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# Stakeholder participation in the governmental accounting standard-setting process

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## Abstract

**Purpose** – Accounting standards are issued only after a comprehensive due process, which includes opportunities for external constituents to participate via public hearings and comment letters. The purpose of this paper is to identify stakeholders unique to government and evaluate the extent to which they respond to 13 due process documents issued by the Governmental Accounting Standards Board (GASB). The results provide insight into the comment letter element of due process – who participates, in what way do they participate, and why do they participate?

**Design/methodology/approach** – Comment letters received by the GASB in response to eleven exposure drafts and three preliminary views (PV) documents from 2010-2013 were examined, and respondents were categorized according to Cheng's (1994) model as modified by Kidwell and Lowensohn (2011), resulting in the following 16 participant types: academics, budget officers, bureaucratic managers, state auditors/controllers, citizens, financial markets, elected officials, external auditors/CPA firms, finance officers, government accountants, government auditors, interest groups, media, professional associations, standard setters, and other governments. The authors next examined responses in favor of and opposed to for each document by group and responses by stakeholder group over time.

**Findings** – The authors find that participants came from various stakeholder groups. Consistent with findings in different standard-setting environments, the primary financial statement preparers – finance officers – were the most frequent individual respondents; however, there was participation from a wide variety of stakeholders. Responses are generally constructive and relatively consistent in their balance of favorable and unfavorable feedback over time, with a few exceptions. Closer examination of comment letters in response to the financial projections PV document reveals both conceptual and practical considerations underlying respondent participation.

**Research limitations/implications** – Motivations for participation were discerned from the letter content, but direct data on motivation was not measured, limiting the conclusions to apparent motivation. Future research might examine the extent to which comment letter content is incorporated into the basis of conclusions section of issued standards to assess the direct impact of comment letters on the governmental accounting standard-setting process. It would also be relevant to trace specific projects that advanced from a PV stage to the exposure draft stage to assess whether the proportional participation of these stakeholder groups is different throughout due process.

**Practical implications** – The GASB has long been receptive to constituent feedback (Lowensohn, 2000) and can glean useful input from comment letters. By closely examining arguments impounded within comment letters, including conceptual and practical considerations, and by utilizing a more delineated understanding of the stakeholders in governmental accounting standard setting, the Board can better forge into the future.

**Originality/value** – Much of the extant research documents that stakeholder participation is relatively low, given the number of parties affected by accounting standards. Prior research into both public and private sector accounting standard setting in the USA and abroad has not used all unique actors specific to the public sector. Using a comprehensive stakeholder model designed for the governmental environment, the authors examine who participates in the GASB comment letter process, assess the nature of GASB comment letter participant responses, determine whether relative participation by stakeholder group is relatively constant over time, and consider why the participants respond.

**Keywords** Comment letters, Accounting due process, Accounting standard setting, Government stakeholders, Governmental accounting

**Paper type** Research paper



## Introduction

Accounting standards represent the rules underlying the preparation of external financial statements. These rules are set by authoritative bodies, adhered to by accountants, referenced by auditors, and must be understood by both professional (e.g. institutional investors) and citizen financial statement users. Due process, defined as the policies and procedures that constrain administrative decision-making (Richardson, 2008), involves stakeholder participation in the standard-setting process. Stakeholder involvement in the due process of standard setting is integral to independent standard setting and is highly important as a means to gauge the potential reaction of interest groups, as well as their ultimate acceptance of the standards (Tandy and Wilburn, 1992).

The Governmental Accounting Standards Board (GASB) is the standard-setting body for authoritative governmental accounting standards in the USA. It is an independent, private sector organization that “develops and issues accounting standards through a transparent and *inclusive* process (italics added)” (GASB.org, 2017). Established in 1984, the GASB enjoyed widespread general acceptance for most of its first quarter century (Roybark *et al.*, 2012a); however, in 2007-2008 its service efforts and accomplishments (SEA) project ignited extreme opposition from professional groups (Roybark *et al.*, 2012b). More recently, a GASB due process document proposing the inclusion of financial projections within governmental financial statements again caused an uproar among some GASB constituents (DePaul, 2012; Quigley, 2011).

Given the importance of stakeholder participation in the standard-setting due process, we study comment letters in response to proposals presented by the GASB. Specifically, in this study, we examine comment letters submitted in response to several of the GASB’s due process documents from 2010-2013 to consider who participates in the comment letter process, when they participate (e.g. response trends), and what their comments include (i.e. for or against the standard being proposed). We then select the financial projections preliminary views (PV) document for a more detailed analysis of constituent responses, as it was controversial and elicited 173 comment letters. Of interest is observation of stakeholder motivation – why do stakeholders participate in due process via comment letter submission?

We find that while comment letter participation is not widespread, various stakeholders do participate in the governmental accounting standard-setting process. Responses are generally constructive and relatively consistent over the course of our study in their balance of favorable and unfavorable feedback, with a few exceptions. Stakeholders who do not participate perennially will do so when they feel it is warranted, as demonstrated by response to the financial projections PV document. The study extends prior research regarding governmental standard setting due process by including more comprehensive participant classifications, evaluating the nature of comments within the letters, examining responses over time, and considering the possible motivation of participants.

## Background discussion

### *Due process in accounting standard setting*

The GASB’s standard-setting process typically takes a number of years[1]. It begins with a topic being considered for the GASB’s technical agenda, primarily based upon recommendations from the Governmental Accounting Standards Advisory Council (GASAC), issues raised by individual Board members, requests to review or reexamine an existing standard, or pertinent issues recommended by other individuals and organizations. Once a project has formally been added to the technical agenda, initial research, consultation with the GASAC, and discussion of an initial project prospectus at a public meeting follow. An extensive research phase takes place and typically culminates in a GASB staff recommendation and a Board vote to move a project to its current agenda.

