Federal Accounting Standards Advisory Board

June 29, 2006

The Honorable Clay Johnson III
Deputy Director for Management
Office of Management and Budget
Washington, DC 20503

Dear Mr. Johnson,

Thank you for your letter of May 1st regarding the Board's proposed Social Insurance Exposure Draft. The concerns you expressed are significant and I would like to offer my thoughts in response. While I sought input on a draft of this letter from my fellow Board members, this letter is an expression of my views and not the views of the Board. I would emphasize at the outset that the Board is a long way from a final decision. We are about to enter the most important part of a very long due process, that is, a broad exposure of the proposals supported by a majority of the Board, along with the alternative views supported by a minority. Following exposure, there will be public hearings and then re-deliberation of all issues.

The concerns you raised are summarized as follows:

1. Existing standards adequately address Social Insurance programs and the Exposure Draft would not improve on the existing standards.

2. The Exposure Draft could present a misleading view of the Government's liabilities because it would result in reporting liabilities that do not meet the definition of a liability. Benefits beyond those amounts "due and payable" are not legal obligations because Congress has the authority to increase or reduce Social Insurance benefits at any time. Presenting these mutable amounts as liabilities could hinder efforts to accurately present information about these programs to policymakers considering their reform.

3. The Exposure Draft could compromise the integrity of the balance sheet. Because the amounts are large and vary from year to year by large amounts the balance sheet and statement of net cost may be distorted. Further, the Exposure Draft suggests pulling forward mutable and uncertain *future* social insurance benefits. This is inconsistent with a balance sheet that presents what the Government owns and owes others as a result of *past* operations.

4. The Board is currently divided with non-federal members supporting the Exposure Draft and federal members opposing it. The Board should only make

proposals based on a consensus between federal and non-federal members. The Board should devote time to considering the concerns of federal members and explore alternatives related to a new Presentation on Financial Sustainability.

5. The Board should not issue the Exposure Draft until the objectives and elements projects have been completed. The Stewardship Objective is particularly important because it requires sustainability analysis. The elements project proposed the liability definition against which social insurance benefits would be assessed. Concurrent release increases the likelihood that inconsistencies could result.

6. The Board should, instead, address a “Presentation on Financial Sustainability” that provides a more comprehensive and balanced view of the Government’s financial condition than is provided in existing financial statements. The presentation would have separate tables building from and complimentary to the balance sheet.

7. Any new proposed standards for social insurance should be issued only after a successful audit of the new Statement of Social Insurance has been completed.

At our May meeting, we also received the joint statement of the JFMIP Principals. The Board will consider the statement as it continues to deliberate and I will limit my responses to your May 1st letter.

With respect to your **first concern**, that current standards are adequate, the record shows strong differences of opinion on that point. The Board has addressed accounting for social insurance on many occasions. Each time some Board members and respondents to proposals have supported recognition of liabilities greater than the due and payable amount. In fact, three of nine members dissented to the issuance of Statement of Federal Financial Accounting Standard (SFFAS) 17. Two of these members stated in their dissents that a liability greater than the due and payable amount should be recognized on the balance sheet. As I recall, other Board members favored liability recognition but voted for the disclosure standard because it represented a significant improvement over previous standards.

In addition to the controversies that led to compromise in issuing SFFAS 17, the FASAB continues to receive input regarding its technical agenda from the public and federal agencies. The Social Insurance project was added to the agenda during summer 2003 based on input from constituents and the Board’s sponsors as well as the views of FASAB members. In addition to our usual sources of input, I received input on the agenda directly from the JFMIP principals. At that time, the JFMIP principals requested that the Board take up the issue of social insurance liabilities with an understanding, I believe, that balance sheet recognition was a possible outcome. This input and federal Board members’ concurrence is reflected in the minutes of the August 2003 Board meeting (see enclosure 1).

As you can see, at that time not only the Board members but also the Board's sponsors believed strongly that the Social Insurance standards were not adequate. We were specifically requested to address this issue. In addition, we have a companion project – Research into the Application of the Liability Definition – to address other programs for which liability recognition may be inadequate in light of the "due and payable" limitation in current liability standards.

