

# The Federal Accounting Standards Advisory Board

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## Accountability

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# Disclaimer

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Views expressed are those of the speaker. Official positions of the FASAB are determined only after extensive due process and deliberations.



# Overview

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- Principals and Agents
- Private sector vs public sector
- GAAP – What is it?
- General Acceptance by Whom and for What?
- Evolution – “Traditional” or “Transparent”



# Discussion – Accountability of Agents

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What are principal-agent relationships?

What is the scope of accountability when an agent acts on behalf of a principal?

What are the different aspects of accountability?

How do financial reports support the various aspects of accountability?



# Sectors

- Private sector
  - Stakeholders
    - Investors
    - Creditors
    - The Public?  
(<http://www.theiirc.org/>)
  - Agents
    - Directors and Executives
    - Employees
    - Vendors and contractors
- Public Sector
  - Stakeholders
    - Citizens
      - Taxpayers
    - Creditors
    - Beneficiaries of programs
  - Agents
    - Elected officials
    - Political appointees
    - Employees

# Information

- Financial



- Nonfinancial



# Nonfinancial Information

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- Quality?
- Availability?
- Accessibility?



# US Accounting Standards Setters

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# International Accounting Standards Setters

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- International Accounting Standards Board
  - <http://www.ifrs.org/Pages/default.aspx>
- International Public Sector Accounting Standards Board
  - <http://www.ipsasb.org>



# GAAP

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- Generally accepted accounting principles
  - AICPA role and criteria:
    - independent
    - due process
    - unique domain
    - comprehensive and consistent
    - human and financial resources
- International Convergence?



# Content of financial reports

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- Report on:
  - Resources
  - Obligations
  - Costs
  - Revenues
- Accountability and/or Decision-making



# Discussion – Decision Making

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Statement of net cost provides the net cost of government goods and services to be financed by taxpayers (presently and in the future)

Balance sheet presents the resources the government has under its control presently and the obligations it has already incurred to deliver goods and services

What decisions can you envision making with this type of information?



# Financial Statements



- “Traditional” with some twists
  - Statement of Net Cost
  - Statement of Operations and Changes in Net Position
  - Balance Sheet
- Budgetary
  - Reconciliations of Net Operating Cost and Deficit
  - Statement of Changes in Cash Balances from Deficit and Other Activities
- Prospective
  - Statement of Long-Term Fiscal Projections
  - Statement of Social Insurance
  - Statement of Changes in Social Insurance