Once a major project is added to the current agenda, a task force reflecting a broad range of the GASB's constituency of financial statement preparers, auditors, and users is generally appointed to assist GASB staff in preparation of relevant documents that facilitate Board discussions on the project[2]. In formulating a standard, the Board has its choice of due process documents: a discussion memorandum, an invitation to comment, a PV document, or an exposure draft. A discussion memorandum presents accounting or financial reporting alternatives in a neutral fashion and requires the approval of only the Chairman. An invitation to comment is a staff document containing elements of a pending discussion memorandum or PV document and is issued by the staff (not the board itself) as long as a majority of board members does not object. A PV document is issued by the board, requiring approval by a majority of the seven-member Board before issuance; it may be issued when the entire Board has not reached a clear consensus on an issue; it can also set forth an alternative view supported by two or more Board members. A PV document may be selected for more complex or controversial topics at an early stage of development and is intended to set forth one or more PV of the Board. An exposure draft is issued when a proposed standard is in its final stages. Each of these due process documents allows for stakeholder comment via public hearing or comment letter in a period ranging from 30 to 120 days after issuance.

#### *Prior literature*

Accounting standard setting and due process procedures have been researched in many countries and contexts. For example, Gipper *et al.* (2013) discussed the politics of accounting standard setting, while Richardson (2008) described the importance of due process in his study of such procedures in Canada. Sutton (1984) reviewed lobbying activities before standard-setting bodies in the USA and the UK.

In terms of constituent participation in accounting standard setting, Durocher *et al.* (2007) noted that limited attention has been given to the topic and developed theoretical models to describe users' participation in the process. Tandy and Wilburn (1992) examined constituent participation in Financial Accounting Standards Board (FASB) standard setting, while Tandy and Wilburn (1996) considered academic participation in comment letter submissions. Saemann (1999) reviewed four institutional interest groups' comment letter responses to twenty controversial FASB statements, examining constituents (e.g. users, preparers, auditors) represented by the groups. Jorissen *et al.* (2013) performed a geographic analysis of constituents' formal participation in the process of the International Accounting Standards Board's (IASB) standard setting.

In the public sector, Roberts and Kurtenbach (1992) examined lobbying activities before the newly formed GASB; however, they identified only broad groups: preparers, auditors, users, and a category of others as stakeholders involved in the standard-setting process. Allen and Petacchi (2015) studied determinants of lobbying activities regarding pension changes via comment letters submitted to the GASB; respondents in their study are categorized as employees or employee-affiliated organizations, rating agency or municipal bond analysts, and citizens, which also include taxpayer advocacy groups and other research organizations. Ryan *et al.* (1999) reported on constituent participation in the Australian public sector accounting standard-setting process following a substantial change in financial reporting requirements for governmental entities (a shift from the cash to accrual basis of accounting). Bisogno *et al.* (2015) analyzed comment letters in response to an International Public Sector Accounting Standards Board exposure draft on proposed reporting approaches. In doing so, they classified participants as international organizations, governmental organizations, professional organizations, counties, academics, and audit/consulting firms.

Much of the extant research documents that stakeholder participation is relatively low, given the number of parties affected by accounting standards. Allen and Petacchi (2015) note

that preparer participation is significantly higher at earlier stages of standard setting – invitations to comment or preliminary view documents – while user participation is most pronounced in the exposure draft stage of the process. While Durocher *et al.* (2007) focus on participation of individual financial statement users in the Canadian standard-setting process, their observations of low participation are universal. They find that respondents are likely to participate when they believe they can “have an effect” (p. 31), but more often they follow a “tradition of non-response” (p. 32). Similar to a discussion by Tandy and Wilburn (1996) regarding academics, financial statement users lack the time, resources, and expertise to respond to proposed standards or believe that they cannot contribute to the standard-setting process. However, calls from professional organizations may spur an interest in participation. On the other hand, preparers are more likely to participate in the “costly” process since they are “wealthier, less diversified (drawing income from few sources and being more vulnerable to any adverse economic effects associated with a proposed standard), and their economic interests are homogeneous” (Durocher *et al.*, p. 31).

Roberts and Kurtenbach (1992) suggest that, under the economic theory of regulation, preparers and attesters (auditors) may lobby GASB activities in their own best interest. Preparers are generally expected to resist increased production costs, while auditors will support increased demand for audit services; conversely, Roberts and Kurtenbach contend that both groups may lobby in the best interest of their constituents, in the case of preparers, and clients, in the case of auditors.

#### *The governmental environment and stakeholders*

Governmental entities, including state and local governments, as well as governmental agencies and special districts, differ from private sector organizations in their structure, theory, and practice (Gauthier, 2005), as well as their institutional arrangements and political environments (Ryan *et al.*, 1999). The audit environment, types of audits, behavior of auditors, and auditing processes within government are also far more complex than in the private sector (Berry and Wallace, 1986). Cheng (1994) developed a framework that acknowledges the multidimensionality of accounting and reporting choice in the unique and complex governmental setting. Cheng’s framework incorporates political institutions, actions of individual actors within the public sector, and interactions among the individual actors, as well as the constraints posed by political and bureaucratic structures within a broad socioeconomic and political party context that differentiate the public sector from the private sector. A subsequent literature review utilizing Cheng’s model (Kidwell and Lowensohn, 2011) introduced minor modifications to the stakeholder list. These modifications were adopted in this study.