The **second concern** expressed is that the Exposure Draft could present a misleading view of the Government's liabilities because it would result in reporting liabilities that do not meet the definition of a liability. The principal argument supporting this view is that benefits beyond those amounts "due and payable" are not legal obligations because Congress has the authority to increase or decrease Social Insurance benefits at any time. A further aspect of your concern is that liability recognition could hinder efforts to accurately present information about these programs to policymakers considering their reform.

The notion of legal enforceability of obligations can be viewed from at least two different perspectives regarding the participant's rights (and the government's obligations).

One, can the participant seek enforcement of benefits wrongly denied when they become due in the future? Under current law, the government is obligated to make benefit payments to participants having at least 40 quarters of service. The payments will occur at a determinable date in the future and payment can be enforced at that time. So, in this case, we understand that a participant who qualifies for payment can enforce payment in the future under current law.

Two, can the participant prevent his or her benefits from being changed through future changes in law? Clearly, the participant can not prevent future changes in law. However, the Board's majority view on the second perspective is that future changes in law are not relevant to assessing liabilities at the balance sheet date. Instead the effects of future changes in law would be reported in the period they occur. The liabilities (and assets) that are accrued are those that are in existence at the balance sheet date. This concept is included in the current Elements Exposure Draft and is presented below:

> To meet the definition of a liability, the federal government's contract or other agreement to provide assets or services to another entity must be based on *existing* conditions, including current law, because an essential characteristic of a liability is that the government has a *present* obligation, even if conditions may change before settlement is due. For example, the Congress may change a law under which the federal government has incurred a present obligation and erase the obligation or otherwise enable the government to avoid settlement. Alternatively, the government may be able in the future to renegotiate the obligation with the payee or recipient of the promised services. However, liabilities and all other elements of accrual-basis financial statements are based on transactions or events that already have occurred. The government's power to change existing conditions does not preclude

what otherwise would be a present obligation and recognized as a liability. (Elements ED, par. 44)

Recognizing amounts based on current law, regardless of possible changes, is not a novel accounting concept. Non-governmental entities recognize liabilities based on current – or enacted -- law despite the fact that laws may change in the future.

FASB's Statement of Financial Accounting Standards 109, *Accounting for Income Taxes*, provides that the measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law and that the effects of future changes in tax laws or rates are not anticipated. The FASB noted that some respondents to a discussion memorandum preceding the Statement objected to liability recognition because "the tax return determines the legal liability for income taxes" (par. 200). Commenting on that issue the authors of Accounting Theory[1] said: "Unquestionably, no legal liability arises as a result of using accelerated depreciation for income tax purposes. … Nothing is owed the government as a result of "excess" depreciation allowances taken for tax purposes. … The definition of legal liability, however, is too narrow for accounting purposes, which are, of course, concerned with portraying economic reality in accordance with user objectives and needs." Additional examples of FASB's reliance on current law in establishing standards are presented in enclosure 2.

In GASB's Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, the basis for conclusions explains respondents' arguments that "OPEB that is not guaranteed or vested is contingent on periodic authorization by the employer, which often stipulates its right to modify or discontinue benefits, and therefore should not be accounted for as a long-term commitment." (par. 73a) GASB rejected this argument (par. 75).

In federal accounting, we also recognize liabilities based on current law. These include environmental cleanup costs and employee benefits. Laws relating to these liabilities can and have changed. The Board believes the issue of future changes in law can be addressed through explanatory text. For example, currently, Department of the Interior reports include the following disclosure related to liabilities and their legal standing.

> "Liabilities represent the amount of monies or other resources that are likely to be paid by Interior as the result of a transaction or event that has already occurred. No liability can be paid by Interior absent an appropriation of funds by the U.S. Congress, and the payment of all liabilities other than for contracts can be abrogated by Interior. Liabilities for which an appropriation has not been enacted are, therefore, disclosed as liabilities not covered by budgetary resources, or unfunded liabilities. The liquidation of liabilities not covered by budgetary or other resources is dependent on future Congressional appropriations or other funding.

[1] Wolk, Harry, James L. Dodd, and Michael G. Tearney. Accounting Theory: Conceptual Issues in a Political and Economic Environment. 6th Edition. Thomson South-Western. 2004. Pg. 500.

There is no legal certainty that the appropriations will be enacted." (Interior, FY2005 PAR)

Similar disclaimers would be applicable to social insurance and other liabilities based on current law.