**Chart 2**  
**Net Cost: FY 2014 (\$3.8 trillion)**

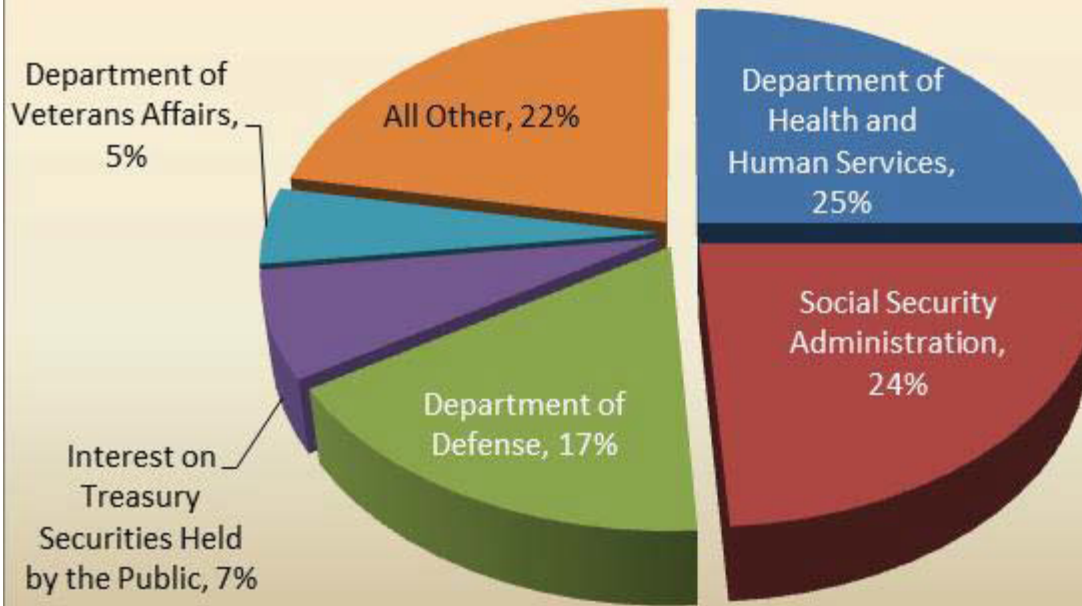


Chart 3

Government Taxes and Other Revenues



# What about Tax Expenditures?

- Deductions
- Credits
- Deferrals
- Exemptions





# NATION BY THE NUMBERS

## A Snapshot of The Government's Financial Position & Condition

Dollars in Billions	2014	2013
<b>Gross Costs</b>	\$ (4,251.4)	\$ (3,940.9)
Less: Earned Revenues	\$ 417.9	\$ 415.5
Gain/(Loss) from Changes in Assumptions	\$ (3.5)	\$ (131.2)
<b>Net Cost</b>	<b>\$ (3,837.0)</b>	<b>\$ (3,656.6)</b>
<b>Less: Total Taxes and Other Revenues</b>	<b>\$ 3,066.1</b>	<b>\$ 2,842.5</b>
Unmatched Transactions and Balances <sup>1</sup>	\$ (20.4)	\$ 9.0
<b>Net Operating Cost</b>	<b>\$ (791.3)</b>	<b>\$ (805.1)</b>
<b>Assets:</b>	<b>\$ 3,065.3</b>	<b>\$ 2,968.3</b>
<b>Less: Liabilities, comprised of:</b>		
Debt Held By the Public & Accrued Interest	\$ (12,833.6)	\$ (12,028.4)
Federal Employee & Veteran Benefits	\$ (6,672.6)	\$ (6,538.3)
Other	\$ (1,259.8)	\$ (1,310.9)
<b>Total Liabilities</b>	<b>\$ (20,766.0)</b>	<b>\$ (19,877.6)</b>
<b>Net Position (Assets Less Liabilities)</b>	<b>\$ (17,700.7)</b>	<b>\$ (16,909.3)</b>
<b>Sustainability Measures:</b>		
Social Insurance Net Expenditures <sup>2</sup>	\$ (41,916)	\$ (39,698)
Total Non-Interest Net Expenditures <sup>3</sup>	\$ (4,700)	\$ (4,000)
<b>Sustainability Measures as Percent of Gross Domestic Product (GDP)<sup>4</sup>:</b>		
Social Insurance Net Expenditures	(4.0%)	(4.0%)
Total Federal Government Non-Interest Net Expenditures	(0.4%)	(0.4%)
<b>Budget Results</b>		
<b>Unified Budget Deficit</b>	<b>\$ (483.4)</b>	<b>\$ (680.3)</b>

<sup>1</sup> Reflects adjustments made to bring certain accounts into balance for such items as restatements and errors in federal agency reporting and unreconciled intragovernmental transactions and balances among agencies.

<sup>2</sup> Source: Statement of Social Insurance. Amounts equal present value of projected revenues and expenditures for scheduled benefits over the next 75 years of certain benefit programs that are referred to as Social Insurance (e.g., Social Security, Medicare). Amounts represent 'open group' population (all current and future beneficiaries). These amounts are not considered liabilities on the balance sheet.

<sup>3</sup> Represents the 75-year projection of the Federal Government's receipts less non-interest spending as reported in the 'Statement of Long Term Fiscal Projections' in the Required Supplementary Information section of the Financial Report of the U.S. Government.

<sup>4</sup> GDP values used represent the average of 75-year present value of nominal GDP for 2014 and 2013 based on the Social Security and Medicare Trustees Reports.



# Why did S&P Downgrade US Debt?

- The downgrade reflects our opinion that the fiscal consolidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to stabilize the government's medium-term debt dynamics.
- More broadly, the downgrade reflects our view that the effectiveness, stability, and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenges to a degree more than we envisioned when we assigned a negative outlook to the rating on April 18, 2011.
- Since then, we have **changed our view of the difficulties in bridging the gulf between the political parties over fiscal policy**, which makes us pessimistic about the capacity of Congress and the Administration to be able to leverage their agreement this week into **a broader fiscal consolidation plan that stabilizes the government's debt dynamics any time soon.**



# Going Electronic Challenges & Opportunities

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- Audit
  - Stay inside the lines
  - Completeness
- “Serial” vs “Drill” down data
  - What does the pyramid of “information” look like
- Awareness
  - Finding sources
  - Providing context



# Federal Reporting Model –User Needs

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- “Media and analysts believe that preparing financial reports and having them audited would **instill discipline and provide confidence** in other federal government financial reports, and that an annual financial report about the federal government would serve as a useful reference document for further research.”
  - *Federal Government Reporting Study* (GAO and Office of the Auditor General in Canada)



# Federal Reporting Model – User Needs - Citizens

- Citizens
  - Focus group participants:
    - were **not aware** of annual financial reports
    - wanted **understandable financial information** about the finances of the federal government and they adamantly emphasized that they were **entitled** to this information
    - Focus group participants appeared to indicate that “**layers**” of reports **would be beneficial to them**. They believed that a summary document, like the Citizen’s Guide, would be a good start, but they wanted to be able to access additional information if necessary. They pointed to the fact that the Citizen’s Guide has a “Find Out More” section where they can access details.
  - Survey results:
    - 21% of the respondents stated that they did not have access to the internet or email
    - Interest in program performance, cost, assets, liabilities
  - Second focus group results:
    - One page report
    - Electronic reporting



# Contact Information

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