Federal Accounting Standards Advisory Board

January 29, 2018

MEMBER ACTIONS REQUESTED:

- Please provide responses to the questions starting on page 7 before February 15

Memorandum

To: Members of the Board

From: Grace Wu, Assistant Director

Wendy M. Payne /s/

Through: Wendy M. Payne, Executive Director

Subject: Proposed New Materiality Definition – Tab J[1]

MEMO OBJECTIVE

The objective of this memorandum is to seek the Board's input on a proposed new materiality definition and get approval to develop an exposure draft proposing amendments consistent with the new definition.

BRIEFING MATERIAL

This memorandum includes the results of research on the materiality definition. Questions for the Board are included to solicit feedback from members and identify next steps. In addition, Attachment A provides the current FASAB Handbook materiality discussion. Attachment B is an example of how the proposed materiality discussion flows into SFFAC 1, *Objectives of Federal Financial Reporting*.

BACKGROUND

In the September 2017 online note disclosure (NODI) survey, the respondents agreed that judgment can assist in eliminating redundancy and unnecessary disclosure by publishing only essential information. The main cause of the disclosure problem appears to be the difficulty in applying judgment. Whether information is material is a matter of judgment and depends on the facts involved and the circumstances of a specific entity. The IFRS feedback indicated that

[1] The Staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

difficulties in making materiality judgments are generally behavioral rather than related to the definition of material. However, a clear materiality definition and related guidance would help entities make better materiality judgments and prepare better note disclosures.

Current FASAB Handbook Guidance on Materiality

As indicated in Appendix A: *Current FASAB Handbook Materiality Discussion,* the current FASAB materiality discussions are scattered in different locations of the Handbook, including its foreword, concepts, and standards. There is no clear definition, nor is there a central place to pull the ideas together and discuss this topic in detail. Some of the existing references to the GAO Yellow Book are out of date. These issues make it difficult for federal report preparers to apply the materiality concept in practice, and they often use the Yellow Book guidance on materiality as a substitute. As such, the current FASAB materiality guidance should be updated for a clearer definition. The materiality discussion should also be centralized and include a thorough discussion of related federal environment considerations.

To avoid the confusion of FASAB's materiality related to the FASB's definition, and based on other accounting standard boards' activities, there is a need to clarify FASAB materiality discussion in the handbook as well. Existing FASAB guidance on materiality (see SFFAS 3 *Accounting for Inventory and Related Property*) refers to FASB concepts. For that reason, staff believes some may be confused about whether the FASB materiality guidance is applicable for federal financial statements. In 2015, FASB issued ED addressing materiality – both in concepts and in standards. The concepts amendments would tie materiality for financial reporting purposes to the legal concept. Subsequent, in November 8, 2017 FASB Board meeting, the FASB Board decided: "remove the reference to materiality as a legal concept in Concepts Statement 8 and in Topic 235. Not to add language to Concepts Statement 8 that indicates that the definition of materiality may change." In September 2017, the IFRS also issued ED *Definition of Material.* This ED proposed some amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* without substantive changes to the current material definition.

Based on the discussions above and the importance of the materiality definition related to note disclosures, staff proposes a new FASAB materiality definition that is more relevant and applicable to the unique federal environment. This would provide clearer guidance for the federal financial reporting community.

Proposed Materiality Discussion

After consideration of the materiality discussion in the current FASAB Handbook, other accounting standards boards' discussions, and associated Yellow Book and SEC guidance, staff proposes a new materiality definition with no substantive change to the old materiality discussion. This updated definition takes into account that the old definition has not created significant practice issues. It only adds the important elements missing to reduce the cost of implementation. In addition, staff added some specific federal environment considerations and clarifications to provide better guidance to federal financial report preparers. The proposed definition and discussion immediately follow this text. Text that has been bolded indicates new language, and text that has been crossed out indicates minor deletions from the current FASAB language. The italicized text labeled "discussion" is staff's explanation of the new wording or other changes:

The omission or misstatement of information is material if, in the light of surrounding circumstances, there is substantial likelihood that the judgment of a reasonable user relying on the information would change or be influenced by the inclusion or correction of the information.

