GASB Framework is Grounded in Both Accounting Theory and Democratic Governance Theory

The democratic governance perspective was central to the progressive reform movement of the late 19th and early 20th centuries. The theory was advanced later in the 20th century through research in bureaucratic politics and democracy theory. A democratic governance perspective was also advanced in account-

ing through the work of the American Institute of Certified Public Accountants (AICPA), the National Council on Governmental Accounting and FASB.

## The New York Bureau of Municipal Research

To understand performance reporting as integral to accounting and accountability in the context of democratic governance, one must go back to the government reform efforts of the New York Bureau, incorporated as a charitable organization in 1906. One of its three founders was Frederick A. Cleveland who taught in the nation's first academic program in accounting at New York University. C.W. Haskins, the first dean of the program and Cleveland's mentor, wrote a pioneering textbook on governmental accounting. The progressive founders of the bureau viewed citizens as owners of government who deserved to receive information about both the costs and performance of government organizations. Armed with such information, citizens could vote in leaders who would seek more efficient and effective government. They called this concept "efficient citizenship."<sup>2</sup>

The reporting obligations of governmental accounting, in the context of "efficient citizenship," clearly went far beyond just the reporting of information derived from financial transactions—though the importance of doing that well was certainly stressed. In addition to reporting financial transaction-based information, government accountants became obligated to account for costs in ways that could be aligned with performance information derived from other sources. The bureau was a pioneer in developing methods for assessing performance. Failure to link financial information with performance information was seen as leaving citizens in the dark, thus weakening their ability to hold public officials accountable.

## The Early Work of ICMA (1920s–1950s)

Progressive reformers gave rise to the city management profession and ICMA (now called the International City/County Management Association), which promoted the innovations of the New York Bureau. ICMA became a major proponent of performance reporting, believing it essential to local democracy by helping maintain an informed citizenry. Several public organizations that are part of the "Big Seven" today supported the work of ICMA.<sup>3</sup>

## Democracy Theory in the 1940s–1950s

By the 1940s, scholars began to emphasize strongly that government is about much more than efficiency, or dealing with "facts" alone. Democracy theory puts forth the view that government is not about efficiency alone; it is about striving to meet citizens' needs in a democratic society. In private sector markets, efficiency is key; in government equity, consensus and citizen satisfaction are also important. Even today, we continue to see a continued primary focus

on efficiency in the accounting, budgeting and auditing literature. Only recently has *Government Auditing Standards* (2007) recognized that government officials are responsible for administering programs economically, efficiently and effectively, but additionally, ethically and equitably.


## Summary of Public Administration Literature

For the past century, public administration theory has presumed the right of citizens to receive information that is requisite to making informed voting decisions. This obligates management to report to citizens on the operation of their government. Since it is impossible to ascertain efficiency without information on both costs and outputs and cost and outcomes (efficiency is a ratio of these), this theoretical perspective requires the *linking* and reporting of information derived from both accounting and performance measurement. Reporting performance measurement to citizens is essential to help them ascertain performance related to such issues as equity and citizen satisfaction.

## Public Sector and Nonprofit Accounting Prior to 1984

In 1972, AICPA appointed the Trueblood Committee. The committee recognized that financial statements are not important solely for making economic decisions; they are also important for reporting on activities affecting society. Further, since reporting revenues received has limited value for assessing performance in government and not-for-profit entities, other types of performance measures that are appropriate to identified policy goals are needed.<sup>4</sup>

Issued in 1978, FASB's Concept Statement No. 1 on the objectives for financial reporting for business enterprises recognized financial reporting as extremely broad and not restricted to information communicated by financial statements. An exploratory study issued by FASB that same year



**These organizations clearly saw GPEFR as being broader than reporting information derived solely from financial transactions.**

concluded, in concept, that financial accounting in nonbusiness organizations needs to include information about management performance.

In its Concepts Statement No. 4 on financial reporting for nonbusiness organizations, issued in 1980, FASB concluded that the absence of a single indicator of performance comparable to a business enterprise's profit necessitates the reporting of other indicators of performance. Accordingly, information on the service efforts and accomplishments of an organization expressed in units other than money is likely to be needed. Last, FASB observed it was aware of no evidence that the objectives in its Concepts Statement No. 4 are inappropriate for GPEFR for governmental units.

