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# Statement of Federal Financial Accounting Concepts 4: Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government

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## Status

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<b>Affects</b>	None.
<b>Affected by</b>	None.

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See pages 6-7 for the preamble to Statements of Federal Financial Accounting Concepts.

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## Summary

In this Statement of Concepts, the Federal Accounting Standards Advisory Board (FASAB) has identified the intended or primary audience for the Consolidated Financial Report (CFR) of the US Government. FASAB also has described the characteristics of the audience and the qualitative characteristics FASAB believes will aid in meeting financial reporting objectives for the CFR. The concepts in this document are intended to help the Board as it develops accounting standards and the accounting and reporting framework for the Federal Government.

To provide guidance on the CFR, the Board reviewed its existing technical guidance on Federal financial reporting to discern how to apply that guidance to the CFR. It also researched other pertinent studies, and considered its experience with Federal accounting principles and the evolution of the CFR. The Board developed its assessment of who should be the general primary audience for the CFR. As a result of that review and assessment, the Board has identified five audiences for the CFR: Citizens, Citizen Intermediaries, Congress, Federal Executives, and Program Managers. However, the Board believes that the external user groups, Citizens and Citizen Intermediaries, are the primary audiences for the CFR.

The Board will rely on qualitative characteristics from SFFAC 1 in developing accounting standards for the CFR that will effectively meet the needs of the intended audience. These Qualitative Characteristics include: understandability, reliability, relevance, timeliness, consistency and comparability. While all these characteristics are important, given the intended audience for the CFR, understandability and timeliness are particularly fundamental to the usefulness of the CFR.

This concepts statement provides that the CFR should be a “general purpose” report directed to external users (citizens and their intermediaries), should address the Board’s objectives,<sup>1</sup> should have highly understandable information, and should be timely.

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<sup>1</sup>Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Accounting Concepts* (SFFAC 1) defines those objectives in terms of user needs as 1) budgetary integrity, 2) operating performance, 3) stewardship, and 4) systems and control. See Appendix A for a description of these objectives.

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## Introduction

- 1. Relation of Federal Accounting Concepts and Standards to Governmentwide Consolidated Reporting.** The Federal Accounting Standards Advisory Board's (FASAB or "the Board") first Statement of Federal Financial Accounting Concepts, SFFAC 1, *Objectives of Federal Financial Reporting*, provides the foundation for generally accepted accounting principles, or GAAP, and for the Federal accounting and reporting framework. SFFAC 1 provides that Federal accounting and reporting should address four broad objectives: 1) budgetary integrity; 2) operating performance; 3) stewardship; and 4) systems and controls.<sup>2</sup> These objectives were developed based on studies of users' needs done during FASAB's initial years of operation and apply to all entity level reporting including agency, department, bureau or project level, and the Government as a whole. In addition to reporting objectives, SFFAC 1 established qualitative characteristics for information in financial reports (see pars. 156 to 164 of SFFAC 1).
2. Because of increased experience with, and interest in the US Government's primary consolidated financial report, the *Consolidated Financial Report of the US Government* (CFR), the Board has determined that concepts specifically directed to that report would be helpful. Such concepts would help guide the Board as it develops future standards and changes in its framework for financial accounting and reporting. This document provides concepts related to the primary audience for the CFR and identifies qualitative characteristics for the CFR. The Board may decide in the future to address other aspects of the CFR.
- 3. Governmentwide Consolidated Reporting.** The preparer of the CFR, is the United States Department of the Treasury. Prior to any formal guidelines, Treasury voluntarily produced its first "prototype" governmentwide consolidated financial reports in 1976 for fiscal year 1975. The Government Management Reform Act of 1994 required the consolidated financial report of the US to be audited. Treasury's 1997 annual consolidated financial report was the first CFR to be issued pursuant to the Act and to undergo an audit. Since that time, Treasury has continued to refine the preparation and presentation of the CFR.
4. Currently, the CFR is an extensive, informative document that includes highlights of summarized agency level activity, consolidated financial statements, and some accompanying information whose source is not agency level entity reporting. The CFR includes both financial and non-financial information and has been focused on presenting understandable data for a variety of audiences. As a result, the report has grown in size and

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<sup>2</sup>See Appendix A for a full description of these four objectives from SFFAC 1, *Objectives of Federal Financial Accounting Concepts*.

