

Sarbanes-Oxley and Intergenerational Equity: Adopting SOX Risk Assessments to Ensure Intergenerational Equity

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ABSTRACT

GASB Concept Statement No. 1 “Objectives of Financial Reporting” describe the GASB framework for governmental reporting and the reporting standards. Paramount to this framework is the GASB’s focus on accountability to ensure intergenerational equity. The GASB defines intergenerational equity in the context of financial reporting as follows:

“Financial reporting should help users assess whether current-year revenues are sufficient to pay for services provided that year and whether future-year taxpayers will be required to assume the burdens for services previously provided.”

The GASB identified three primary users of governmental financial reports: citizens, legislative bodies and investors and creditors. The concern over the ability of users such as citizens and even some elected legislators to understand governmental financial statements was part of the reason for the adoption of accrual based governmental financial statements in GASB 34. Policymakers hoped that converting fund statements to a more commonly understood accrual basis would facilitate user understanding and citizen interest in governmental reports.

The current economic recession possibly more than any accounting standard awakened citizen/taxpayer interest, concern and even anger over the huge deficits that have left states’ pleading with the cash-strapped federal government for possible bailouts. Taxpayers, already worried and angry over out-of-control federal spending appear to be in no mood for increasing already high taxes to fund services such as state/education employee legacy costs that already vastly exceed similar benefits in the private sector.

The unethical and outright fraudulent behavior of elected officials, union leaders and lobbyists further increased the taxpayer outrage and agitation. Citizens are demanding accountability for their tax dollars.

The purpose of this research study is to examine which of the SOX requirements would have lessened if not prevented the massive two-year college fraud that cost the taxpayers in Alabama untold billions of dollars, denied the children of Alabama access to a quality education and resulted in a large number of indictments and convictions of public and elected officials.

Governments depend on taxpayer funds to provide services. Taxpayers who have little or no trust in their government will continue to refuse to increase taxes, vote out elected officials who discuss increasing taxes even to provide essential services and break pension promises to state and education employees who patrol their streets, educate their children and build their infrastructure. The benefit that may accrue from adopting some of the SOX requirements could outweigh the costs of an untrusting and angry citizenry.