- ***Discussion:***
  1. *"Information" replaced "an item" in the current FASB definition because materiality judgment could be used for one item or a combination of different items. Using "information" is consistent with the legal concept of materiality.*
  2. *"Financial reporting" was not mentioned to keep the definition in broader terms and apply it to any information.*
  3. *"In light of surrounding circumstances" was added to emphasize federal environment considerations since each federal agency is unique.*
  4. *"User" replaced "person" in the current FASB definition because the federal community has its unique users. This is consistent with other accounting standards boards' recent changes that recognizing financial reporting is for a specific group of people (its users) rather than everyone.*

Materiality should be ***considered individually and in the aggregate*** *and include both qualitative and quantitative considerations.* ~~*An item*~~ ***Information*** *that is not considered material from a quantitative standpoint may be considered qualitatively material if it would influence or change the judgment of the* ~~*financial statement*~~ *information user.*

- ***Discussion:***
  1. *"Individually and in the aggregate" is added to cover the situation where something individually not but in the aggregate is material.*

Financial reporting should provide information that is useful to citizens, Congress, federal executives, and federal program managers in understanding or making rational decisions about the allocation and use of resources in the federal government. The information should be comprehensible to those who have a reasonable knowledge of the entity's or the federal government's activities and are willing to study the information with reasonable diligence.

- ***Discussion:***
  1. *"A reasonable person" is used in the current FASB materiality definition, but this term is not clearly defined. This discussion intends to define "a reasonable user."*
  2. *The proposed discussion is connected with SFFAC 1's discussion of federal financial report users and takes into consideration the unique federal funding process.*

In applying the concept of materiality, the needs of the users of the annual financial report should also be considered. In the federal government environment, such needs generally differ from those of users of commercial entity financial statements. For example, federal government financial statement user needs extend to having the ability to assess the efficiency and the effectiveness of the entity's programs. Further, compliance with budget and other finance-related laws, rules, and regulations is also a significant consideration of such users. ***Consequently, the Board cannot specify or advise specifying a uniform***

quantitative threshold for materiality or predetermine what could be material in a particular situation.

This concept ~~is extended to apply~~applies to all ~~financial~~ information included in the annual financial report and, therefore, is not limited to the principal schedules and related notes.

~~The accounting and reporting provisions of the Board's accounting standards need not be applied to immaterial items.~~ Materiality of effects to be discussed should be evaluated in the context of the specific reporting entity~~, not the government as a whole~~. The ***omission of immaterial information does not constitute an error****.*

~~In order t~~To emphasize that materiality should be considered in applying all accounting standards, the Board has decided to place a notice at the end of each recommended ~~accounting standard~~Statement. The notice will read as follows:

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

- ***Discussion:***
  1. *This statement emphasizes that the Board is not in the position to set up a quantitative threshold.*
  2. *In the current FASAB Handbook discussion, it is mentioned that "provisions of the Board's accounting standards need not be applied to immaterial items." The above edit moves one step further and states that it is not an error. In this way, the Board clarifies that the appropriate and reasonable application of judgment regarding materiality is not an error.*

Some current FASAB language is not used in the above proposed materiality discussion. This text could be moved to the basis for conclusions for the amendment in the final stage of issuance. This text is listed below:

- It [Materiality] has been a matter of judgment on the part of preparers of financial statements and the auditors who attest to them.
- Except as otherwise noted, the accounting and reporting provisions of the accounting standards recommended in this Statement need not be applied to items that are qualitatively and quantitatively immaterial.
- The accounting and reporting provisions of the Board's accounting standards need not be applied to immaterial items. The determination of whether an item is immaterial requires the exercise of considerable judgment, based on consideration of specific facts and circumstances.
- In the federal government environment, however, the definition is extended to apply to all financial information included in the annual financial report and, therefore, is not limited to the principal schedules and related notes.
- 12. This is expressed well in the Government Auditing Standards (the "Yellow Book"):

"In government audits the materiality level and/or threshold of acceptable risk may be lower than in similar-type audits in the private-sector because of the public accountability of the entity, the various legal and regulatory requirements, and the visibility and sensitivity of government programs, activities, and functions." (Ch. 3, par. 33.) [See Chapter 4.47 for similar provisions of the current Yellow Book.]

GAO Yellow Book – new definition

4.47 The AICPA standards require the auditor to apply the concept of materiality appropriately in planning and performing the audit.77 Additional considerations may apply to GAGAS financial audits of government entities or entities that receive government awards. For example, in audits performed in accordance with GAGAS, auditors ***may find it appropriate to use lower materiality*** *levels as compared with the materiality levels used in non-GAGAS audits because of the public accountability of government entities and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programs.*

13. While this standard applies to an auditor's evaluation of materiality rather than a preparer's, it does provide insight into the factors affecting materiality in the federal government.