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complexity. Some have questioned whether the CFR is trying to satisfy too many audiences with different needs in one format. Others believe that the information to be presented would depend on the needs of users and that identifying the primary users might better focus the CFR.

5. The Board determined that it would be beneficial to designate the intended or primary audience<sup>3</sup> and qualitative characteristics for the CFR that would be most useful for that audience.

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## Concepts: Intended Audience and Related Qualitative Characteristics for the CFR

6. The CFR should be a general purpose statement of accountability to the public. A general purpose report should be easily understandable to the “average citizen”<sup>4</sup> who has a reasonable understanding of Federal Government activities and is willing to study the information with reasonable diligence.<sup>5</sup> Moreover, the CFR is a general purpose report that is aggregated from agency reports and tells users where to find information in other formats, both aggregated and disaggregated, such as individual agency reports, agency websites, and the President’s Budget.
7. The CFR should generally be directed to five user groups: Citizens, Citizen Intermediaries, Congress, Federal Executives, and Program Managers. However, citizens and citizen intermediaries should be the audience to whom the CFR is primarily directed.
8. The CFR should provide information that addresses the areas of the Board’s objectives as identified in SFFAC 1: 1) budgetary integrity, 2) operating performance, 3) stewardship, and 4) systems and control. The Board does not intend that the CFR should satisfy all of the Board’s objectives for all audiences. It earlier provided that each of the reporting objectives could be met to a greater or lesser degree by different statements prepared by different entities. For example, program and financing schedules for individual budget accounts

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<sup>3</sup> The Board acknowledges that this concepts statement addresses only some aspects of CFR reporting. It may address further aspects as more experience is gained in CFR reporting.

<sup>4</sup> *Toward a Report to Citizens on the State of Their Nation and the Performance of Their Government: Proceedings of the AGA Task Force on a Report to Citizens on the State of the Nation*, November 1994, p.12 The report did not define “average citizen.”

<sup>5</sup> Based on the definition of a general user as described in the Financial Accounting Standards Board Concepts Statement 1. The FASAB narrowed the definition to make it specific to the Federal Government.

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could help address budgetary integrity, and financial statements from organizations could help address operating performance.<sup>6</sup>

9. SFFAC 1 also provides that information should be reliable, relevant, consistent, comparable, understandable and timely. While all of these characteristics are important for all reports and all users, it is particularly fundamental that the CFR be timely and understandable for citizens and citizen intermediaries. The content and structure of the CFR should be clear and complete to citizens and citizen intermediaries and the CFR should be available on a timely basis. For example, to be timely, the CFR should be issued not less than annually and as close to the end of the fiscal year as is possible.<sup>7</sup>

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## Basis for Conclusions

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. Within the text of the Statements, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

### **Intended Audience for the Consolidated Financial Report (CFR)**

10. This appendix does not constitute authoritative guidance for those who prepare and audit general purpose federal financial reports. It summarizes important matters that the FASAB members considered as they deliberated on this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.
11. FASAB published the exposure draft, *Target Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, March 19, 2002. There were 12 respondents as described in the table below:

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<sup>6</sup> Statement of Federal Financial Accounting Concepts 2, *Entity and Display*, par. 56.

<sup>7</sup> The Board understands that the preparer's ability to meet this goal is beyond the Board's purview. Guidance on reporting deadlines is provided by the Office of Management and Budget.

Category	Federal (Civilian)	Federal (Military)	Non-federal
Users, academics, and others (includes professional organizations)			5
Preparers and Financial Managers	6	1	
Totals	6	1	5

