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# Statement of Federal Financial Accounting Standards 46: Deferral of the Transition to Basic Information for Long- Term Projections - Amending SFFASs 36 and 45

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## Status

<b>Issued</b>	October 17, 2014
<b>Effective Date</b>	Effective upon issuance
<b>Interpretations and Technical Releases</b>	None.
<b>Affects</b>	<ul style="list-style-type: none"><li>• SFFAS 36, par. 45</li><li>• SFFAS 45 is rescinded</li></ul>
<b>Affected by</b>	None.

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## Summary

This Statement provides a second one-year deferral of the transition of the statement presenting long-term fiscal projections for the U.S. government and related disclosures from required supplementary information (RSI) to basic information. Basic information is the information that is deemed essential for the financial statements and notes to be presented in conformity with generally accepted accounting principles (GAAP). RSI is information that a body that establishes GAAP requires to accompany basic information. While both categories of information are required, the auditor subjects the two categories of information to different procedures and complies with different reporting requirements under generally accepted government auditing standards (GAGAS).

This second deferral permits:

- the audit community to complete its consideration of the need for revised guidance, and
- the preparer time to plan for the audit.

During the deferral period, the consolidated financial report of the U. S. government will continue to report as RSI the information necessary for the reader to assess whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. Deferral of the transition to basic information provides an additional year for the American Institute of CPAs (AICPA) to develop guidance for audit reports on long-term fiscal projections.

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## Introduction

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### Purpose

1. This Statement amends the effective date of the phased implementation first established in Statement of Federal Financial Accounting Standards (SFFAS) 36, *Comprehensive Long-Term Projections for the U.S. Government* and later amended by SFFAS 45, *Deferral of the Transition to Basic Information for Long-Term Projections*. When fully implemented, SFFAS 36 requires a basic financial statement in the consolidated financial report of the U.S. Government (CFR), disclosures, and related required supplementary information (RSI). To allow a phased implementation, a three-year transition period was provided during which all information was RSI. The transition period was deferred one-year from the originally planned effective date of fiscal year (FY) 2013 to FY 2014.
2. SFFAS 36, as amended, requires information to be presented as follows in FY 2014:
  - a. The basic financial statement would present for all activities:
    - i. the present value of projected receipts and non-interest spending under current policy without change,
    - ii. the relationship of these amounts to projected Gross Domestic Product (GDP), and
    - iii. changes in the present value of projected receipts and non-interest spending from the prior year.
  - b. Disclosures would explain and illustrate:
    - i. the assumptions underlying the projections,
    - ii. factors influencing trends, and
    - iii. significant changes in the projections from period to period.
  - c. RSI would explain and illustrate the projected trends in:
    - i. the relationship between receipts and spending,
    - ii. deficits or surpluses,
    - iii. Treasury debt held by the public as a share of GDP,
    - iv. possible results using alternative scenarios, and

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- v. the likely impact of delaying corrective action when a fiscal gap exists.
3. This Statement amends the transition period provided in SFFAS 36, as amended, to allow one additional year – FY 2014 – during which all of the above information would be reported as RSI.

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## Materiality

4. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

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## Standards

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### Scope

5. This Statement applies to the consolidated financial report of the U.S. Government (CFR).
6. This Statement amends Statement of Federal Financial Accounting Standards (SFFAS) 36, *Comprehensive Long-Term Projections for the U.S. Government*, and SFFAS 45, *Deferral of the Transition to Basic Information for Long-Term Projections*, to defer full implementation of its requirements by one year.

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### Amendments

7. SFFAS 45 is rescinded.
8. Par. 45 of SFFAS 36 is replaced by the following:
  - (45) The following phase-in of reporting requirements as basic information provides for full implementation for reporting periods beginning after September 30, 2014.
    - a. These standards are effective for periods beginning after September 30, 2009.
    - b. Information should be reported as RSI for the first five years of implementation (fiscal years 2010, 2011, 2012, 2013, and 2014).