14. Therefore, the accounting and reporting provisions of the Board's recommended standards should be applied to all items that would influence or change the users' judgment of the entity's efficiency and effectiveness and its compliance with laws and regulations in a material manner.

- *Discussion:*
  1. *Above are potential basis of conclusion discussion. It will be modified for the Board's review after the basic materiality discussion is approved.*

Placement of the Materiality Definition

The proposed materiality definition and related discussion were well received by the NODI working group. The members agreed that this new definition is not significantly different from their understanding and would help the preparer have a better understanding of how to apply materiality in the federal environment. However, there were different views regarding the placement of the new materiality definition since this new definition could be placed either in an SFFAC or SSFAS.[2]

Staff proposes to place the proposed materiality discussion in SFFAC 1's seventh chapter titled *How Accounting Supports Federal Financial Reporting*. The text would be placed after the last section *Relationship Of Financial Reporting To Budgeting*; the new section would be titled *Materiality*. Attachment B is an example of how the proposed materiality discussion flows into SFFAC 1. The advantages and disadvantages of the placement for the materiality discussion identified by the task force are listed below:

Placement	Advantage	Disadvantage
Concepts	- Provide for a broader level of flexibility in the application of judgment when assessing materiality.	- May leave too much room for interpretation, which could lead to further audit scrutiny—especially if there is

[2] Note that some early standards mentioned materiality but did so in the introduction section. This section—like the basis for conclusions—is not considered authoritative.

	- Be consistent with other accounting standards boards' positions. For example, FASB's definition of materiality is in its SFAC 8, QC11 "because it is an entity-specific aspect of relevance that applies at the individual entity level." - Provide consistency across the standards since it would be guidance for the Board to consider during standard setting. - Would not override authoritative standards.	contradiction within standards. - By moving the definition of materiality to a concepts statement, it is downgraded in a way that it becomes less important.
Standards	- As the highest level of GAAP hierarchy, inclusion in a Statement would carry more weight and potentially minimize auditor's disagreement, concerns, input, etc. - Standards are at a higher level in the GAAP hierarchy, and materiality is critical to all items relating to standards.	- A "one-size-fits-all" materiality definition that takes into account the various unique circumstances, transactions, or events may be difficult to achieve. - Deviates from FASB's conclusions on materiality, which could be difficult to justify given the bases for FASB's conclusions. In addition, FASB has a history of including discussions regarding materiality in concepts statements rather than standards, probably because FASB viewed materiality not as an accounting principle, but formerly as a constraint on financial reporting and now as an aspect of relevance. .

Overall Conclusion

The NODI working group is pleased to propose a new materiality definition. This new definition will be the first time that FASAB has its own materiality definition and with a direct connection to the federal environment. It will clarify and centralize the materiality discussion, thus assisting federal financial report preparers in better applying the materiality concept and improving the consistency between their financial reporting.

Question for the Board:

Question 1: Does the Board think it is the right time to make changes to the materiality discussion?

Question 2: Assuming the Board approves moving forward in this way, does the Board approve the new definition and associated paragraphs?

Question 3: Does the Board agree to amend SFFAC 1 by adding the new materiality definition? If the Board prefers to place this new materiality definition in a Statement, does the Board have a suggestion on its location? [Note that the materiality information in SFFAS 1 and 3 are in the introduction sections, which are nonauthoritative and not normally amended. If the Board believes retaining the materiality information in SFFAS 1 and 3 would be confusing, an option is to remove these sections during a Handbook update after the new materiality discussion is finalized.]

Question 4: Assuming the Board approves the new definition, should the amendment of the materiality definition be issued first or should it be issued concurrently with the note disclosure principles that the NODI working group is working on? [Note that this option takes into consideration the limited resources and time of staff and the working group.]

Attachment A: List of Current FASAB Handbook Materiality Discussion

Foreword

Materiality

The Board intends that application of authoritative guidance be limited to items that are material.

"Materiality" has not been strictly defined in the accounting community; rather, it has been a matter of judgment on the part of preparers of financial statements and the auditors who attest to them. Presented below is the Board's position on the issue of materiality at this time.

The accounting and reporting provisions of the Board's accounting standards need not be applied to immaterial items. The determination of whether an item is immaterial requires the exercise of considerable judgment, based on consideration of specific facts and circumstances.

FASAB SFFAC 3 - Note 10

Par. 26 - …MD&A should help those who read it to understand the entity's financial results and financial position and the entity's effect on the financial position and condition of the Government.[10]

> [10]Materiality of effects to be discussed should be evaluated in the context of the specific reporting entity, not the Government as a whole.