12. In general, respondents agreed with the Board’s identification of the primary audience as citizens and citizen intermediaries. Other respondent comments are addressed in the discussions that follow.
13. In providing guidance on the CFR, the Board primarily relied on its earlier conclusions supporting decisions on SFFAC 1, *Objectives of Federal Financial Information*. It then filtered into those conclusions its years of experience subsequent to its earlier conceptual work and other pertinent literature that describes user groups of government-level financial information. In particular, the Board relied on one of the most extensive studies on user needs for Federal Government financial information, the joint US-Canadian user needs study, Federal Government Reporting Study of March 1986. In this study, conducted by the US Comptroller General and the Auditor General of Canada, the researchers identified similar groups of users as those the Board had identified in SFFAC 1 and in this document.
14. The Board agreed that, in general, users of Federal financial information fall into the four categories identified in SFFAC 1: Citizens, Congress, Executives, and Program Managers.<sup>8</sup> However, for information at the more highly summarized governmentwide or consolidated level the Board divided those four groups identified in SFFAC 1 into two major groups: external users (Citizens), and internal users (Congress, Executives, and Program Managers).
15. The Board believes that citizens should be the primary audience for the CFR. This is based on the notion that citizens as compared to the other groups do not have ready access to more detailed Federal financial reports on which to make decisions. Moreover, they may not have the knowledge or desire to take the time to understand more sophisticated reports, preferring instead to look to a more summarized report for highlights of interest. Thus, the Board believes that the CFR should not attempt to meet all users needs for all objectives. Instead it should focus on meeting the basic needs of citizens for highly summarized information.

<sup>8</sup> SFFAC 1, par. 88-104.

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16. Further, for the CFR the Board believes that the Citizen user group identified in SFFAC 1 has two different sets of needs and therefore should be divided into two groups: Citizens and Citizen Intermediaries. Citizen needs are more specifically targeted to issues of general interest and to broad indicators of the overall financial health of the Government. On the other hand, Citizen Intermediaries devote more time to reading, analyzing, and interpreting more detailed information that they then analyze, summarize, and pass on to Citizens for further application. For these reasons, the Board expanded its original four groups of users to five user groups for the CFR. The group characteristics are summarized in the paragraphs that follow.

### External Users

17. *Citizens*. This group includes individuals outside the Government who are interested in information that supports their goals of generating and preserving income and savings, and improving their standard of living.<sup>9</sup> Citizens are interested in many aspects of the Federal Government. They are concerned about individual programs, candidates for office, the services the Government provides, and the fiscal responsibility of their elected and appointed representatives. Citizens receive and pay for Government services and therefore are concerned with the outputs and outcomes of those services and the efficiency with which they are provided. Citizens are concerned about their families and, in particular, with the financial burden their children and grandchildren will inherit.<sup>10</sup> These users are interested in a “comprehensive but concise...report [that would provide] a broad and complete picture of the Government’s...many and varied activities and resulting overall financial position.”<sup>11</sup>
18. *Citizen Intermediaries*. This group also includes individuals from outside the Government. It includes, among others, individuals such as: the media; public interest and advocacy groups; state and local legislators and executives; and analysts from corporations, academe and elsewhere. As citizens typically have limited time and ability to analyze reports about their government, they want and rely on assurances that the government is functioning economically, efficiently, and effectively.<sup>12</sup> However, citizens, for the most part, “would look to analysts in the media, financial institutions, policy institutes, etc., to do such analysis for them.”<sup>13</sup> Citizen intermediaries would analyze and interpret the more detailed information to

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<sup>9</sup> *Federal Government Reporting Study: A Joint Study by the Office of the Auditor General of Canada and the US Government Accountability Office*, March 1986, p.10.

<sup>10</sup> SFFAC 1, par. 77.

<sup>11</sup> *Federal Government Reporting Study*, p.v.

<sup>12</sup> SFFAC 1, paragraph 77.

<sup>13</sup> *Ibid.* p.5.

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deliver it to citizens. They also would provide more in-depth analysis that citizens may not have the desire or the ability to perform. Citizen intermediaries typically have more skill, time and ability to gather and analyze detailed data from alternative sources.