#### *Research questions*

The content of accounting standards and methods of standard setting differ across entities (e.g. corporations, governments), as well as internationally. While comment letter participation has been studied to some degree for both public and private sector accounting standard setters in the USA and abroad, prior research has not used all unique actors specific to the public sector. Extant research has also failed to examine constituent participation over time or in terms of for/against comments. In the current project, we examine the following research questions:

- RQ1. Using a comprehensive stakeholder model designed for the governmental environment, who are comment letter participants in the GASB standard-setting process?
- RQ2. What is the nature of GASB comment letter participant responses? Specifically, do stakeholders submit comment letters only when opposed to proposed standards, or do they also praise GASB efforts?

*RQ3.* Is relative participation by stakeholder group relatively constant over time?

*RQ4.* Why do the participants respond?

Research relative to *RQ4* is exploratory in nature.

### Method

To address the first research question, we identified which stakeholder groups participated in the opportunity for public comment in the setting of governmental accounting standards. Comment letters received by the GASB in response to eleven exposure drafts and three PV documents from 2010 to 2013 were examined[3], and respondents were categorized according to Cheng's (1994) model as modified by Kidwell and Lowensohn (2011), resulting in the following 16 participant types[4]: academics, budget officers, bureaucratic managers, state auditors/controllers, citizens, financial markets, elected officials, external auditors/CPA firms, finance officers, government accountants, government auditors (those employed directly by governments), interest groups, media, professional associations, standard setters, and other governments.

Comment letters are publicly available on the GASB's website and were examined individually for classification[5]. In total, 14 documents in the four-year period resulted in 558 comment letters. The documents for which letters were examined are listed in Table I, along with the number of letters received for each. For each letter examined, we identified the stakeholder group(s) to which the writer(s) belonged. The GASB website provides a list of linked comment letters and their writers. While the listing provides information that suggests stakeholder group identity, in most cases, individual letters were reviewed for proper stakeholder classification according to the Kidwell and Lowensohn (2011) stakeholder groups. In cases where the role of the writer was unclear, searches of LinkedIn profiles, public sector or CPA firm websites, or, where that failed, Google were conducted.

We next examined responses in favor of and opposed to for each document by group (*RQ2*) and responses by stakeholder group over time (*RQ3*). Letters classified as favorable supported the intent and specifics of the proposal with limited exceptions. Many letters classified as favorable had suggestions for how the final document could be improved or clarified, or in some cases, they objected only to a particular requirement, but these suggestions were narrow in scope and did not diminish the overall favorable tenor of the response. Letters classified as unfavorable opposed the document as a whole, or if intent was supported, described numerous objections that made the specific proposal unacceptable. Finally, some letters were classified as providing mixed input. These letters were not clearly weighted toward positive or negative feedback but rather had several positive things to say, offset by several criticisms.

To consider possible reasons why respondents, participate at all, we selected a PV document from that time period and analyzed letter content in depth. Of the documents considered, the PV document proposing the reporting of financial projections, PV 13-3 (Governmental Accounting Standards Board (GASB), 2011), led to the most responses and was deemed controversial (i.e. DePaul, 2012; Quigley, 2011). We examined criticisms, suggestions, or other content of comment letter responses to this specific PV.

### Results

#### *Participants in the public comment process*

Our first research question was this: who are the participants in the standard-setting process? The counts of stakeholders are shown in Table II as absolute numbers and percentages. Note that the total participants in Table II exceed the 558 letters received. This is because several letters were signed jointly by participants in different categories

Project	Document title	Type of document	Issue date	Code	Number of letters	Stakeholder participation
GAAP hierarchy	The hierarchy of generally accepted accounting principles for state and local governments	Exposure draft	January 12, 2013	33-1ED	22	<b>257</b>
Conceptual framework	Measurement of elements of financial statements	Exposure draft	January 6, 2013	3-20E	27	
Fair value measurement and application	Fair value measurement and application	Preliminary views	January 6, 2013	26-5P	37	
Financial guarantees	Accounting and financial reporting for nonexchange financial guarantee transactions	Exposure draft	January 6, 2012	19-18E	33	
Government combinations	Government combinations and disposals of government operations	Exposure draft	January 3, 2012	3-17E	28	
Economic condition reporting	Economic condition reporting: financial projections	Preliminary views	January 11, 2011	13-3 PV	173	
Practice issues	Technical corrections – an amendment of GASB Statements No. 10 and 62	Exposure draft	January 10, 2011	25-19E	19	
Financial reporting	Reporting items previously recognized as assets and liabilities	Exposure draft	January 8, 2011	3-23E	26	
	Recognition of elements in financial statements and measurement approaches	Preliminary views	January 6, 2011	3-20PV	39	
Termination provisions	Derivative instruments: application of hedge accounting termination provisions – an amendment of GASB Statement No. 53	Exposure draft	January 2, 2011	25-18	28	
Statement of net position	Financial reporting of deferred outflows of resources, deferred inflows of resources, and net position	Exposure draft	January 11, 2010	3-22 E	45	
Service concession arrangements (formerly public/private partnerships)	Accounting and financial reporting for service concession arrangements	Revised exposure draft	January 6, 2010	30 RE	21	
The financial reporting entity	The financial reporting entity, an amendment of GASB Statements No. 14 and No. 34	Exposure draft	January 3, 2010	3-14 E	37	
Codification of Pre-November 30, 1989 FASB and AICPA pronouncements	Codification of Accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements	Exposure draft	January 1, 2010	32 E	23	
					558	<b>Table I.</b> Due process documents examined

(e.g. a mayor and a budget officer), and also, letters from professional organizations such as the Colorado Society of Certified Public Accountants were categorized as coming from both a professional association and the group it represented, in this case external auditors/CPA firms. In fact, anywhere from 19 to 48 percent of the comment letters submitted in response to any given due process document considered here came from multiple stakeholders, thus expanding the number of participants involved in submitting the 558 letters to 745 participants.

