

Comments on FASAB's Exposure Draft of the Proposed Statement of Federal Financial Accounting Standards on the Reporting Entity

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Organization: Department of the Treasury Office of Inspector General

We appreciate the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft of the proposed Statement of Federal Financial Accounting Standards on the *Reporting Entity*. We have no comments or proposed changes to the proposed standard content referred to in questions 1-4, 6-7, 9, 11 and 12; however, we do want to take this opportunity to comment on questions 5, 8, and 10, as follows:

Question 5. For consolidation entities, the Statement proposes that FASAB and Financial Accounting Standards Board (FASB) based information should be consolidated without conversion of FASB-based information to a FASAB basis.

Refer to paragraphs 65-66 of the proposed standards and paragraphs A66-A70 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree that consolidation of FASAB and FASB based information without conversion for consolidation entities is appropriate?

Answer: We disagree that consolidation of FASAB and FASB based information without conversion is appropriate. The consolidation of material FASB based financial information that has not been converted to the FASAB basis of accounting used for the consolidated entity reporting, could result in a material misstatement and a qualified audit opinion on the consolidated entity's financial statements, and in the worst case, an adverse audit opinion, if the resulting misstatement is pervasive to the consolidated financial statements. A good example of an area where potential material differences in reporting between FASB and FASAB standards could arise is in the accounting for direct loans and loan guarantees.

Question 8. The Board proposes conforming changes to Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, to rescind or amend language to remove criteria for determining what organizations are required to be included in a federal reporting entity's GPFFR from the concepts statement because criteria will be in a statement of federal financial accounting standards. Refer to paragraphs 88-101 of the proposed standards and paragraphs A85-A88 in Appendix A - Basis for Conclusions for a discussion and related explanation.

Do you agree or disagree with the conforming changes to SFFAC 2?

Answer: If changes are made to the Exposure Draft to implement our response to question 5 above, the rescission of paragraph 78 of SFFAC 2, proposed in paragraph 101 of this Exposure Draft, would need to be revisited. We have no comment on other conforming changes to SFFAC 2.

Question 10. The Statement provides two non-authoritative appendices to assist users in the application of the proposed standards. The Flowchart at Appendix B is a tool that can be used in applying the principles established. The Illustrations at Appendix C offer hypothetical examples that may be useful in understanding the application of the standards.

Refer to Appendix B-Flowchart and Appendix C-Illustration.

a. Do you agree the appendices are helpful in the application of the proposed standard?

Answer: We agree that the appendices are helpful in the application of the proposed standard.

b. Do you believe the appendices should remain after the Statement is issued?

Answer: Yes, We believe the appendices should remain after the Statement is issued.

c. Do you believe there should be any changes or additional examples regarding the illustrations that would be useful in understanding the application of the standard?

Answer: We have no suggested changes or additional examples that would be useful in understanding the application of the standards.