19. Intermediaries are interested in all of the major facets of each of the Board's objectives, including individual programs; Government services and activities; fiscal responsibility of elected and appointed representatives; program outputs and outcomes; and assurances of Government economy, efficiency and effectiveness. Intermediaries, therefore, are interested in a wider array of information on all aspects of budget, program operations, the Federal Government's stewardship, and systems and controls. "Media and analysts are the most frequent direct users of Federal Government financial reports, the major source of information about the Government for citizens and corporations, and an important source of information for legislators."<sup>14</sup> The Board believes that intermediaries may rely on the CFR as a starting point but that they will seek more detailed reports.
20. The Board agrees with the conclusion of the Federal Government Reporting Study. A significant finding was that "users depend on each other for the communication of financial information about the Federal Government. Legislators - generally considered to have a primary role in the use of Federal Government financial information - depend to a considerable extent on the interpretations of information by analysts and the media to provide them with the understanding they need. This also applies to citizens and corporations. Thus, needs of analysts and the media are considered crucial because, if they are not well served, the understanding of government activities by others will suffer."<sup>15</sup>

### Internal Users

21. Internal users are those groups inside the Federal Government who typically have more access to the myriad of Federal Government information including summarized and detailed financial, program, budget, cost, and economic reports and analyses for all entities. Because they are able to get information on their specific issues of interest, they might benefit from the CFR but are not its primary audience. Internal users include Congress, Federal executives, and program managers. Of these three internal users, some have considered Congress as the ultimate intermediary between the public and its Government. That notwithstanding, Congress, as would the other internal users, has access to more specific internal information and reports for conducting its work. Thus they are not the main audience of the CFR. However, these users may rely on the CFR with its broad indicators and summarized information as "a reference document to lead to more detailed or

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<sup>14</sup> Ibid. pp.5-6.

<sup>15</sup> Ibid. pp. iv-v.



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disaggregated information in specific areas.”<sup>16</sup> Each internal user has access to detailed, disaggregated information, but relies on summarized data in a more limited capacity as indicators for general Governmental financial position and condition. Internal users would use the CFR to provide “an overall picture of the financial health of the Government that is not available elsewhere...[and provide it with] a general framework to situate [its] own activities.”<sup>17</sup>

## Summary

22. Based on the above analysis, the Board concluded that the CFR would be of general interest to five user groups. However, the Board believes that the external user groups representing the general public, that is, Citizens and Citizen Intermediaries, are the primary audiences for the CFR.
23. The Board also considered comments from respondents to its exposure draft (see paragraph 11). Some respondents requested that specific individuals be added to the examples of persons included in the Citizen Intermediary group. Since the Board intended that the individuals listed in the group description were typical examples rather than an exhaustive list, it decided not to expand the list of examples. Rather it decided to slightly modify the wording of the description of the Citizen Intermediary group to clarify that the individuals and groups listed are typical examples and not an exhaustive list.

## Qualitative Characteristics

24. To be useful, FASAB’s SFFAC 1 provides that information should be reliable, relevant, consistent, comparable, understandable and timely. The FASAB considers these characteristics as it deliberates standards applicable to all Federal reporting entities, both agency level and the government as a whole. In the Federal environment, satisfaction of these characteristics occurs when FASAB develops standards for Federal reporting. At the CFR level, where the audited agency level data are aggregated, the manner in which the data are presented to the general audience for which the CFR is intended is a fundamental consideration. Because Federal financial statements differ from commercial financial statements in concept, form, volume, and complexity and the intended audience for Federal financial statements is so all encompassing, the FASAB is emphasizing the need for the CFR to be understandable. The Board concurs with a study by the Association of Government Accountants on Government accountability reporting that concluded that, “the problem of reporting to the citizens is not primarily one of inability to develop meaningful

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<sup>16</sup> Ibid. p.8.

<sup>17</sup> Ibid. p.9.

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information or lack of it. Rather, the principal problem is the manner in which this information is communicated to the American citizens.”<sup>18</sup> The study suggested that the abundance of detailed financial data published by the Government does not give citizens a succinct and comprehensive picture of the Government’s activities.