The Board is charged with ensuring that information is useful to policymakers as well as to taxpayers and the general public. The essence of accrual accounting is that a balance sheet and statement of net cost that capture the economic effects of transactions and events as they occur will be useful to policymakers and other decision makers because of their comprehensiveness. The Administration's proposal to permit social security participants to divert a portion of their tax payments to private accounts illustrates the point. That proposal was loudly criticized because it would be too costly and would unduly increase the public debt. An accrual balance sheet, with social security obligations accrued as the Board is proposing, would have shown that such a proposal could have been structured to be cost free and debt neutral. The increase in liabilities in the form of Treasury securities would be offset by a decrease in liabilities in the form of social security obligations.

In my opinion, subject to change as a result of the Board's due process, presenting a liability and related cost based on accrual concepts would provide policymakers and taxpayers a more realistic measure of the net cost of social insurance programs. Further, trend information regarding changes in the liability over time – such as inordinate growth relative to other indicators such as GDP – may signal a looming problem. I do not believe that the liability measure proposed by the Board is the only measure that needs to be considered in managing social insurance programs. The measures currently used by the Social Security Trustees provide essential funding and policy making perspectives. In fact, the Board's proposal would enhance the present Statement of Social Insurance, prescribed by SFFAS 17, by providing greater detail about the future cash flow projections presented in the Trustees' annual report and how they relate to the balance sheet and statement of net cost. In particular, separate display of the effect of changes in law enacted during the reporting period is proposed for the Statement of Social Insurance. Further, the effect of the cap on social security benefit payments contained in current law would be disclosed.

You also noted that other national governments do not recognize long-term liabilities for social insurance obligations. I believe you will find varying degrees of accrual accounting among national governments and most national governments remain on cash-basis or modified cash-basis accounting at this time. In addition, many of the national governments do not have formal accounting standard setting bodies. A few of the more progressive national governments have adopted some private sector standards. Generally, these countries have not yet addressed all governmental issues. Enclosure 3 is an excerpt from one such country – Australia – that lists open issues and includes social policy obligations as a high priority issue. A further point is that the United States has long been the leader in setting accounting standards. Many other countries have adopted and adapted U. S. standards to suit their own needs. Coordinated international standard setting is still in its infancy but is a desirable goal.

The **third concern** expressed relates to the integrity of the balance sheet due to possible reduction in its usefulness and credibility as a consequence of the proposal under deliberation. These concerns extend as well to the statement of net cost. You indicated that because social insurance amounts are large and vary from year to year by large amounts the balance sheet and statement of net cost may be distorted. You were further concerned that the exposure draft suggests pulling forward mutable and uncertain *future* social insurance benefits and that this is inconsistent with a balance sheet that presents what the Government owns and owes others as a result of *past* operations.

The integrity of the balance sheet demands that all items meeting the definition of an element and meeting recognition criteria be recognized regardless of size. Thus, I believe that the integrity of the reporting model is at the heart of the issue. Just as you feel that recognition of social security obligations as liabilities would distort the financial statements, others feel that the absence of such a liability distorts the statements. FASAB, like other standard setters, relies on due process to sort out such issues.

The current draft exposure draft addresses variations attributable to actuarial gains and losses by requiring separate display of these amounts. In addition, disclosures regarding the sensitivity of these amounts are required. Further, there are opportunities to address display alternatives that may highlight the unusual nature of social insurance accrued benefits and associated costs. At a recent Board meeting, some members expressed interest in display alternatives – such as item titles customized to this category – that may be offered at a future meeting. Absent a proposal, we are unsure what alternatives would produce a distinction that might address some of your concerns. Nonetheless, the Board has expressed a willingness to consider suggestions regarding display.

I believe it is insufficient to argue that the size of an item should result in its omission. However, there are issues that may be addressed in light of the size of these items. For example, some have suggested that this single amount may alter the auditor's consideration of materiality. We will explore this issue during due process and, if needed, may offer guidance regarding the preparer's consideration of materiality. Typically, such guidance results in guidance to the auditor that parallels the preparer's responsibilities.

It should also be noted that at least two of the Board members believe accrual accounting should start accruing a social insurance liability at the time an individual enters the work force and starts contributing payroll taxes. These members believe the 40 quarter beginning recognition point is already a compromise of accrual accounting theory but they nevertheless support the majority board position.

