

Integrated Reporting Promotes Efficient Citizenship

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In December 2016, the World Bank Group made a presentation to the Federal Accounting Standards Advisory Board (FASAB) on Integrated Reporting in the Public Sector. The Board also received a paper on Integrated Thinking and Reporting - Focusing on Value Creation in the Public Sector issued by the World Bank and The Chartered Institute of Finance and Accountancy. The topic is important because the Board is deliberating on whether, or how, nonfinancial reporting (also called performance reporting or Service Efforts and Accomplishment reporting) and financial reporting should be linked to generally accepted accounting principles (GAAP).

That linkage needs to be made clear as FASAB's agenda includes a proposed Reporting Model Concept Statement.

Integrated Reporting suggests that an organization's public report should address both financial reporting and sustainability (performance) reporting. Financial and nonfinancial information could be reported in the same document. Alternatively, such information could be reported by linking one document to the other. The integrated report should have sufficient context to understand the organization's strategy, governance, performance, and prospects without being burdened with less relevant information.

With user demand for more information, the World Bank is calling for expanded reporting to include environmental, social, governance, and sustainability information. Users want to understand the connection between the stewardship and use of current financial resources and future sustainability, and how better communication of financial and nonfinancial information can lead to improved long-term decision-making.

The World Bank report noted the accounting profession is at a pivotal time because the landscape is changing and the current financial picture by itself is no longer sufficient. Government financial statements currently do an excellent job of telling us what we have spent, but they do not tell us what we have accomplished. In government, an excess of revenues over expenses tells little about the quality of services provided or citizen satisfaction. The World Bank presentation noted that accountants must evolve to remain relevant. To demonstrate this view, the presenters quoted former U.S. Army Chief of Staff General Eric Shinseki, "If you do not like change, you're going to like irrelevance even less." This does not suggest a lesser or competing role for financial statement reporting. It does suggest that with the increasing demand for different types of information, accountants will have additional opportunities to demonstrate their skills.

In view of the above, the questions before us are: what is government's history on meeting the public's information needs; what has the accounting profession contributed to the topic; and should the accounting profession join the research efforts of the World Bank which has, to date, focused its research on integrated reporting in countries outside the United States?



Integrated Reporting (financial and nonfinancial reporting) in the Public Sector Has Deep Roots in the United States in Efficient Citizenship Theory

The history of government's responsibility to publicly report on its performance with both financial and nonfinancial information goes back over 100 years. Such reporting is rooted in "efficient citizenship theory" that encourages citizens to exercise their right to be informed by receiving performance measurement information from and about their government.

The New York Bureau of Municipal Research, established in 1907, was a pioneer in the performance measurement movement and recognized the need for government to report on its programs, activities, and functions to active citizen owners as opposed to passive citizen customers. From the beginning, the Bureau believed that government has a responsibility to report cost and performance information to citizens and by doing so citizens would seek a more efficient and effective government. A critical point of efficient citizenship theory is that democratic government is best shaped by the choices of well-informed citizen voters.

The work of one of the three Bureau founders can be traced back to the first academic program in accounting at New York University. Fredrick Cleveland was a professor of finance. While there, he was mentored by C.W. Haskins, the author of a pioneer textbook on governmental accounting. Bureau research in numerous cities showed that citizens were provided significant financial information from the budget and other financial reports about what had been spent; however, citizens were provided little information about what had been accomplished. For example, citizens wanted to know about school performance in terms of graduation rates or how long it took the fire department to respond to a fire. The Bureau supported the linking of resources used for programs, activities, and functions to records that showed workloads, outputs, and outcomes. The economy, efficiency, and effectiveness of government programs was as important as what was left over from an appropriation.

Support for Integrated Reporting Has Strong Roots in Accounting; however, that Support Has Met Resistance

The need for government to report on the economy and efficiency of operations and program accomplishment, benefits, and effectiveness has been supported by professional accounting organizations since the 1930's (National Committee on Municipal Accounting – 1934 and 1936; the American Accounting Association - 1971; the AICPA Trueblood Committee – 1972; FASB Concept Statement 1 - 1978; FASB's Accounting Concept's Statement 4 on Objectives of Financial Reporting by Nonbusiness Organization – 1980; and the National Committee on Governmental Accounting – 1980 and 1982.

The Governmental Accounting Standards Board (GASB) was established in 1984 and has the responsibility for establishing GAAP for state and local governments. GASB's history on SEA reporting started in 1985. Service efforts and accomplishments (SEA) reporting is a form of general purpose external financial reporting that includes information about the services provided and the effect of those services. It assist citizens, elected officials, and other interested parties in assessing the degree to which the government is achieving its program or government-wide goals.