25. To support supplying citizens with a full picture of Government activities in an understandable manner, the Board concluded that each user group should be able to easily locate the types of information in which it might be interested. For example, if an item is reported, all information related to that item should be reported in one primary location, if feasible.<sup>19</sup> If not feasible, the report should provide clear linking language, notes, or other information that would guide the reader to the information on the item or topic that is split among different sections of the report. Ultimately, the CFR’s content and structure should be clear and complete to users.
26. In addition to the characteristic of understandability to citizens who may not have detailed knowledge of accounting principles (discussed above), this concepts statement emphasizes the qualitative characteristic of timeliness as being important for the CFR. As noted in SFFAC 1 (par. 162), “if financial reports are to be useful, they must be issued soon enough to affect decisions.” No matter how relevant, reliable, consistent, or comparable information might be, if the intended audience does not understand the information or if the information is not available in a timely manner, the information will not be useful to or used by that audience.
27. The Board also considered comments from some respondents who did not believe that the qualitative characteristics of understandability and timeliness should be emphasized at the expense of the other 4 characteristics (relevance, reliability, consistence and comparability). The Board affirmed that its intent as stated in paragraph 9 of the exposure draft was to acknowledge that all 6 characteristics were important for all reports and users. Its focus on the characteristics of understandability and timeliness related to the aggregated nature of the report and the intended audiences. It decided to delete the last two sentences of paragraph 22 of the exposure draft:

Thus, these two qualitative characteristics (understandability and timeliness) serve as a foundation for constructing accounting standards for a useful CFR. The Board will consider the other qualitative characteristics as standards are developed, considered, and adopted.

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<sup>18</sup>*Toward a Report to Citizens on the State of Their Nation and the Performance of Their Government: Proceedings of the AGA Task Force on a Report to Citizens on the State of the Nation*, November 1994, p.25.

<sup>19</sup> If items to be reported have mixed levels of audit coverage, the level of audit coverage for each item should be clearly identified. The audit standards in AU 558 will govern the labeling of the items.

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28. The Board believes that these two sentences caused some respondents to conclude the other 4 characteristics were not important to the Board.

### **General Purpose Financial Reporting**

29. Since the Board considers the CFR a general purpose financial report, it reiterates its discussion from SFFAC 1, where it described the limitations of financial reporting. It said that “general purpose financial reporting is not the only source of financial information. In many cases, users of general purpose financial reports need to consult other sources to satisfy their information needs...While certain information is provided by general purpose financial reports, other information is better provided by, or can be provided only by, financial reporting outside such reports. Still other information is provided by nonfinancial reports or by financial reports about segments of the national society other than the Federal Government and its component entities (e.g., economic reporting).”<sup>20</sup>

### **Board Approval**

30. The Board unanimously approved issuing this concepts statement.

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<sup>20</sup> SFFAC 1, *Objectives of Federal Financial Reporting*, par. 30-31.

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## Appendix A: Objectives of Federal Financial Reporting<sup>21</sup>

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31. **Budgetary Integrity.** Federal financial reporting should assist in fulfilling the Government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the Government's budget for a particular fiscal year and related laws and regulations. Federal financial reporting should provide information that helps the reader to determine
- how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization,
  - the status of budgetary resources, and
  - how information on the use of budgetary resources relates to information on the cost of programs [and] operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.
32. **Operating Performance.** Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. Federal financial reporting should provide information that helps the reader to determine
- the costs of providing specific programs and activities and the compositions of, and changes in, these costs;
  - the efforts and accomplishments associated with Federal programs and the changes over time and in relation to costs; and
  - the efficiency and effectiveness of the Government's management of its assets and liabilities.
33. **Stewardship.** Federal financial reporting should assist report users in assessing the impact on the country of the Government's operations and investments for the period and how, as a result, the Government's and the Nation's financial conditions have changed and may change in the future.
34. Federal financial reporting should provide information that helps the reader to determine whether
- the Government's financial position improved or deteriorated over the period,

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<sup>21</sup> From Statement of Federal Financial Accounting Concepts 1, SFFAC 1, *Objectives of Federal Financial Reporting*, par. 13-17.

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- future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and
  - Government operations have contributed to the Nation's current and future well-being.

35. **Systems and Controls.** Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that

- transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purpose authorized, and are recorded in accordance with Federal accounting standards;
- assets are properly safeguarded to deter fraud, waste, and abuse, and
- performance measurement information is adequately supported.

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## Appendix B: Acronyms

AICPA – American Institute of Certified Public Accountants

CFR – Consolidated Financial Statement of the US Government

FASAB – Federal Accounting Standards Advisory Board

GAAP – generally accepted accounting principles

SFFAC – Statement of Federal Financial Accounting Concepts

SFFAS – Statement of Federal Financial Accounting Standards