With respect to your concern that users will be confused by relating future social insurance benefits to past operations, I understand that some hold the view that future benefits are a cost of future periods. That is precisely the difference between cash basis and accrual basis accounting. Accrual accounting seeks to relate costs to the transactions and events that obligate the reporting entity. The Boards' draft proposal concludes that the federal government becomes obligated well in advance of the actual payment and that the costs associated with the events that obligate the government to settle[2] these obligations in the future should be recognized in the periods when the obligating events occur. This issue has been deliberated at length by the Board and the Exposure Draft will explain the majority and minority views. I expect that respondents to the Exposure Draft will express views on this key point and their response will be useful in determining whether the accrual basis is appropriate for these programs.

The **fourth concern** expressed relates to the division between non-federal and federal members.[3] You suggest that the Board should only issue proposals when there is a consensus between federal and non-federal members and that further time should be devoted to considering the concerns of the federal members and exploring a new Presentation on Financial Sustainability.

This project has been actively discussed by the Board since August 2003. During that time, each member – federal and non-federal - has been free to express his or her views. Federal members have suggested alternatives such as sustainability reporting. However, the Board is mindful of the earlier consensus between federal and non-federal members that Social Insurance was a high priority issue. Further discussion without input from respondents to the proposal supported by the majority, and the minority counter proposal, is unlikely to resolve the issues that divide the federal and non-federal members. Exploring sustainability reporting – while important and now an active Board project -- would not resolve the Social Insurance issues and related liability issues that led the Board to invest resources in this project.

Further, the notion that proposals should not be issued absent consensus between federal and non-federal members is contrary to the notions underlying the Board's current composition and operating procedures. In 1999, the American Institute of CPAs (AICPA) established five criteria necessary for a body to be considered a source of generally accepted accounting principles. The five criteria are:

1. **Independence-** The body should be independent from the undue influence of its constituency.

2. **Due Process and Standards –** The body should follow a due process that is documented and open to all relevant aspects or alternatives. The body's aim should be to produce standards that are timely and that provide for full, fair, and comparable disclosure.

3. **Domain and Authority**- The body should have a unique constituency not served by another existing Rule 203 standard-setting body. Its standards should be generally accepted by its constituencies.

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[2] Note that the term "settle" includes settlement via renegotiation or other means of altering the amount such as changes in law.

[3] As an aside, as it happens, the divide on this issue appears to be federal versus non-federal. However, that has not always been the case. Some past federal members have supported liability recognition and some past non-federal members have opposed liability recognition.

4. **Human and Financial Resources-** The body should have sufficient funds to support its work. Its members and staff should be highly knowledgeable in all relevant areas.

5. **Comprehensiveness and Consistency-** The body should approach its processes comprehensively and follow concepts consistent with those of existing Rule 203 standard-setting bodies for analogous circumstances.

After an extensive review by the AICPA and significant changes in FASAB's operations, FASAB was designated as the GAAP standard setting body by the AICPA in 1999. Due to unresolved concerns regarding the Board's independence, the AICPA recognition is limited to five-year periods. After the initial recognition, the AICPA shared its remaining concerns regarding independence, proposed that the Board composition (then 6 federal and 3 non-federal members) be revised to enhance independence, and expressed an expectation that progress would be made before the next review in 2004.

In 2002, the Board's sponsors initiated a change to significantly enhance independence. The press release regarding the 2002 change is presented as enclosure 4 and relates the views of the individuals responsible for the changes. A requirement to achieve consensus between non-federal and federal members appears to contradict the objectives of the current structure. The AICPA may perceive such an arrangement – formal or informal – as contrary to an independent GAAP standard setting body's responsibilities.

The 2004 review led to renewal of FASAB's GAAP status for an additional 5 year period. The AICPA will next review the Board's operations in 2009.

The **fifth concern** is that FASAB should only issue its social insurance proposal upon completion of objectives and elements projects. There is concern that concurrent release increases the likelihood that inconsistencies could result. FASAB has discussed this concern and adopted the strategy of concurrent work on concepts and standards to ensure consistency. This strategy was supported by most Board members and many members are on record as preferring that standards efforts not be deferred in favor of concepts. If responses to the exposure drafts lead to changes, the Board would ensure that changes are consistent.

