



## BEST PRACTICE

### **Presenting Budget to Actual Comparisons Within the Basic Financial Statements** **(2000) (BUDGET)**

**Background.** Generally accepted accounting principles (GAAP) traditionally have required that state and local governments present as part of their basic audited financial statements a budget to actual comparison statement. This treatment has provided the essential link between the legal budget and GAAP financial reporting, which has served to enhance the credibility of both. During the Governmental Accounting Standards Board's (GASB) financial reporting model project, the Government Finance Officers Association (GFOA) adopted a policy statement urging the GASB to retain the budget to actual comparisons as a basic financial statement.

In 1999, the GASB issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, which established a new financial reporting model for state and local governments. GASB Statement No. 34 will henceforth allow governments to choose to present mandated budgetary comparisons either as part of the basic audited financial statements or as "required supplementary information" (RSI). By definition, RSI does *not* fall within the scope of the independent audit of the financial statements, although auditors are required to perform certain limited procedures in connection with RSI.

Adherence to the budget is of paramount importance to the majority of a government's stakeholders. Indeed, most of a government's key decisions are based in one form or another upon the budget. Given the importance attached to the budget, it is essential that stakeholders be provided reasonable assurance that a government has maintained budgetary compliance. Until GASB Statement No. 34, this assurance has been provided by the inclusion of the budget to actual comparison statement within the audited financial statements. Although under generally accepted auditing standards (GAAS) auditors are required to consider the effect of material instances of non-compliance, the GFOA believes that relegating budgetary information to the unaudited RSI significantly weakens this important control. As a consequence, confidence could be diminished for the public and other stakeholders in the government's budget, and even potentially in the government itself. It may also diminish the importance of the Comprehensive Annual Financial Report (CAFR) to policymakers, government managers, investors, citizens and other stakeholders.

**Recommendation.** The Government Finance Officers Association (GFOA) recommends that all state and local governments present mandated budgetary comparisons as part of their audited basic financial statements. The retention of the budget to actual comparison as a basic financial statement ensures that the strong link that has existed between the budget and financial reporting in the past will continue to enhance the credibility of both in the future.

Approved by the GFOA's Executive Board, 2000.