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- c. Beginning in fiscal year 2015, the required information should be presented as specified in paragraphs 12 - 42.
  - d. Earlier implementation is encouraged.
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## Effective Date

9. The requirements of this Statement are effective upon issuance.

The provisions of this Statement need not be applied to immaterial items.

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## Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

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.

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### Project History

- A1. Inclusion of audited long-term fiscal projections in U. S. federal government financial reports began in fiscal year 2006 with the statement of social insurance. A number of individual programs provide a statement of social insurance including Social Security and Medicare. In 2009, the Board issued SFFAS 36 and broadened requirements for long-term fiscal projections beyond these discrete social insurance programs. SFFAS 36 requires comprehensive projections for all government receipts and expenditures and the OMB prepares these projections.
- A2. The Board recognized the uncertainty inherent in making the policy, economic, and demographic assumptions necessary for comprehensive projections. The standards, therefore, provide for the exercise of judgment in selecting assumptions and require information to aid the reader in understanding and considering uncertainty and alternative outcomes. The audit community has been considering the need to revise the audit guidance, including initial guidance developed for the statement of social insurance, to address such comprehensive projections.
- A3. In 2012, the American Institute of CPAs (AICPA) Auditing Standards Board (ASB) organized the Prospective Information Task Force to consider the auditor's responsibility for prospective financial information. The Board provided a one-year deferral to allow time for the task force to develop guidance. The task force has been considering guidance for auditors and appropriate audit report language regarding the statement of long-term projections, the statement of social insurance, and the statement of changes in social insurance amounts. Final guidance is expected to be issued in 2014 or early 2015.

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Additional time will be needed for the preparer and the auditor to plan for the audit based upon the final guidance.

- A4. Therefore, the Board proposed an additional one-year deferral of the transition of long-term fiscal projections from RSI to basic information is warranted. The Board released an exposure draft (ED), entitled *Deferral of Transition to Basic Information for Long-Term Projections: Amending SFFASs 36 and 45*, on April 30, 2014, with comments requested by June 2, 2014.

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#### Responses to the Proposal

- A5. The Board received 12 responses to the exposure draft. Of these responses, five were from non-federal organizations or individuals, five from federal chief financial officer organizations, and two from federal offices of inspectors general. One respondent indicated the organization had no comment on the proposal. Three non-federal respondents objected to the proposal and the remaining respondents supported the proposal.
- A6. The Board considered responses to the exposure draft at its June 25, 2014, public meeting. The Board did not rely on the number in favor of or opposed to a given position. Information about the respondents' views is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised.
- A7. Respondents opposed to deferring the transition to basic information noted the importance of the information to citizens as well as the time already provided for development of audit guidance. The Board considered the importance of the information when developing the proposal. In making its decision, the Board weighed the need for appropriate audit guidance and for time to plan for an audit under that guidance against the effect of a one-year delay. Because the information has been and will continue to be provided as RSI, the Board decided to provide the deferral. Thus, even with the deferral, the information will continue to be available and subject to the existing auditing standards related to RSI (see Appendix B for more information about audit considerations).

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#### Board Approval

- A8. This Statement was approved unanimously. Written ballots are available for public inspection at the FASAB's offices.

## Appendix B: Audit Considerations regarding Basic Information and RSI

This summary table serves as an aid to the reader in understanding the implications of the proposed deferral. It is not complete as it does not present in detail the auditing standards established by the American Institute of CPAs.

	Basic Information	RSI
Is the information required to be in the federal financial report?	Yes	Yes
Source: FASAB, Statement of Federal Financial Accounting Concepts (SFFAC) 2, Entity and Display, par. 73C and AICPA Auditing Standards as Clarified (AU-C) 730.04		
Is the information deemed essential if the financial statements are to "present fairly" in conformity with GAAP?	Yes	No
Source: FASAB SFFAC 2, par. 73B and 73C, and AICPA AU-C 730.04		