#### *Letters submitted by participant type*

The comment letters for the fourteen due process documents examined came from 14 of the 16 stakeholder groups discussed in Kidwell and Lowensohn (2011). The most active

**Table II.**  
Letters submitted by  
participant type

Project	Type	Issue date	Academics	Budget officers	Business managers	State audit controllers	Citizens	Financial markets	Elected officials	External audit firms	Finance officers	Government accountants	Government auditors	Interest groups	Professional associations	Other governments	Total
GAAP hierarchy	ED	2013	1 (3%)	0 (0%)	0 (0%)	5 (14%)	1 (3%)	0 (0%)	0 (0%)	5 (14%)	7 (20%)	1 (3%)	2 (6%)	0 (0%)	13 (37%)	0 (0%)	36
	ED	2013	3 (8%)	1 (3%)	0 (0%)	7 (19%)	2 (5%)	0 (0%)	0 (0%)	7 (19%)	4 (11%)	1 (3%)	2 (5%)	0 (0%)	10 (27%)	0 (0%)	57
Conceptual framework	PV	2013	2 (4%)	1 (2%)	0 (0%)	4 (7%)	1 (2%)	0 (0%)	0 (0%)	10 (19%)	10 (19%)	1 (2%)	2 (4%)	1 (2%)	17 (31%)	5 (9%)	54
	ED	2012	1 (2%)	1 (2%)	0 (0%)	9 (18%)	1 (2%)	0 (0%)	0 (0%)	9 (18%)	10 (20%)	1 (2%)	1 (2%)	0 (0%)	16 (33%)	0 (0%)	49
Financial guarantees	ED	2012	1 (2%)	0 (0%)	0 (0%)	9 (22%)	1 (2%)	0 (0%)	0 (0%)	7 (17%)	6 (15%)	1 (2%)	3 (7%)	0 (0%)	13 (32%)	0 (0%)	41
	PV	2011	2 (4%)	8 (4%)	16 (8%)	17 (8%)	4 (2%)	3 (1%)	4 (2%)	9 (4%)	73 (86%)	10 (5%)	3 (1%)	11 (5%)	33 (16%)	10 (5%)	203
Practice issues	ED	2011	2 (8%)	0 (0%)	0 (0%)	6 (23%)	0 (0%)	0 (0%)	0 (0%)	2 (8%)	6 (23%)	1 (4%)	2 (8%)	0 (0%)	7 (27%)	0 (0%)	26
	ED	2011	2 (5%)	0 (0%)	0 (0%)	6 (16%)	1 (3%)	0 (0%)	0 (0%)	6 (16%)	7 (18%)	3 (8%)	1 (3%)	0 (0%)	12 (32%)	0 (0%)	38
Financial reporting	PV	2011	3 (6%)	1 (2%)	0 (0%)	11 (21%)	3 (6%)	0 (0%)	0 (0%)	9 (17%)	7 (13%)	3 (6%)	2 (4%)	0 (0%)	14 (26%)	0 (0%)	53
	ED	2011	1 (3%)	0 (0%)	1 (3%)	8 (23%)	5 (14%)	0 (0%)	0 (0%)	4 (11%)	7 (20%)	1 (3%)	1 (3%)	0 (0%)	7 (20%)	0 (0%)	36
Termination provisions	ED	2010	3 (5%)	0 (0%)	0 (0%)	14 (23%)	1 (2%)	0 (0%)	0 (0%)	12 (19%)	12 (19%)	2 (3%)	1 (2%)	0 (0%)	17 (27%)	0 (0%)	62
	Revised ED	2010	0 (0%)	0 (0%)	0 (0%)	10 (34%)	0 (0%)	1 (3%)	0 (0%)	1 (3%)	6 (21%)	2 (7%)	1 (3%)	0 (0%)	8 (28%)	0 (0%)	28
Service concession arrangements	ED	2010	1 (2%)	0 (0%)	0 (0%)	12 (23%)	0 (0%)	1 (2%)	0 (0%)	6 (12%)	14 (27%)	1 (2%)	2 (4%)	0 (0%)	15 (29%)	0 (0%)	52
	ED	2010	1 (3%)	0 (0%)	0 (0%)	8 (26%)	0 (0%)	0 (0%)	0 (0%)	4 (13%)	6 (19%)	3 (10%)	1 (3%)	0 (0%)	8 (26%)	0 (0%)	31
Codification	ED	2010	23 (33%)	12 (2%)	17 (2%)	126 (17%)	20 (3%)	5 (1%)	4 (1%)	91 (12%)	125 (23%)	31 (4%)	24 (3%)	12 (2%)	130 (26%)	15 (2%)	745



participants were from Professional Associations (26 percent of all comment letters), Finance Officers (23 percent), State Auditors/Controllers (17 percent), and External Auditors (12 percent). All other groups comprised less than 5 percent of letters each, and two groups (Media and Other Standard Setters) logged no responses[6].

If the participant categories in Table II are conceptually segregated into governmental accounting information preparers and users, it is promising to see that both groups are participating in governmental accounting due process. While it is impossible to exactly classify each comment letter writer into one of these classifications, Finance Officers and Government Accountants are most often preparers, while External Auditors and Government Auditors examine financial reports to determine whether they have been prepared in accordance with stated guidelines. Academics, citizens, financial markets, elected officials, interest groups, and other governments are generally users of financial information. Budget officers, bureaucratic managers, and state auditors/controllers can conceivably fall into either preparer or user roles depending upon the organization they represent. Professional Associations cover both preparer and user groups. Thus, this is a more comprehensive list of users than that enumerated by the Governmental Accounting Standards Board (1987) (citizenry, legislative and oversight bodies, and investors and creditors) in Concepts Statement No. 1 or in Roberts and Kurtenbach's (1992) study of lobbying the GASB. In any case, as noted above, comment letter writers hail from most of the Cheng/Kidwell and Lowensohn categories, and they represent governmental financial statement preparers and users alike.