## Governmental Accounting Prior to 1984

In 1980, the National Council on Governmental Accounting (NCGA) concluded, in its "Blue Book," that financial reporting should provide information useful for making political and social, as well as economic, decisions. Further, the NCGA concluded that information for evaluating managerial performance should not be limited to financial data. The NCGA followed up in 1982 with Concepts Statement No. 1, *Objectives of Accounting and Financial Reporting for Governmental Units*. The Statement reflected the NCGA's conclusion that information on managerial performance helps in evaluating results, including effectiveness and equity.

## Summary of Accounting Literature Prior to the Establishment of GASB in 1984

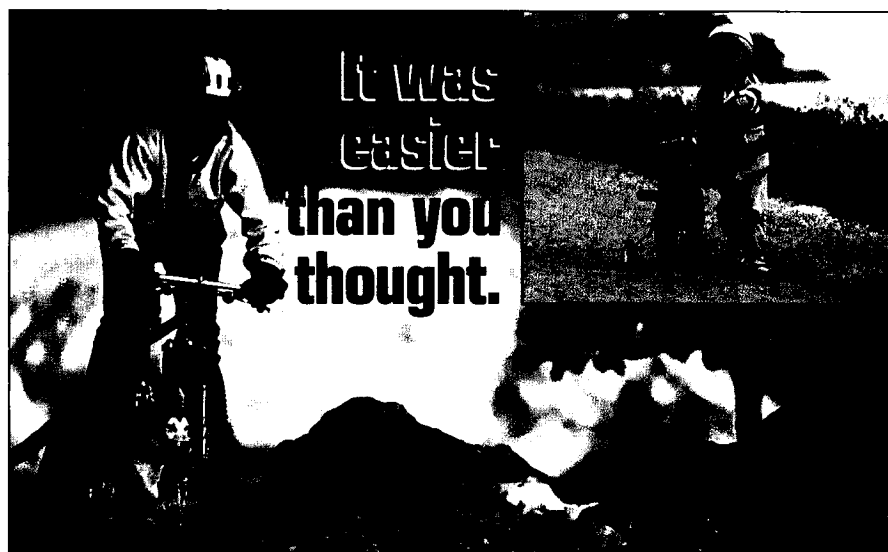
AICPA, NCGA and FASB all recognized that profitability is not a sufficient measure for nonbusiness enterprises. All three organizations recognized that both financial and nonfinancial measures are needed to inform citizens. These organizations clearly saw GPEFR as being broader than reporting information derived solely from financial transac-

tions. The accounting and accountability framework they envisioned, while not established at the time, went beyond traditional financial statement reporting. In short, GASB's approach to accountability is rooted in democratic theory as well as in a view of isomorphism toward accounting, namely that government accounting should be as obligated to report performance to citizens as does private accounting to shareholders.

## Competing Viewpoints

The future of governmental accounting will be determined largely by the ways in which conflicts between two contrasting viewpoints will unfold and be resolved. Each viewpoint is grounded in a different paradigmatic framework. GASB's actions have reflected an "expansive" viewpoint in the belief that the stewardship obligations of government leaders require them to report both financial and performance information. Others have reflected a "constrained" viewpoint in the apparent belief that governmental accounting is somehow threatened by reporting performance information. *Figure 1* presents a typology of the two viewpoints.

The constrained viewpoint makes two assertions that are of vital importance—standards-setting must not infringe upon legitimate policy-making prerogatives of public officials, and the credibility of the reporting of financial transaction-based information must not be lessened. GASB's actions over the past quarter century clearly evidence its commitment to both assertions. GASB's governance structure is designed to enhance its neutrality and competence in standards-setting and its insistence upon extensive due process deliberations



**And so is data mining with IDEA®**



**IDEA**  
Data Analysis Software

With IDEA, doing extractions is an easy ride.