SEA reporting gained momentum in 1994 with the issuance of Concept Statement 2, stating the role of financial reporting is to provide information to assess performance. Further, Concept 2 as originally issued, clearly stated that SEA information is an integral part of General Purpose External Financial Reporting. However, in 2008, and after much deliberation and threats from organizations that questioned the authority of GASB to address the topic, Concept Statement 2, as amended by Concept Statements 3 and 5, concluded it was beyond the scope of the GASB to develop specific nonfinancial measures or indicators of service performance.

Not to give up on the topic altogether, in 2008 GASB also issued Suggested Guidelines for Voluntary Reporting of SEA Performance Information. There is no question that GASB's efforts, while not resulting in a strong Concept Statement or subsequent Standard, advanced the reporting of performance information. GASB's work is consistent with the World Bank's



research on integrated reporting. Linkage between financial and nonfinancial reports can result in better economic, political, and social decisions.

The Future for Integrated Reporting

The World Bank believes that Integrated Reporting is a catalyst for long-term financial sustainability. Whether the linkage between financial and performance reports becomes clearer in future GASB standards for state and local governments, in FASB standards for nonprofit organizations, or in FASAB standards for the federal government is yet to be seen. Clearly, support for such reporting is rooted in Efficient Citizenship Theory and further historically supported by accounting and government organizations.

Many federal, state, and local governments currently report on organization performance in separately issued stand-alone documents. Some reporting may be in a document as short as four-pages or in other documents containing over 100 pages. To date, these performance reports have not been successfully linked to or from the issued financial statements; however, there are opportunities for such linkage.

For example, state university auditors in Florida provide assurances to their University President, the Board of Trustees, and to the State University System Board of Governors (BOG) that ten performance metrics identified by the Board of Governors are supported by University records and can be relied upon. State Universities’ funding depends on improvement in these metrics supported by audit assurances that the data can be relied upon. This year, \$500 million was designated for Performance Based Funding.

If the purpose of a University is to provide a quality education, then there should be a purposeful effort to link the financial statements to performance. The following are the ten performance metrics selected by the Florida Board of Governors for its twelve state universities:

1. Percent of Bachelor's Graduates Enrolled or Employed (\$25,000+) in the U.S. One Year After Graduation	6. Bachelor's Degrees Awarded within Programs of Strategic Emphasis (Science, Technology, Engineering, and Mathematics (STEM))
2. Median Wages of Bachelor's Graduates Employed Full-Time in Florida One Year After Graduation	7. University Access Rate (Percent of Undergraduates with Pell Grants)
3. Net Tuition and Fees per 120 Credit Hours	8. Graduate Degrees Awarded within Programs of Strategic Emphasis (STEM)
4. Six-Year Graduation Rate for First-Time-in-College Students	9. Faculty Awards (University Choice of Board of Governors' Choice Metrics)
5. Academic Progress Rate (Second Year Retention Rate with Grade Point Average (GPA) Above 2.0)	10. National Rank Higher than Predicted by the Financial Resources Ranking, Based on U.S. News and World Report (University Board of Trustees Choice Metric).

Whether the above ten metrics are the best ten is open to discussion; however, it is logical that the spending of billions of dollars on education should be linked to what has been accomplished with those dollars and such reporting is enhanced when both financial and nonfinancial reports have a high degree of independent assurance.

To date, the linkage between financial statement reporting and performance reporting has not been made. Additional research is needed to identify whether the lack of this linkage is related to resource availability, the lack of a model reporting format, reluctance to externally report the government's performance by management and/or elected officials, or a lack of demand on the part of citizens. Citizens may not be aware such information exist. Also, governments may not be aware the information



could be provided with auditor assurance.. Audit work can be performed in accordance with AICPA Attestation Standards, Government Accountability Office Performance Audit Standards, or The Institute of Internal Auditor's Internal Auditing Standards. Such audit assurance for performance reports would increase citizen trust in the information reported.

As a profession, we should continue to be mindful of the information needs of report users and seek to issue reports that improve government transparency and foster efficient citizenship.

Author's Bio

Sam McCall, PhD, CPA, CGMA has been the Chief Audit Officer at Florida State University for over three years. He was previously City Auditor for the City of Tallahassee for thirteen years and prior to that, he was Florida Deputy Auditor General for thirteen years of that thirty-year career. For the last five years, Sam has also been a member of the Federal Accounting Standards Advisory Board that establishes GAAP for the federal government. Over his forty-seven-year career, Sam has had the opportunity to work and contribute at the federal, state, and local government level. In addition to professional certifications, he has masters and doctorate degrees in public administration from FSU and a bachelor's in accounting from the University of West Florida. He received the 2016 AICPA's Outstanding CPA in Government Career Contribution award.

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