The **sixth concern** relates to your recommendation that the Board address a "Presentation on Financial Sustainability." At the May meeting, the Board considered a project plan that incorporates your recommendation as an important aspect of Phase 3 of the conceptual framework project. To leverage our resources, a task force of experts on sustainability is being formed and we hope to have a high quality recommendation for the Board soon. However, I would note that you seek a presentation that builds from the balance sheet and that suggests that we should develop a comprehensive balance sheet capable of serving in that foundational role. In the meantime, I believe the efforts taken independently by our sponsors should continue and can contribute much to enhancing the financial report of the government.

The **seventh concern** relates to audit of the Statement of Social Insurance required for FY2006 and suggests that we defer new proposals until after the audit is successful. Our general approach to issues such as this is to allow longer implementation periods so that systems and other issues can be resolved. We are open to discussing alternative implementation dates if there are barriers discovered during the FY2006 audit.

The issue of social insurance accounting is long standing and contentious. During my almost ten years as chairman we have had no issue more challenging. Tremendous improvements in reporting on social insurance have been made through the due process procedures required of GAAP standards setting bodies. Due process is an essential step and offers all participants an opportunity to express their views.

I believe the Board members benefited from receiving your views in writing and I believe your concerns should be expressed in the planned exposure document. Some Board members have suggested that we issue a Preliminary Views document in advance of the Exposure Draft. We will put that issue on the agenda for the July meeting. Respondents to a Preliminary Views or an Exposure Draft will provide important feedback for the Board members to consider. Board members not sharing the majority view will have the opportunity to fully express alternative views that will be published with the document. In addition to soliciting written comments, we also anticipate holding one or more public hearings on the proposal. We expect the views of respondents to be useful to all members in weighing the merits of the preliminary majority and alternative views.

Sincerely,

David Mosso
Chairman

Enclosure 1 – Minutes August 2003
Enclosure 2 – Excerpts from Financial Accounting Standards Board literature
Enclosure 3 – Australian Public Sector Standards Open Issues
Enclosure 4 – 2002 Press Release

CC: Secretary of the Treasury John Snow
Comptroller General David Walker
OPM Director Linda Springer
Board members

FASAB Minutes – August 2003, page 19 (emphasis added)

Social Insurance Liability

The staff presented a preliminary plan for the Social Security accounting project. Mr. Patton asked why the project is limited to Social Security. The staff responded that Social Security was a high priority and had unique characteristics. Mr. Patton said that the concepts that work for Social Security might not work well for other social insurance programs. Mr. Mosso indicated that he had influenced the plan. He said the sponsors are interested in this subject and the time to address it may be propitious since the Administration is receptive and receptivity is something that vacillates depending on the political appointees. Also, he said that the standard-setting process is under criticism for acting slowly, and a Social Security project may be able to move expeditiously since it is widely known and straightforward. Mr. Kull said the sponsors wanted to move forward with the Statement of Social Insurance but that they wanted to step back and take a look at the broader question of what is a liability. He said the sponsors have focused not only on this liability or potential liability but on the liability represented by all commitments and contingencies.

Mr. Reid added that the sponsors were thinking in terms of whether there are classes of liabilities. He said the question was whether these kinds of programs fall into the same class of liability as those for which liabilities are currently recorded, or should there be perhaps a stratification of liabilities with certain kinds that historically might have been viewed simply as a commitment showing up as a separate class or some other way arrayed on the balance sheet. But he said it was very clear that the sponsors were looking at a full scope; and, if you were going to prioritize liabilities, you'd take the largest one which is not Social Security but Medicare, which is also the fastest growing. He'd rank that program first. He said he'd agree with both Messrs. Patton and Kull that the scope should be expanded.

Mr. Reid also mentioned with respect to expense recognition that the scope should be expanded to include assumption changes in all actuarially computed liabilities not just the few involved with social insurance. He noted that such assumption changes are distorting the Statement of Net Cost (SNC) in the consolidated report and he'd like to see more than a simple commingling on the SNC. He said something needs to be done with the changes due to assumption changes that have the potential to be greater than the entire SNC. Mr. Reid suggested that in the process of considering the effect of these changes on social insurance the Board could consider how to deal with the effects of all changes in assumptions in those types of liabilities, e.g., a separate presentation on the SNC or, better yet, on another statement. Mr. Reid said this issue is something that could be taken up later in the project. He strongly encouraged the Board not to limit the scope of the project to Social Security but to include all social insurance programs.