SFFAS 1 – Introduction Section

Materiality

12. Except as otherwise noted, the accounting and reporting provisions of the accounting standards recommended in this Statement need not be applied to items that are qualitatively and quantitatively immaterial.
13. 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.

SFFAS 3 – Introduction Section

Materiality
7. The Board intends that the standards' application be limited to items that are material. "Materiality" has not been strictly defined in the accounting community; rather, it has been a matter of judgment on the part of preparers of financial statements and the auditors who attest to them. The Board relies on the Financial Accounting Standards Board's (FASB) concept as modified by certain concepts expressed in governmental auditing standards. Presented below is the Board's position on the issue of materiality at this time.

8. The accounting and reporting provisions of the Board's accounting standards need not be applied to immaterial items. The determination of whether an item is immaterial requires the exercise of considerable judgment, based on consideration of specific facts and circumstances.

9. FASB's Statement of Accounting Concepts No. 2, "Qualitative Characteristics of Accounting Information," discusses the concept of materiality. According to this statement, the determination of whether an item is material depends on the degree to which omitting or misstating information about this 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. This concept includes both qualitative and quantitative considerations. An item that is not considered material from a quantitative standpoint may be considered qualitatively material if it would influence or change the judgment of the financial statement user.

10. The Board believes that FASB's definition of materiality is generally appropriate for use in applying the accounting and reporting provisions of the Board's accounting standards. In the federal government environment, however, the definition is extended to apply to all financial information included in the annual financial report and, therefore, is not limited to the principal schedules and related notes.

11. In applying the concept of materiality, the needs of the users of the annual financial report should also be considered. In the federal government environment, such needs generally differ from those of users of commercial entity financial statements. For example, federal government financial statement user needs extend to having the ability to assess the efficiency and the effectiveness of the entity's programs. Further, compliance with budget and other finance-related laws, rules, and regulations is also a significant consideration of such users.

12. This is expressed well in the Government Auditing Standards (the "Yellow Book"):

"In government audits the materiality level and/or threshold of acceptable risk may be lower than in similar-type audits in the private-sector because of the public accountability of the entity, the various legal and regulatory requirements, and the visibility and sensitivity of government programs, activities, and functions." (Ch. 3, par. 33.) [See Chapter 4.47 for similar provisions of the current Yellow Book.]

13. While this standard applies to an auditor's evaluation of materiality rather than a preparer's, it does provide insight into the factors affecting materiality in the federal government.

14. Therefore, the accounting and reporting provisions of the Board's recommended standards should be applied to all items that would influence or change the users' judgment of the entity's efficiency and effectiveness and its compliance with laws and regulations in a material manner.

15. In order to emphasize that materiality should be considered in applying all accounting standards, the Board has decided to place a notice at the end of each recommended accounting standard. The notice will read as follows:

The provisions of this statement need not be applied to immaterial items

Attachment B: Example of How the Proposed Materiality Discussion Flow into SFFAC 1

Chapter 7 How Accounting Supports Federal Financial Reporting

165. This Chapter explains the focus of the FASAB's concern by showing how accounting supports financial reporting and thus how accounting standards recommended by the FASAB can influence federal financial reporting. This Chapter shows how the FASAB's recommendations can influence a wide variety of financial reports. Additionally, it lays a foundation for the discussion (in Chapter 8) of how financial reporting in general, and cost information in particular, contribute to performance reporting. In effect, Chapter 7 outlines parts of a conceptual framework for federal accounting but is limited to those ideas, such as "financial position" and "financial condition," that will help readers understand the Board's proposed statement of objectives for federal financial reporting.

