



August 6, 2012

In May 2011, the Financial Accounting Foundation (FAF) announced that, as part of its oversight of the Governmental Accounting Standards Board (GASB), it had commissioned an independent academic study to explore the purposes of financial accounting and reporting of state and local governmental entities. The primary objective of the study was to provide insights to the FAF Board of Trustees on how the GASB can best serve stakeholders within the context of its mission. The study was specifically designed to focus on the overall scope of GASB’s activities and did not target any particular project of the GASB.

Three independent researchers from three separate universities, working as a team, conducted the study. The study was to provide greater understanding of the needs and expectations of governmental financial report stakeholders —preparers, auditors, and users—and to examine stakeholders’ understanding and expectations of the role of financial reporting in enabling users of financial reports to assess the “accountability” of reporting governments. The study sought to identify the types of information various stakeholders desire and believe appropriate and cost beneficial for reporting through application of GASB standards and guidelines, and why that information is important for financial reporting. The comprehensiveness of the study was limited by the reasonable but finite sampling of stakeholders that provided input to the research team, with the smallest sampling coming from the financial statement user community.

Accompanying this letter is the final report of the research team entitled “*Independent Academic Study of the Scope of the GASB - Accounting and Accountability—Topics and Processes*” (Research Report).

The FAF Trustees believe this study, while limited in scope, was objectively conducted and utilized a complement of research methodologies that foster credibility in the findings. The survey and other stakeholder feedback findings documented in the report, although not statistically significant, provide useful insights to the Trustees’ ongoing evaluation of the scope of the GASB. The Trustees believe that the research team’s principal observations and findings of study are the following:

- The GASB is widely accepted as the appropriate organization to set financial accounting and reporting standards for state and local governments in the United States.
- The GASB’s independence and the rigorous due process it follows in establishing financial accounting and reporting standards are highly valued and well respected.
- The notion of “accountability” of governments is not well defined in the accounting literature. The lack of shared understanding about the meaning of “accountability” and which aspects of “accountability” are suited for assessment through financial reporting has led stakeholders to adopt differing views about the scope of GASB’s activities and involvement in accountability reporting.

- Although some areas of governmental accountability may be beyond the scope of GASB’s authority, there is no bright line demarcating the limits of GASB’s scope of authority.

Over the next several months, the FAF Trustees will study and evaluate the report’s findings. In so doing, we will also explore the potential of better defining and distinguishing the nature of GASB’s authority in those areas of financial accounting and reporting generally considered by stakeholders to be clearly within GASB’s scope, and in those areas of financial reporting for which there is far less agreement. We will consider whether process or procedural enhancements will help clarify GASB’s scope of authority and better enable the GASB to serve stakeholders within the context of its mission.

We anticipate that some of the distinguishing features between areas considered to be clearly within GASB’s scope of authority and those areas where there is far less agreement may fall into the overlapping categories of reporting information labeled by the research team as “*financial accountability reporting*” and “*expanded accountability reporting*.” Although these labels and the general categorical attributes ascribed to them by the research team are useful as a starting point for further analysis, the Trustees recognize these are simplified and untested conventions.

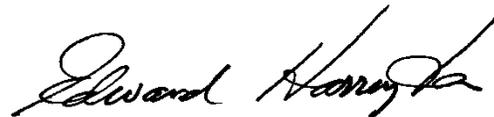
Our evaluation will include pursuing further opportunities to engage with stakeholders on the scope of the GASB. We also will discuss and consult with the GASB on this effort, and we will continue to keep stakeholders informed of our evaluation process and progress in fostering GASB’s continued fulfillment of its mission.

The FAF Trustees express their strong appreciation to the research team of Kenneth A. Smith, PhD (Senior Lecturer—Daniel J. Evans School at the University of Washington), Donald R. Deis, PhD Innis & Virginia Joslin Endowed Chair & Professor of Accounting—Texas A&M University— Corpus Christi), and Marc A. Rubin, PhD (PricewaterhouseCoopers Professor of Accountancy and Chair of the Department of Accountancy—Miami University in Oxford, Ohio) for their research, observations and insights.

Sincerely,



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Standard-Setting Process Oversight Committee  
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