Statements of Financial Accounting Standards (FAS) Excerpts (emphasis added)

Accounting for Asset Retirement Obligations - FAS 143 – Par. B 24 – "A duty or responsibility becomes a present duty or responsibility when an obligating event occurs that leaves the entity little or no discretion to avoid a future transfer or use of assets. A present duty or responsibility does not mean that the obligation must be satisfied immediately. Rather, if events or circumstances have occurred that, as discussed below, give an entity little or no discretion to avoid a future transfer or use of assets, that entity has a present duty or responsibility. If an entity is <u>required by current laws</u>, regulations, or contracts to settle an asset retirement obligation upon retirement of the asset, that requirement is a present duty."

Employers' Accounting for Postretirement Benefits Other Than Pensions - - FAS 106 – Par. 40. "Certain medical claims may be covered by governmental programs under existing law or by other providers of health care benefits. Benefit coverage by those governmental programs shall be assumed to continue as provided by the present law and by other providers pursuant to their present plans. <u>Presently enacted changes in the law or amendments of the plans of other health care providers that take effect in future periods and that will affect the future level of their benefit coverage shall be considered in current-period measurements for benefits expected to be provided in those future periods. Future changes in laws concerning medical costs covered by governmental programs and future changes in the plans of other providers shall not be anticipated</u>." [Note that FASB currently requires that liabilities for Other Post Employment Benefits be reduced for Medicare Part D subsidies.]

Accounting for Income Taxes - FAS 109 – Par. 8 - c." The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; <u>the effects of future changes in tax laws or rates are not anticipated</u>."

Employers' Accounting for Pensions - FAS 87 – Par. 46. "The service cost component of net periodic pension cost and the projected benefit obligation shall reflect future compensation levels to the extent that the pension benefit formula defines pension benefits wholly or partially as a function of future compensation levels (that is, for a final-pay plan or a career-average-pay plan). Future increases for which a present commitment exists as described in paragraph 41 shall be similarly considered. Assumed compensation levels shall reflect an estimate of the actual future compensation levels of the individual employees involved, including future changes attributed to general price levels, productivity, seniority, promotion, and other factors. All assumptions shall be consistent to the extent that each reflects expectations of the same future economic conditions, such as future rates of inflation. Measuring service cost and the projected benefit obligation based on estimated future compensation levels entails considering indirect effects, such as changes under <u>existing law</u> in social security benefits or benefit limitations 11 that would affect benefits provided by the plan." Par. 47. "The accumulated benefit obligation shall be measured based on employees' history of service and compensation without an estimate of future compensation levels.

Excluding estimated future compensation levels also means excluding indirect effects of future changes such as increases in the social security wage base. “

excerpts from “Report of key themes from public sector member consultation” by CPA Australia, March 2006. [Full report is available on the web at http://www.cpaaustralia.com.au/cps/rde/xchg/SID-3F57FEDF-21C1413E/cpa/hs.xsl/990_18394_ENA_HTML.htm]

1.1 Introduction

In late 2005, the Financial Reporting Council (FRC) commission a review into how adequately a “sector neutral” approach to the development of accounting standards can meet the information needs of users of financial statements and the public interest more generally.[4]

In response to the FRC’s review, CPA Australia organizes a series of events to provide members with the opportunity to present their views to the FRV-appointed consultant.

This report presents a summary of the views expressed by approximately 300 public sector members of CPA Australia at a series of Think Tanks and as respondents to an online survey. The views expressed in this report are those of the members that participated in the events and are not the official or unanimous views of CPA Australia.

A common theme emerged that notwithstanding the fundamental differences in the business models underlying the public and for-profit sectors, many transactions are similar across sectors. Sector neutrality can work if the differences in business models are appropriately addressed through conceptual framework and accounting standard development.

3.1 Outstanding issues for resolution in public sector financial reporting

Even though financial reporting standards for governments have been in existence sine the mid 1990s (with the introduction of AAS 27 in 1995), these are still a number of issues which need to be resolved for the public sector. Following are some examples.