IDEA also quickly and accurately imports, joins, analyzes and samples data from almost any source. Learning this powerful, easy to use, productivity tool is a breeze. And, IDEA's free first year of customer support helps you lose the training wheels fast. For a free demo, ride up to our web site at [www.audimation.com](http://www.audimation.com).

Figure 1: The Constrained and Expansive Views of Government Accounting

Constrained View	Expansive View
Focus on transaction accounting only	Focuses on accounting and accountability
Addresses facts	Addresses facts to facilitate value decisions
Addresses "what is" leaving "what ought to be" to be decided by the elected body	Addresses "what is" to raise the level of knowledge of "what ought to be" to be decided by all involved
Addresses financial control	Addresses control, efficiency and effectiveness.
Goal is efficiency (a market approach)	Goal is democracy (an equality approach)
Focus on what is good for the profession	Focus on what is good for every user, especially citizens
Stakeholder focus on citizen customer	Stakeholder focus on citizen owner (efficient citizenship)
Focus on reinventing government	Focus on citizens reinventing themselves as responsible and involved members of society
Focus on reporting performance measurement information internally for management	Focus on reporting performance measurement information externally for all users
Striving for neutrality	Seeking professional impartiality while enabling choices that necessarily involves facts and values
Information reported primarily assists in making economic decisions	Information reported is used to make economic, political and social decisions
Separation of administration from politics	Recognition that government by its very nature involves both politics and administration
Views elected officials as the only ones involved in the policy process	Recognizes that there are many actors in the policy process to include elected and appointed officials, agency management, lobbyists and citizens
Protecting the credibility of the discipline of accounting	Promoting the discipline as a means to advance the well-being of citizens
Sees accounting as a closed mechanistic system that attends primarily to the needs of management and the organization	Sees accounting as an open system that provides energy to the environment and draws energy from the environment
Seeks to insulate financial reporting from ambiguities by defining SEA as something beyond the parameters of accounting and therefore beyond the authority of accounting standards-setters	Sees SEA as requisite to the fulfillment of accountability and reporting responsibilities of government and therefore seeks to manage the ambiguities inherent in SEA

reflects a continuing commitment to protecting the integrity of governmental accounting and financial reporting. Recent actions by GASB, in its Concept Statement No. 5, stress that it is beyond the scope of GASB to establish policy goals and objectives for state and local government. Rather, GASB has provided a framework for use in developing suggested guidelines (not standards) for those governments voluntarily choosing to report SEA.

The expansive viewpoint makes one assertion of vital importance—that the stewardship obligations of public officials obligate them to report performance information as well as traditional transaction-based information. Great strides have been made over the last 25 years to bring transparency and understandability to government accounting. We must identify ways to preserve the credibility of transaction-based accounting while also meeting the accountability needs of citizens.

Discourse between advocates of the two viewpoints will be critical. Modern philosopher Jurgen Habermas cautions professional organizations against limiting discourse and excluding the "knowledge and conscience of citizens." Additional dialogue and trust is needed among all who are involved in shaping the future of government accounting.<sup>5</sup> ■





**End Notes**

1. GFOA, 2002, Performance measurement and the governmental accounting standards board: Public policy statement, adopted June 18, 2002, Washington D.C. Retrieved Feb. 22, 2008, from [www.gfoa.org](http://www.gfoa.org).

2. Schachter, H. L., 1995, Reinventing government or reinventing ourselves: Two models for improving government performance, *Public Administration Review*, 55, (6), 530-537.

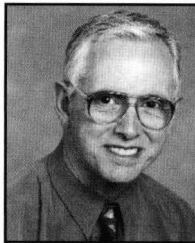
3. Lee, Mordecai, 2006, The history of municipal reporting, *International Journal of Public Administration*: 29, 453-476.

4. [www.gao.gov/archive/1996/ai96098a.pdf](http://www.gao.gov/archive/1996/ai96098a.pdf). See pp. 50-51.