Generally, our findings did not align with observations of Allen and Petacchi (2015) regarding relative stakeholder participation at different stages in the process. Although there were three times as many exposure drafts as PV documents, as shown in Table I, and thus not a balanced number of cases to consider, we did not find a discernable contrasting pattern in participation at different stages. The user participation in responding to exposure drafts was actually lower or equivalent to participation in PV rather than higher as noted for pension-related documents in Allen and Petacchi (2015), and preparer participation was consistent at both stages. The only noteworthy difference between participation at the two stages was that the few times interest groups or other governments submitted comment letters, they were responding to PV.

#### *Nature of responses by participants*

Our second research question was: what was the nature of the GASB comment letter participant responses? For this analysis, comment letters were classified as being favorable, unfavorable, or mixed input. The number of letters of each type is shown in Table III.

When considering comment letters for all fourteen due process documents, there was almost an equal split between favorable responses (38 percent) and unfavorable responses (40 percent), with mixed input comprising the balance of 22 percent of letters. However, when the controversial PV document concerning financial projections alluded to earlier is excluded, the responses paint a very different picture. The remaining comment letters are far more positive, with 52 percent in favor and only 19 percent opposed, with a larger portion being mixed (30 percent), wherein writers are offering several significant recommendations for improvement but not rejecting the documents outright.

One interpretation of this difference is that the controversial PV 13-3 was very uncharacteristic of any other documents, but another is that PV documents are earlier in GASB's due process when the public may perceive it has more of an opportunity to influence the outcome. To consider this question, we examine documents by type. Using the numbers reported in Table III, for PV documents other than 13-3 (projections), 30 percent of the letters were favorable, 34 percent unfavorable, and 36 percent mixed. For exposure drafts, the percentages were 57, 15, and 28 percent, respectively. This suggests that PV documents,

**Table III.**  
Responses to due  
process documents by  
nature of response

Project	Type of document	Issue date	Favorable	Unfavorable	Mixed input	Total
GAAP hierarchy	Exposure draft	January 12, 2013	18	2	2	22
Conceptual framework	Exposure draft	January 6, 2013	13	10	4	27
Fair value measurement and application	Preliminary views	January 6, 2013	18	1	18	37
Financial guarantees	Exposure draft	January 6, 2012	13	3	17	33
Government combinations	Exposure draft	January 3, 2012	18	0	10	28
Economic condition reporting	Preliminary views	January 11, 2011	15	150	8	173
Practice issues	Exposure draft	January 10, 2011	18	0	1	19
Financial reporting	Exposure draft	January 8, 2011	11	10	5	26
	Preliminary views	January 6, 2011	5	25	9	39
Termination provisions	Exposure draft	January 2, 2011	17	4	7	28
Statement of net position	Exposure draft	January 11, 2010	15	11	19	45
Service concession arrangements (formerly public/private partnerships)	Revised exposure draft	January 6, 2010	16	0	5	21
The financial reporting entity	Exposure draft	January 3, 2010	20	5	12	37
Codification of Pre-November 30, 1989 FASB and AICPA pronouncements	Exposure draft	January 1, 2010	17	1	5	23
Total			214	222	122	558
%age of total			38	40	22	
%age without 13-3 PV			52	19	30	

which can be issued jointly with alternative positions when the Board itself is split, receive more criticism, opposition, and suggestions for improvement than do exposure drafts, which reflect consensus among the board. That being said, the PV proposal on financial projections, faced considerably more opposition than any of the other PVs in this time period.

When considering favorable and unfavorable responses to these documents, we also analyzed the nature of responses by stakeholder group. Because PV 13-3 was so atypical, we have presented this analysis in two parts: Table IV, Panel A classifies letters for all documents studied excluding PV 13-3, and Panel B classifies those related to the more controversial PV 13-3. Focusing on the largest participant groups, the professional associations' responses shown in Panel A were generally either favorable or mixed (85 percent combined), and the letters of mixed input were often quite detailed, reflecting not only the expertise of the association members but likely a combined effort of committees or input solicited from members. Only 15 percent of the letters from associations were opposed to the documents, in contrast to 13-3PV where 91 percent were opposed, as shown in Panel B of Table IV. The next largest group of writers was state auditors and controllers. Their letters were likewise favorable or mixed (87 percent) to the combined documents and 94 percent unfavorable in regard to 13-3PV. Fiscal officers gave similar feedback to these groups as well. External auditors and CPA firms were a bit less favorably inclined toward the documents, with 24 percent of their letters being unfavorable in nature, with the remaining letters being almost evenly split between favorable and mixed input; 78 percent of auditors were opposed to 13-3PV.

Among the user groups, namely academics, citizens, financial markets, interest groups, and other governments, a narrow majority of letters were also in support of the documents, and only 17 percent were opposed to non 13-3PV documents; the key difference was more letters of mixed input from users. The group with the most letters in opposition to the