- Definitions of a reporting entity
- Performance reporting against budget
- Accounting for voluntary services

[4] The last 12 months have seen the beginning of another era of transformation for public serctor financial reporting, the most prominent since the introduction of accrual accounting and reporting over a decade ago. The refocusing of public sector financial reporting commenced with the issuance of ED 142 Financial Reporting of Government Sectors by Governments, proposing to harmonise Generally Accepted Accounting Principles and Government Finance Statistics (GFS). The Australian Accounting Standards Board (AASB) also issued a Strategy Paper proposing the removal of public sector specific standards; AAS 27 Financial Reporting by Local Governments, AAS 29 Financial Reporting by Government Departments and AAS 31 Financial Reporting by Governments, in line with the Financial Reportin Council (FRC) directive to implement AEIFRS (Australian Equivalent International Financial Reporting Standards).

- Accounting for liabilities arising from public policy (including social policy obligations)

[remaining 23 items omitted.]

3.2 Results from CPA Australia's survey

The list of outstanding issues above is comprehensive but by no means exhaustive. In an attempt to assist the AASB and obtain some information as to the urgent issues, CPA Australia disseminated a survey to all its public sector members. Overall 184 responses were obtained which identified the priority issues for resolution, a preferred withdrawal date for the public sector specific standards and whether early adoption of the requirements that will replace AAss 27, 29 and 31, was preferable.

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The following issues were identified as the top five issues (with the corresponding response rate) from 75.1% of respondents, that are required for urgent resolution by the AASB.

1. Disclosure of administered vs departmental items (18.7%);
2. Accounting for social policy obligations (16.2%)
3. Accounting for cultural and heritage assets (valuation and depreciation) (15.3%);
4. Amending the definition of what constitutes a “for profit” vs a a”not-for-profit” entity; and
5. Guidance on determination of control (11.8%).

Joint Press Statement of the
US Department of the Treasury,
Office of Management and Budget, and
the US General Accounting Office
January 11, 2002
Federal Accounting Standards Advisory Board

On January 11, 2002, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the United States announced a restructuring of the Federal Accounting Standards Advisory Board (FASAB) to increase the number of public members on the Board from three to six, decrease the number of federal government members from six to three, and provide for terms of up to ten years. The FASAB promulgates generally accepted accounting principles (GAAP) for federal reporting entities.

Regarding the changes, Comptroller General David M. Walker, who currently chairs the Joint Financial Management Improvement Program (JFMIP), stated:

> **Since its creation in 1990, the Board has made tremendous progress. We believe, now more than ever, we must continue this progress in establishing sound financial accounting and reporting. The changes are designed to enhance the independence of the Board and increase public involvement in setting standards for federal financial accounting and reporting. These changes will be effective June 30, 2002.**

The Board's current public members David Mosso, formerly vice-chairman of the Financial Accounting Standards Board; John Farrell, retired partner from KPMG LLP; and James Patton, professor with University of Pittsburgh's Katz School of Business will continue and will be joined by three new members.

Secretary of the Treasury Paul H. O'Neill indicated that:

> **We believe that the restructuring further evidences our commitment to high quality standards developed with robust public participation. We anticipate recruiting additional experienced knowledgeable members to join our present high caliber public members and to continue the thoughtful deliberations of the Board.**

Mitchell E. Daniels, Jr., the Director of the Office of Management and Budget, in commenting on the reduction of federal membership said:

> **This Administration is determined to improve the management of the federal government. We want to move departments and agencies to the higher levels of effectiveness and efficiency commonly seen in the private sector. It is only logical that the standard setters**

themselves in an area like accounting bring a private sector perspective and expertise to their work.

ABOUT FASAB

The mission of the FASAB is to promulgate federal accounting standards after considering the financial and budgetary information needs of citizens, congressional oversight groups, executive agencies, and the needs of other users of federal financial information.

Accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus, federal accounting standards and financial reporting play a major role in fulfilling the government's duty to be publicly accountable and can be used to assess (1) the government's accountability and its efficiency and effectiveness, and (2) the economic, political, and social consequences of the allocation and various uses of federal resources.

For more information on FASAB, please visit our website: www.fasab.gov