5. Habermas, J., 1975, *Legitimation crisis*, Boston, Beacon Press.



*Sam M. McCall, Ph.D., CGFM, CPA, CIA, CGAP, a member of AGA's Tallahassee Chapter, is city auditor for the City of Tallahassee. He has served on auditing and accounting standards boards and advisory councils at the national and local government levels. He was AGA's 2005-2006 National President and is a trustee of the AGA Academy of Government Accountability.*



*William Earle Klay, Ph.D., CGFM, a member of AGA's Tallahassee Chapter, is Director of the Askew School of Public Administration and Policy at the Florida State University. He teaches and writes in general public administration, policy and public financial administration. His several years of practitioner experience include service as a U.S. Army logistics officer, a financial systems specialist, a policy analyst and a senior planner.*

**BUILD YOUR AUDIT CAREER WITH ONE IMPORTANT PIECE – CGAP CERTIFICATION**



Visit [www.theiia.org/Certification](http://www.theiia.org/Certification) to learn more and to register, or call an IIA Customer Service Representative at +1-407-937-1111.

Earning the specialized Certified Government Auditing Professional® (CGAP®) designation can distinguish you from your peers, enhance your potential for promotions, prepare you for career challenges, and give you the opportunity to test and measure your skills.

Obtaining the CGAP tells the world that you are knowledgeable about and proficient in audit principles and practices within all levels of government: federal, state, local, and quasi-governmental. It shows your employer that you are credible and knowledgeable about current audit trends and best practices.

**MAKE IT EASY:** by preparing for the exam using study materials offered by The IIAF Bookstore.

**MAKE IT CONVENIENT:** by enjoying computer-based testing at one of nearly 500 testing locations.

**MAKE A STATEMENT:** about your professionalism, competence, and determination.

Complete the CGAP certification and put in place a critical piece for your career.



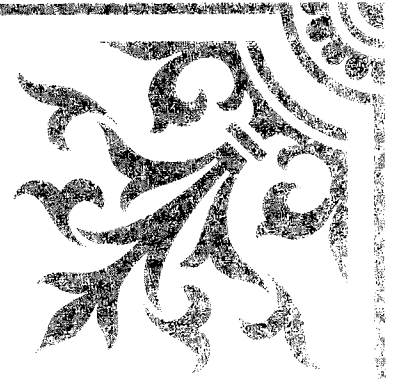
18560

# 46

## **A Roundtable Discussion With GASB Board Members Past & Present** Edited by Dean Michael Mead



The events commemorating the Governmental Accounting Standards Board's (GASB) 25th anniversary in June featured a roundtable discussion with all but two of the surviving former GASB members and all seven of the current members, including all three GASB chairmen. The discussion was moderated by David R. Bean, CPA, GASB director of research and technical activities since 1990. This article presents excerpts from the first question posed at the roundtable. The remainder of the roundtable can be read at [www.gasb.org/roundtable/06-02-09\\_transcript.pdf](http://www.gasb.org/roundtable/06-02-09_transcript.pdf).



# 52

## **Accountability Has Always Been the Cornerstone of Accounting** By: Sam M. McCall, Ph.D., CGFM, CPA, CIA, CGAP, and William Earle Klay, Ph.D., CGFM



This article describes how different viewpoints regarding the inclusion of the concept of accountability within government accounting reflect fundamentally different beliefs about the responsibilities of the accounting profession. Our study of these issues has made us aware of the possibility that defining accountability as being outside GASB's authority could threaten accounting itself. To reject accountability in government accounting could weaken the role of accounting in achieving accountability in private sector and not-for-profit organizations as well as in governments. The ultimate outcome of this issue could affect GASB's jurisdiction, authority, direction and agenda for decades to come.



# 60

## **Is the Federal Accounting Standards Advisory Board Independent? Can the Federal Accounting Standards Advisory Board Be More Independent?**



By: James Patton, Ph.D., and David Mosso, CPA

This article analyzes the independence of the Federal Accounting Standards Advisory Board (FASAB). The authors conclude that FASAB is not independent in the AICPA Rule 203 sense. Suggestions are made for how FASAB might be more independent.

## **Departments**

- 4 From the Publisher
- 8 Standards Watch
- 11 AGA: A Report to Our Membership
- 64 Inside the Huddle
- 66 Calendar
- 68 Controller's Corner
- 70 Ask Leon
- 72 Membership Notes