Participant Type	Favorable	Unfavorable	Mixed Input	Total
<i>Panel A: Responses to documents studied excluding 13-3PV</i>				
Academics	15	3	3	21
Budget officers	2	1	1	4
Bureaucratic managers	0	1	0	1
State auditors/controllers	67	14	28	109
Citizens	5	5	6	16
Financial markets	2	0	0	2
External auditors/CPA firms	32	20	30	82
Finance officers	55	15	32	102
Government accountants	9	2	10	21
Government auditors	14	0	7	21
Interest groups	0	0	1	1
Professional associations	82	24	51	157
Other governments	1	0	4	5
Total letters <sup>a</sup>	284	85	173	542
<i>Panel B: Responses to 13-3PV, economic condition reporting</i>				
Academics	2	0	0	2
Budget officers	0	8	0	8
Bureaucratic managers	1	13	2	16
State auditors/controllers	0	16	1	17
Citizens	3	0	1	4
Financial markets	1	0	2	3
Elected officials	0	4	0	4
External auditors/CPA firms	2	7	0	9
Finance officers	4	68	1	73
Government accountants	0	10	0	10
Government auditors	0	2	1	3
Interest groups	3	7	1	11
Professional associations	0	30	1	33
Other governments	0	10	0	10
Total letters <sup>a</sup>	18	175	10	203
<b>Notes:</b> <sup>a</sup> Note that the total letter counts exceed the 558 received by the GASB as shown in Table I. Letters signed by more than one type of participant were counted in each category				

**Table IV.**  
Responses to due  
process document by  
participant type and  
nature of response

documents came from citizens. Although there were some citizen letters that reflected a lack of nuanced knowledge about accounting matters, most citizen letters either came from people who identified themselves as expert citizens, not writing in an official capacity, or their letters reflected sophisticated knowledge of the issues at hand.

#### *Responses by participants over time*

Our third research question asks whether relative participation by stakeholder group is constant over time. Examination of Table I indicates that, over the four years included within our period of study, overall participation is fairly steady. Notwithstanding the economic conditions PV, the average number of letters received per document is approximately 30, with a range from 19 to 45. Although an analysis comment letters after the 2010-2013-time frame has not been conducted for this study, the number of letters received remains low. One exposure draft concerning tax abatement received a high response, but among the other 20 due process documents, the average number of letters was 35.

Table II shows that proportional response by stakeholder group is similar across documents. The most active participant groups by category respond to all due process documents. The inactive groups remain so unless a topic influences them directly. For example, academics

responded to the conceptual framework project, while bureaucratic managers and citizens responded to termination provisions. External auditors responded less to the revised exposure draft on service concession arrangements than other documents, but they had submitted five of the 26 (18 percent) comment letters on the original exposure draft[7]. As noted elsewhere, responses to PV 13-3 were an anomaly, eliciting responses from parties not usually active in comment letter submissions. Historically, however, it appears as though stakeholder participation has diminished since the early days of the GASB. Roberts and Kurtenbach (1992) examined six early GASB exposure drafts, with the number of comment letters ranging from 73 to 191. Similar to our findings, preparers were most apt to respond, followed by auditors, and relatively few users participated in the standard-setting process.

#### *Participant motivation to respond*

Our final research question seeks to learn more about why participants respond. For most of the due process documents, the level of participation was fairly constant in aggregate numbers and across stakeholder groups. This suggests that participants may respond either out of a sense of professional duty, as in the case of finance officers or state auditors and controllers, or because, in accordance with the conclusions of Durocher *et al.* (2007), external auditors and professional associations have the resources to respond. However, in more controversial cases such as pensions, projections, and SEA reporting, motivation appears to be more directly linked to the specific subject matter at hand.

To better understand potential reasons for stakeholder participation in responding to a controversial document, we examined the content of the 173 comment letters submitted in response to the GASB's financial projections preliminary view. Roberts and Kurtenbach (1992) theorized tension between the potential for preparers and auditors to lobby in their own interest, as would be expected under the economic theory of regulation, and to lobby in the interest of their constituents/clients, as expected under agency theory. Because their results were mixed, we do not theorize motivation but rather take an exploratory approach. We selected PV 13-3 due to the notably large response to its issuance, representation of most stakeholder groups, and the fact that stakeholders responded at similar rates to another controversial case, SEA reporting, prior to our time frame. We sought to learn why the response was so great and what respondents had to say.

#### *Financial projections PV document*

In late 2011, after two years of research, the GASB issued a PV document entitled "Economic Condition Reporting: Financial Projections." The premise of the financial projections PV is that "decision makers need information with which to assess a government's economic condition – its financial position, fiscal capacity, and service capacity" (GASB, 2011, p. x), and such information includes forward-looking information not currently available within governmental financial statements. PV 13-3 called for disclosure (as required supplementary information, or RSI)[8] of projections of cash inflows and outflows, financial obligations, and annual debt service payments for five individual years beyond the reporting period. The opinion of five of the Board members – the preliminary view – was that the financial projections described in the PV are essential information for financial statement users of all governmental entities. The alternative view, held by two Board members, was that the RSI should not include subjective assessments.

#### *Participants in the letter writing process for the projections PV*

The relative response rates on the financial projections PV were quite comparable to the overall findings, with the four top categories being finance officers (36 percent), professional associations (16.3 percent), state auditors/controllers (8.4 percent), and bureaucratic

managers (7.9 percent). The percentages submitted by professional associations and state auditors were lower for the PV than the other documents, but that is a reflection of the submission of more letters overall than a reduction in these groups' involvement. The group that participated much more for PV 13-3 than for any other document was bureaucratic managers of various government agencies, such as school districts, business councils, a port authority, sanitary departments, parks and recreation departments, and so on.

Interestingly, only one of the major international auditing firms, Deloitte and Touche, LLP, participated in the public comment process, despite the fact that the Big 4 firms regularly submit comment letters to the FASB, the IASB, the SEC, and the PCAOB[9]. Interest groups included the Large Public Power Counsel, the Center on Budget and Policy Priorities, and the New York State Budget Crisis Task Force.

#### *Major themes of comments to PV document*

As was shown in Table IV, Panel B, the comment letters submitted to the GASB regarding the financial projections PV were overwhelmingly negative. Of the 173 comment letters received, only 15 supported the proposal. Six gave mixed responses that supported parts of the proposal but opposed key components of the proposal, and 150 letters were unequivocally negative. One interest group, the National Federation of Municipal Analysts, was unable to reach consensus, and one letter from a citizen-at-large was a general complaint about government transparency and politicians' conflicts of interest rather than giving specific feedback on the desirability of the PV.

