# Budgetary Accountability: Why, Why, Why?

BY MICHELE MARK LEVINE

**"No taxation without representation!"** is a rallying cry upon which the United States of America was founded. The U.S. Constitution and the equivalent for each state delegate the power of taxation to the legislative branch of government,[1] notably the branch that most directly represents citizens as constituents. "Management by committee" not being the most efficient, however, the day-to-day operation is largely controlled by the executive branch of governments at all levels.

How, then, to make that representation of the people meaningful and effective in determining what government does with tax money? This is accomplished by means of legally adopted budgets. By law, budget appropriations both *permit* and *constrain* the spending of public dollars. And how do legislators and citizens alike know that government managers abide by these laws? By virtue of governments issuing reports demonstrating compliance, upon which users know they can rely.

The centrality of the need for budgetary accountability has had a profound effect on government accounting, and it helps explain the high value GFOA places on budgetary compliance reporting.

*So, this is why government accounting is "different."*

The objective of government accounting and external financial reporting is to provide accountability for the use of public resources. Budgetary reporting in government's basic financial statements (or required supplementary information [RSI], discussed later), and in other information included in comprehensive annual financial reports, is the epitome of taxation *with* representation. For governments, accountability to taxpayers as resource providers, and legislators as their representatives, is of paramount importance.

Fund and encumbrance accounting are widely associated with government financial reporting. These, and the use of a second measurement focus and basis of accounting, are all born of the need to facilitate and demonstrate compliance with legally adopted budgets, and with other constraints imposed on spending by constitutions and charters, enabling legislation, higher levels of government, lenders, and grantors. In these essential ways, accounting and financial reporting for governments is substantively unlike accounting and financial reporting for any other kind of organization. While not-for-profit enterprises may have some similarity in terms of their service-provision missions, governments are the only institutions funded by compulsory taxes, regulatory fines and fees, and charges for crucial public services for which there are often no alternative providers.

*Also, this is why the criteria in GFOA's Certificate of Achievement for Excellence in Financial Reporting award program emphasizes demonstrating budgetary compliance.*

For the nearly 4,400 governments that participate in GFOA's Certificate of Achievement for Excellence in Financial Reporting award program (COA), the award criteria are presented in the COA checklists, with the most important requirements indicated by an asterisk.[2] Of the nine criteria for the basic financial statement titled "Governmental Fund Financial Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund and Major Special Revenue Funds," *six* are asterisk items. As these basic financial statements (or their RSI-schedule substitutes) are generally not presented at a government's legal level of budgetary control,[3] they must be supported by supplementary budgetary reporting with such detail, within the financial section of a comprehensive annual financial report.[4] This requirement is also an asterisk item.

Admittedly, reporting down at the legal level of budgetary control can be voluminous. "In extreme cases," generally accepted accounting principles (GAAP) permit governments to provide that detail in a separate report.[5] For participants in the COA, the criteria in such cases require governments to do the following, in order to be certain that they are, in fact, demonstrating budgetary accountability, as they would be if the details were included in their comprehensive annual financial reports:

1. Make the separate report ("budgetary compliance report") available to the public (for example, on their website).
2. Include a reference to the budgetary compliance report and explain how it may be obtained (for example, web address with an active link) in the notes to their basic financial statements.
3. Ensure that the amounts stated in the budgetary compliance report are easily traced to the budgetary comparisons presented in the comprehensive annual financial report.
4. If necessary, make additional schedules available to the public in order to demonstrate agreement between the amounts in the comprehensive annual financial report and the budgetary compliance report.

*This is why GFOA supports the inclusion of budgetary-compliance reporting as part of basic financial statements prepared in accordance with GAAP.*

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More than 20 years ago, with the promulgation of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (GASB 34), governmental financial reporting was greatly altered by the introduction of government-wide financial statements. These provide a valuable holistic and long-term perspective, adding a way for users to assess whether the government's current operations are consuming greater or fewer resources than they are taking in, thereby shifting either costs or benefits into the future or drawing or building on those accumulated in the past. At the same time, however, GASB began a dangerous retreat from budgetary accountability, which GASB is now proposing—in its Exposure Draft *Financial Reporting Model Improvements* standard (ED) — to unconditionally surrender.

GASB 34 gave governments the option to move budgetary reporting out of basic financial statements, the prominence of which reflects their essentiality and where they are subject to audit. Instead, governments were given the option to include those reports only in RSI and were even encouraged to do so.[7] Notwithstanding GFOA's recommendation to the contrary,[8] this relegation to unaudited schedules that appear separate from, and after, basic financial statements and note disclosures, has become more common as governments are persuaded by auditors charging more to perform the additional procedures and assume greater responsibility to assure budgetary accountability. In the ED, GASB is proposing to make this demotion mandatory.[9] In theory, governments could nonetheless specifically engage their auditors to provide an opinion on their budgetary reports, but in practice, the change will drive such assurance of budgetary accountability to extinction.

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[1] Alternatively, some taxation decisions may be made by direct approval of voters.

[2] The checklist for all governments other than postemployment benefit plans and investment pools can be found on GFOA's website at gfoa.org/comprehensive-general-purpose-checklist.

[3] The legal level of budgetary control is the detail level, such as a program or object, for which legislative approval is required to exceed budget appropriations, often with flexibility within specific parameters.

[4] In accordance with COA criteria, this supplementary information must be subject to an "in relation to" auditor's opinion, providing some level of assurance regarding their fair presentation, albeit at a lower level than that provided for basic financial statements.

[5] GASB Codification of Governmental Accounting and Financial Reporting Standards, 2020-2021 (Cod.), Section (Sec.) 2400, "Budgetary Reporting," paragraph .104.

[6] Exposure Draft Financial Reporting Model Improvements, gfoa.org/GASBFinancialReportingModelImprovements.

[7] GASB Cod. Sec. 2400, paragraph .102 and footnote 1.

[8] See GFOA Best Practice Budgetary Comparisons as Part of the Basic Financial Statements, gfoa.org/materials/budgetary-comparisons-part-basic-financial.

[9] GASB Exposure Draft Financial Reporting Model Improvements, paragraph 34.