Financial Core Data

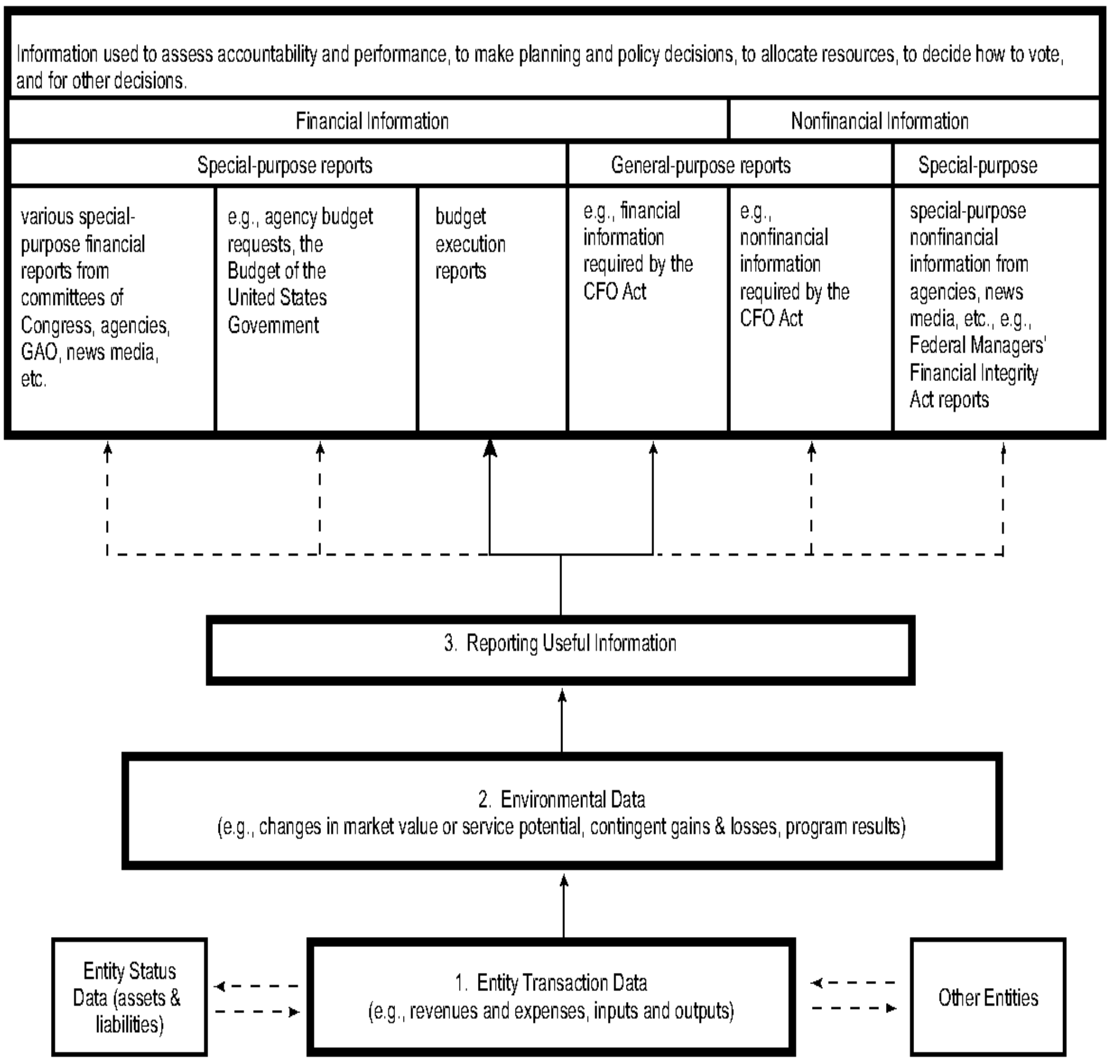
166. The accounting process begins with recording information about transactions between the government (or one of its component entities) and other entities, that is, inflows and outflows of resources or promises to provide them. These may involve flows of economic goods, cash, or promises. These comprise the "core" data of the accounting discipline. This initial step in the accounting process is depicted at the bottom of figure 1, in the box numbered 1. To enhance the usefulness of this core set of data about transactions with other entities, accountants make various accruals, classifications, interpretations, etc.

167. Many accounting entries recorded in the accountant's general ledger data base are such rearrangements of data about previously recorded transactions with other entities rather than new transactions involving flows of resources or promises between entities.[13]

168. In the branch of accounting called financial accounting, the most noteworthy interpretations or classifications are those about which data pertain to the past and which pertain to the future. In other words, financial accounting is largely concerned with assigning the value of past transactions to appropriate time periods.

169. Transaction data assigned to a period that has elapsed are said to be "recognized" in the statement of operations (or income statement), e.g., as an expense or a revenue of that period. Transaction data pertaining to the future are recognized in the statement of financial position (or balance sheet) as assets and liabilities.

Figure 1: How Accounting Contributes to Information Used by Citizens, Congress, Federal Exceutives, and Program Managers



170. Together with the statement of cash flows, the income statement (or statement of operations or activities) and the balance sheet comprise the three "basic" general purpose financial statements for privately owned entities. Other statements, such as a comparison of actual results with the budget, may be regarded as part of the basic statements for governmental entities.