#### *Comments in favor of the PV*

The benefits of planning and the need to signal the entity's ability to honor current service levels and financial obligations were the most common bases for support of the PV. Writers suggested that requiring five-year financial projections would facilitate planning, help decision makers understand the implications of major policies and proposals, delineate the need for additional funding in the future more clearly, and prevent over-spending, with citizen writers suggesting that politicians would never do so voluntarily. Multiple letters referred to recent (and not-so-recent) municipal bankruptcies as justifications for requiring projections, both because they might have foreseen fiscal stress in time to alter course and because bankrupt municipalities have already been required to develop projections as part of their recovery.

#### *Comments opposed to the PV*

Many oppositional letters commended the GASB's efforts to be proactive in addressing emerging accounting and financial issues; however, there was general consensus that the PV's concepts went too far. Some noted a conflict between PV content and the GASB conceptual framework. Other concerns related to the quality of estimates, the auditability of the CAFR, and comparability among reporting entities. Finally, the most common theme among objectors was that projections are outside the scope of accounting and the expertise of accountants, and the publicly adopted budget, rather than the CAFR, was the proper venue for projections.

Additional conceptual criticisms were that the proposed use of the cash basis for reporting projections was at odds with the accrual and modified accrual bases for the financial statements, and pension plan fiduciary fund officers noted that using actuarial estimates that consider the long-term horizon was more appropriate for pensions, and that projections for five to ten years were artificially short term for such funds.

The most common practical concern in the comment letters was the prohibitive, even "egregiously burdensome" (Byer, 2012, p. 1) cost of developing projections. In particular, numerous opponents questioned the cost of providing projections relative to the benefit users would derive.

Writers also expressed concern about the impact on timeliness of the financial statements when projections had to be included, both because of the time and cost needed to develop projections and the need to wait until the conclusion of the budgetary process to know what assumptions to make about current policy.

Multiple comment letters noted that auditors are already reluctant to be associated with the forecasts contained in the management discussion and analysis (MD&A), that projections would demand an expansion in the scope and audit risk of the audit, and that new audit standards would have to be developed concurrently with any further progression of the PV.

Political considerations were also common among the opposing comment letters, and this perhaps most captures the uniqueness of the governmental standard-setting environment. Multiple state auditors noted that statutes already govern the projections involved in budgeting, and therefore may be in conflict with the PV, in which case statutes would trump GASB standards. As for political pressures, opponents were also concerned that politicians would be under pressure to respond to the financial projections, rather than more objective information, or they might put pressure on the finance officers to manipulate the projections.

Many writers believed that the GASB had overlooked a fundamental aspect affecting government expenditures: the political cycle in the USA. The proposed projections would be for five years, yet local and state elections of councilors and legislators who determine policies and approve funding take place every two years.

#### *Apparent Participant motivation to respond*

Having closely reviewed the content of the PV comment letters, we consider stakeholder motivation to participate. Given that the average number of comment letters for other due process documents was 30, why did the GASB receive 173 letters regarding the PV document? Can we surmise what motivated respondents to participate?

The most prolific group of responders – finance officers – cited two common themes as a basis for rejection, namely the burden of the proposed requirements and concerns over legal or political liability over projection content. The PV would mean more work and potential responsibility for projected figures that may or may not be verifiable and would embody political overtones. This set of concerns supports the economic theory of regulation as applied to GASB lobbying (Roberts and Kurtenbach, 1992). That is, that the severity of costs of the new standard, including effort, time, and financial burden, to be borne by the preparers motivated their active participation in comment letter writing. While finance officers are typically involved in due process comment letter responses, their participation for the PV was almost six times greater than their average number of responses. Some of this participation is attributable to the fact that the Government Finance Officers Association encouraged its members to respond to PV 13-3, providing a form letter that was incorporated into 27 of the finance officer letters, but this does not account for the full swell of participation.

Responses by administrative officers, namely state controllers/auditors, budget officers, and bureaucratic managers focused on political and practical concerns. Their motivation could be interpreted similarly to those described above, but an alternative interpretation is that they were writing in the interests of their constituents, consistent with an agentic motive (Roberts and Kurtenbach, 1992). If their concerns were that the increased costs of information were not worth the added information (which they also considered unreliable), or that the proposal would create costly political and constitutional roadblocks, their responses could certainly be interpreted as protecting their constituents' interests.

Finally, external auditors were also largely opposed to the PV, although their motivations are similarly difficult to discern. As suggested by Roberts and Kurtenbach

(1992, p. 39), their resistance could be out of concern for their clients' welfare or perhaps "unrecoverable increases in audit costs." Their active participation could also be motivated by the duty of public trust required of CPAs.

Writers in favor of PV 13-3 were primarily users – citizens, financial markets, and academics. In viewing their comments, there is a call for more information for planning and decision-making purposes as well as awareness of financial stress. These parties recognized potential weaknesses of financial projection data but felt they were qualified to interpret the data. In contrast, preparers were unsure that users would properly use projected data.

We surmise that this PV sparked a nerve with numerous GASB constituents for a number of fundamental reasons. Namely, accountants are accustomed to preparing financial reports with verifiable numbers (within reason) that represent transactions and events. In the same vein, auditors are most comfortable auditing financial statements, rather than financial projections or disclosures in the MD&A or RSI. Government officials do not want to publicize financial projections and be held responsible for variances, or, in another context, to "show their hand" relative to future political ambitions, nor do they want to incur the added costs of compliance. Even users who desire more information were cognizant of potential weaknesses in financial projections.

