

ACCOUNTING NEWS

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This report is prepared by the Accounting and Financial Management (AFM) Division. It is intended to help keep managers abreast of accounting matters that are of concern to professional organizations. Matters included in this report were topics of discussion at recent professional conferences or meetings attended by AFM Division representatives or were topics that were brought to the AFM Division's attention as part of its official liaison responsibility with professional accounting organizations.

FINANCIAL ACCOUNTING AND REPORTING PRINCIPLES AND
STANDARDS BEING REVISED, AS REPORTED BY RONALD J. POINTS

GAO is re-examining its current accounting and financial reporting standards for the Federal sector (Title II). As part of this effort, accounting and financial reporting requirements are being organized and structured under two major sections--theory and practice. Currently, the theory component (referred to as the conceptual framework) is being developed. After that is completed, work will begin on the practice requirements. To date, two exposure drafts on subsections of the conceptual framework have been published and distributed for Federal agency comments. The total project is expected to take about three years. However, the time invested will be well worth it because Federal agency personnel will be better able to assemble accounting information needed for evaluation of operations.

REVISION OF FEDERAL AUDIT STANDARDS, AS REPORTED BY
WILLIAM A. BROADUS

GAO is revising the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions." These audit standards are to be followed by all auditors including GAO's when auditing organizations, programs, activities, and functions that receive Federal funds. The standards are being revised to:

- Expand the explanations of some standards in response to questions received about them,
- Incorporate standards relating to audits in which automatic data processing systems are used, and
- Add a standard to specify the auditor's responsibility for the detection of fraud and abuse in Government programs and operations.

ACCOUNTING STANDARDS BOARD FOR STATE AND LOCAL GOVERNMENTS, AS REPORTED BY DONALD L. SCANTLEBURY

Efforts to establish the Government Accounting Standards Board (GASB) are progressing. To date, the organizing committee has completed its report on why the GASB is needed and its drafts of the articles of incorporation and the by-laws. Two issues remain to be tackled before the GASB will open its doors. One of these is reaching agreements with the Financial Accounting Standards Board, which is the standard-setting body for the private sector, on financial accounting and reporting principles and standards that are applicable to both the private and public sector. The other issue to be completed is firming up the amount to be contributed by organizations and governmental bodies served by GASB.

AICPA GETS NEW CHAIRMAN, AS REPORTED BY THE "AICPA WASHINGTON REPORT"

William S. Kanaga has been elected as new AICPA Chairman succeeding William R. Gregory. Mr. Kanaga is presently the chairman of the Arthur Young & Co., New York, and a previous AICPA vice chairman. For the past three years, Mr. Kanaga has been a member of the Institute's SEC Practice Section Executive Committee, and since 1976, a member of the Planning and Finance Committee, serving as chairman from 1976 to 1979. He is a graduate of the Harvard Business School Advanced Management Program and of the University of Kansas. Mr. Kanaga joined Arthur Young in 1949, becoming a partner in 1960, the New York office managing partner in 1969, the firm's managing partner in 1972, and chairman in 1977.

AICPA'S 93RD ANNUAL MEETING IN BOSTON, OCTOBER 5-7, 1980, AS REPORTED BY ERNEST H. DAVENPORT

The AICPA's Model Accountancy Bill was voted to be returned to committee for amendment. The Bill is to be amended to include an experience requirement and to consider any provisions of a similar bill developed by the National Association of State Boards of Accountancy. The Model Accountancy Bill hopefully will be adopted by each State to standardize accreditation and certification of accountants in all States.

Mr. Staats was honored by the AICPA for his outstanding contributions to accounting, auditing, and financial management during his Government service.

GAO's Chief Accountant, Donald L. Scantlebury, was elected to the AICPA's Council which is the governing body for the institute. Don will serve as member-at-large for a three-year term.

COST ACCOUNTING STANDARDS BOARD, AS REPORTED BY
DONALD L. SCANTLEBURY

The Cost Accounting Standards Board closed its operations on September 30, 1980. Efforts were made to transfer its authorities and functions to OMB, but to no avail. In the Board's absence, there is question as to who will handle industry appeals for waivers from complying with established standards.

FERC/AMERICAN GAS ASSOCIATION'S GAS INDUSTRY ACCOUNTING
LIAISON GROUP, OCTOBER 14, 1980, AS REPORTED BY SAMUEL
N. MENTO

Several accounting problems and concerns of interest were discussed at the meeting between the Federal Energy Regulatory Commission (FERC) staff and the Gas Industry Accounting Liaison Group. The major points of interest were:

- FERC is attempting to reduce the reporting burden by revising their forms. However, there has been opposition to deleting data from State regulatory commissions and consumer groups. The Liaison Group does not want to change the accounting classification in the Uniform System of Accounts but favors reducing the reporting burden.

- The question of deferred taxes and how to handle this matter was discussed. The problem deals with consolidated tax returns. Although the parent company takes advantage of a loss, the question is does any savings flow back to rate payers or does the consolidated parent company get all the advantages?

- Tax normalization as being proposed by the South Georgia Method was discussed. Although administrative law judges have found that it is an acceptable method; it is not a superior method. It appears that the arguments of vintage vs. composite depreciation (both straight line) still exist and that composite depreciation has not been accepted.
- FERC is now in the process of developing a Uniform System of Accounts for coal gasification and is interested in having any State commissions and companies having an interest to work with them in developing this system.

RAILROAD ACCOUNTING PRINCIPLES BOARD, AS REPORTED BY ARTHUR L. LITKE

The Railroad Accounting Principles Board has been authorized but not funded within the legislative branch. The new Board was created under Title III of the Staggers Rail Act of 1980, (Public Law 96-448) which is intended to reform the economic regulation of railroads. The Board will be composed of the Comptroller General, who will serve as chairman, and six members to be appointed by him--representing the accounting profession, the railroad industry, the Interstate Commerce Commission, major rail shippers, small rail shippers, and the economics profession.

The new Board will establish principles governing the determination of economically accurate railroad costs for large railroads for use in specific regulatory proceedings. The Interstate Commerce Commission will be responsible for implementing and enforcing the principles. The act directs that the Board complete its work within three years, and it authorizes appropriations not to exceed \$1 million for each of the fiscal years 1981, 1982, and 1983. Although funds have been authorized, they have not yet been appropriated. GAO's Office of Budget and Financial Management is preparing an appropriation request.

Mr. Staats has asked Donald Scantlebury GAO's Chief Accountant, to develop a plan for the establishment of the Railroad Accounting Principles Board. A task force is now studying how to get the Board organized and is identifying candidates to serve as Board members.

AICPA'S TASK FORCE ON EDP FRAUD, AS REPORTED BY
JAMES R. WATTS

Because of the significance of the Task Force's findings, the Computer Services Executive Committee tentatively approved establishing the Task Force as a permanent subcommittee and establishing two temporary task forces, one on computer-related fraud in the insurance industry and one on the retail industry. Final approval is expected at the annual meeting of the committee in November.

The Task Force reported its findings on July 8, 1980. It recommended establishing a subcommittee because

- the Task Force identified a variety of cases in which computers were used to implement, conceal, or facilitate fraud.
- the Task Force believed that the problem of computer-related fraud is increasing, in part, as a result of the proliferation of computers and the increasing dependence by management on computer-generated results with the disappearance of source documents, identifiable accountability, and traditional audit traits.
- there is increased congressional and regulatory interest in the potential for and existence of computer-related fraud.
- The Task Force believed that the AICPA needs to analyze computer-related frauds to derive and publish conclusions and recommendations on accounting controls and audit procedures which can help prevent and detect computer-related fraud.

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