	Basic Information	RSI
What are the objectives of the auditor regarding basic information and RSI?	<p>The purpose of an audit is to provide financial statement users with an opinion by the auditor on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework, which enhances the degree of confidence that intended users can place in the financial statements.</p> <p>...As the basis for the auditor's opinion, GAAS require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high, but not absolute, level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. Reasonable assurance is not an absolute level of assurance because there are inherent limitations of an audit that result in most of the audit evidence, on which the auditor draws conclusions and bases the auditor's opinion, being persuasive rather than conclusive.</p> <p>(AICPA, AU-C 200 .04 and 200.06)</p>	<p>The objectives of the auditor when a designated accounting standard setter requires information to accompany an entity's basic financial statements are to perform specified procedures in order to</p> <ol style="list-style-type: none"> <li>describe, in the auditor's report, whether required supplementary information is presented and</li> <li>communicate therein when some or all of the required supplementary information has not been presented in accordance with guidelines established by a designated accounting standard setter or when the auditor has identified material modifications that should be made to the required supplementary information for it to be in accordance with guidelines established by the designated accounting standard setter.</li> </ol> <p>(AICPA, AU-C 730.03)</p>
What audit fieldwork is required?	<p>Audit procedures in accordance with applicable auditing standards and requirements.<sup>a</sup></p>	<p>Limited procedures pursuant to AU-C 730.05-.06.</p>

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	<b>Basic Information</b>	<b>RSI</b>
What is to be provided in the auditor's report?	When expressing an unmodified opinion on financial statements, the auditor's opinion should state that the financial statements present fairly, in all material respects, the financial position of the entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended, in accordance with the applicable financial reporting framework. Also, the auditor's opinion should identify the applicable financial reporting framework and its origin. (AICPA AU-C Section 700.35 and .36)	Statement that the auditor has applied certain limited procedures and a statement that the auditor does not express an opinion or provide assurance on the information. (AICPA, AU-C 730-.08-.09)

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	<b>Basic Information</b>	<b>RSI</b>
What audit report mention is required if the information is missing or not prepared in conformity with guidelines?	<p>Include a Basis for Modification Paragraph in the Report:</p> <p>If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures), the auditor should include in the basis for modification paragraph a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor should so state in the basis for modification paragraph. (AICPA AU-C 705.18)</p> <p>If there is a material misstatement of the financial statements that relates to narrative disclosures, the auditor should include in the basis for modification paragraph an explanation of how the disclosures are misstated. (AICPA AU-C 705.19)</p> <p>If there is a material misstatement of the financial statements that relates to the omission of information required to be presented or disclosed, the auditor should describe in the basis for modification paragraph the nature of the omitted information; and include the omitted information, provided that it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information. (AICPA AU-C 705.20)</p> <p>Modify the Auditor's Opinion:</p> <p>A qualified opinion states that except for the effects of the matter(s) described in the basis for qualified opinion paragraph, the financial statements are presented fairly, in all</p>	<p>Include a statement that management has omitted the information and the information is required and is an essential part of financial reporting. Also, the auditor would state that the opinion on the basic financial statements is not affected by the missing information. (AICPA AU-C 730.08e)</p> <p>In addition, if the measurement or presentation of the information departs materially from the prescribed guidelines, the auditor would state that although the opinion on the basic financial statements is not affected, material departures from the prescribed guidelines exist and the auditor would describe the departures. (AICPA AU-C 730.08f)</p>

Basic Information	RSI
material respects, in accordance with the applicable financial reporting framework. (AICPA AU-C 705.24)	An adverse opinion states that the financial statements are not presented fairly in accordance with the applicable financial reporting framework. (AICPA AU-C 705.25)

Source: The Federal Accounting Standards Advisory Board developed this summary but does not establish audit standards. For guidance regarding auditing standards, please refer to the source documents identified in the summary.

<sup>a</sup>The phrase “applicable auditing standards and requirements” is used to refer to auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

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## Appendix C: Abbreviations

AICPA	American Institute of Certified Public Accountants
ASB	Auditing Standards Board
AU-C	Auditing Standards - Clarified
CFR	Consolidated financial report of the U.S. government
ED	Exposure draft
FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal year
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	Governmental Accountability Office
GDP	Gross Domestic Product
OMB	Office of Management and Budget
RSI	Required supplementary information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States