### Discussion

Accounting standards differ between corporate and governmental entities, as well as between countries. In the same manner, accounting standard setting is unique in each environment. Little academic research has focused on standard setting in the public sector or on the GASB in particular; hence this manuscript contributes to existing literature by examining stakeholder participation in GASB's due process and considering who participates, in what manner they respond, when they respond, and why they may be participating. Utilizing and adapting the players in Cheng's (1994) model, we observed respondents to fourteen due process documents over a four-year period from 14 different stakeholder categories. Consistent with findings in different standard-setting environments, the primary financial statement preparers – finance officers – were the most frequent individual respondents; however, there was participation from a wide variety of stakeholders.

GASB Concept Statement No. 1 defines the users of governmental financial statements as the citizenry, legislative and oversight bodies, and investors and creditors (GASB, 1987), thus it is encouraging to find that respondents cover so many user-related participant classifications. Few citizens or elected officials outside the accounting function would be expected to possess the technical knowledge to participate in the standard-setting process; however, one stakeholder group whose participation was unexpectedly low was representatives of financial markets. One would expect institutional investors and creditors to monitor governmental accounting standard setting.

The detailed review of the financial projections PV was quite revealing in terms of stakeholder participation. Various stakeholders do participate in the standard-setting process, and they are quite informed. Their comments cover both conceptual and practical concerns. Furthermore, the massive opposition to the GASB PV demonstrated how important it is to consider the many actors in the politico-economic model. The participants who responded to the PV had multiple potential motivations, reflecting both self-interest and protection of the interests of constituents, as well as a duty of public trust or a desire for transparency. Future research could examine comment letters on the other due process documents included in this study, where favorable letters are more balanced in number with unfavorable, and perhaps the motivation to respond may be more clear.

The GASB has long been receptive to constituent feedback (Lowensohn, 2000) and can glean useful input from comment letters. By closely examining arguments impounded within comment letters, including conceptual and practical considerations, and by utilizing a

more delineated understanding of the stakeholders in governmental accounting standard setting, the Board can better forge into the future. The GASB removed the financial projections project from their technical agenda in 2015, and Chair David A. Vautt acknowledged “The input and feedback we received from stakeholders on the PV on economic condition reporting was highly valuable and will likely serve to inform our work in the future” (Governmental Accounting Standards Board, 2015). This demonstrates the importance of the comment letter portion of due process and confirms that comment letters inform the Board.

In summary, it appears that various stakeholders do participate in the governmental accounting standard-setting process. They participate over time and provide feedback that is often favorable, but sometimes unfavorable or mixed. Many who do not participate perennially will do so when they feel it is warranted, as demonstrated by response to the financial projections PV. They appear to respond when their workload or level of responsibility is impacted, if they identify conceptual or practical criticisms, at times when they believe they can make a difference, and when they are members of an organization that solicits participation. These observations are consistent with Durocher *et al.*'s (2007) theories.

Further research is warranted in this area. Based upon findings noted in Allen and Petacchi (2015), it would also be relevant to trace specific projects that advanced from a PV stage to the exposure draft stage to assess whether the proportional participation of these stakeholder groups is different throughout due process. Future research might also examine the extent to which comment letter content is incorporated into the basis of conclusions section of issued standards to assess the direct impact of comment letters on the governmental accounting standard-setting process.

### Notes

1. This discussion is excerpted from the GASB's website. For more detail on the standard-setting process, see [www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176156714545](http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176156714545)
2. For example, the task force for the financial projections preliminary views document included nine of the constituent groups discussed in this manuscript.
3. The comment letters for three due process documents related to pensions and postemployment benefits were omitted from the study for several reasons. First, the sheer number of responses totaled almost as many as all other due process documents in the three-year time period combined. In Tandy and Wilburn's (1992) study of the first 100 standards issued by the FASB, none of the exposure drafts elicited such an unparalleled level of response. Second, the documents were issued in a particularly charged political climate, in part due to the fiscal strain of public employee pension plans on municipalities. Also, as noted in Allen and Petacchi (2015), respondents to these documents were unique and included employee-affiliated collective bargaining units, taxpayer advocacy groups, and other research organizations which did not participate in the other proposed due process documents examined in this paper. See Allen and Petacchi (2015) for a study of comment letters to these specific proposals.
4. Based upon our analysis for this study, we also added categories for state auditors/controllers and academics.
5. All comment letters cited are available at: [www.gasb.org/cs/ContentServer?c=Page&pagename=GASB%2FPage%2FGASBSectionPage&cid=1176157116776](http://www.gasb.org/cs/ContentServer?c=Page&pagename=GASB%2FPage%2FGASBSectionPage&cid=1176157116776).
6. The media, who act as watchdogs rather than participants in the governmental environment, would not be expected to be directly involved in the standard-setting process.
7. The first exposure draft concerning service concession arrangements was issued in 2009, prior to the window of our study. However, the GASB supplied a list of letters upon request, since those received before 2010 are not on the website.



8. The RSI is housed within a government's comprehensive annual financial report. It is not audited, but auditors apply limited procedures to provide assurance that RSI is fairly presented in relation to the basic financial statements.
9. For example, in 2012, the same year as the GASB's PV on financial projections, KPMG submitted 31 comment letters to the IASB ([www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/IFRS-comment-letters/Pages/Default.aspx](http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/IFRS-comment-letters/Pages/Default.aspx)) and Ernst and Young submitted 12 comment letters to the FASB, 4 letters to the PCAOB, and 1 letter to the SEC, among others ([www.ey.com/UL/en/AccountingLink/Publications-library-Comment-Letters](http://www.ey.com/UL/en/AccountingLink/Publications-library-Comment-Letters)). However, when reviewing comment letters available on GASB's website, only KPMG and Deloitte and Touche are noted as regular responders to due process documents.

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