171. At the initial stage of the accounting process, the information about assets and liabilities is merely the result of assigning all or part of the value of certain transactions to the future. "Assets" and "liabilities" at this stage are not statements about future benefits or sacrifices that can be proven or disproven. They are allocations of the cost of past transactions based on assumptions about future benefit and sacrifice.

172. This has been a common source of confusion when accountants communicate with nonaccountants, for whom the word "asset" typically implies something of value that can be sold or used. Much of the evolution of accounting under the FASB and the GASB has been to reduce this confusion, to improve communication, and to make financial reports more faithfully represent economic reality in terms meaningful to report users. This evolution has involved adding increasing amounts of information to the core set of transaction data. That process is discussed later.

173. In other words, the amount of "equity" or "net assets" based on the core data in a bookkeeper's trial balance is not a direct measure of either the market value or the service potential of the entity. In some circumstances, however, net assets can be a meaningful indicator of that value or potential. (The word "indicator" is used deliberately to avoid the implication of precision that may be associated with the word "measure.")

174. Accounting data may be further assigned, allocated, or associated with units of activity or production, segments of organizations, etc., within the same time period. These kinds of intraperiod allocations are developed most extensively in the branch of accounting called cost or managerial accounting. Neither the FASB nor the GASB has devoted much attention to this branch of accounting, but the FASAB, because of its unique mission, will need to do so. One reason for performing cost accounting is to assist in performance measurement.

Nonfinancial Core Data

175. Traditionally, financial accountants record and describe transactions in terms of money. At the most detailed level, however, their records usually include information about the associated physical inputs and outputs of goods, labor, etc. This nonfinancial information is an important part of the data available for reporting and evaluating the economy and efficiency of the organization's performance.

Budgetary Core Data

176. In government the data on transactions with other entities include information on the budget authority, obligations, outlays, receipts, and offsetting collections for the transactions. This information is maintained in what are called budgetary accounts to distinguish them from the "proprietary" accounts that record other information on transactions. The budgetary and proprietary accounts at this level are said to be "integrated." In effect, they maintain information about different stages of a transaction.

Financial Environmental Data And The Concept Of Financial Position

177. The core set of accounting data is expanded with a variety of what may be called "environmental" data to distinguish them from the data that arise from transactions (flows of resources or promises) with other entities. Box 2 in figure 1 depicts this step of the accounting and reporting process. Many events within the environment of a reporting entity may have economic consequences for the entity. Examples of environmental data that may be relevant to financial reporting for some purposes include current market prices, net realizable values, changes in discount (interest) rates, and impairment of assets (either in terms of market value or in terms of service potential). Judgments about what environmental data should be added are made by considering the specific information needed for specific purposes.

178. At this level of the accounting and financial reporting process, the information reported in the balance sheet transcends bookkeeping. It can now represent more of what is known about future economic benefits and sacrifices. To the extent that this is accomplished, the balance sheet may be said to represent the "financial position" of the reporting entity. The concept of financial position is that of a point-in-time snapshot of an entity's economic resources and the claims on those resources.

Nonfinancial Environmental Information

179. Nonfinancial information about program efforts, accomplishments, and outcomes may be collected and associated with the financial environmental data. This information is particularly important for governments because there is no direct analogue to "net income" or "earnings" to gauge the economy, efficiency, and effectiveness or net value of governmental activity.

The Concept Of Financial Condition

180. As more environmental data are added to the core data, a concept that is broader and more forward-looking than "financial position" emerges. That concept is "financial condition." For the U.S. government, the additional data could include financial and nonfinancial information about current conditions and reasonable expectations regarding the national and even the global society. For example, the expected implications of environmental degradation; the relative competitiveness and productivity of the U.S. economy; or expected changes in the population's composition in terms of age, gender, longevity, education, health, and income all might affect judgments about the government's financial condition.

181. Information about financial condition can be conveyed in a variety of schedules, notes, projections, and narrative disclosures. Among the most important of these is management's "discussion and analysis" of known trends, demands, commitments, events, and uncertainties. For federal reporting entities, management's discussion and analysis might address such topics as
    - budgetary compliance;
    - internal control systems;
    - capital resources and investments;
    - service efforts, accomplishments, and results of operations; and
    - the reasonably possible future impact of known trends, risks, demands, commitments, events, or uncertainties that may affect future operations.

182. Increasingly, managers and investors in the private sector are attending to other factors that may sometimes be useful indicators of an entity's financial condition, including such intangible factors as the quality of the entity's
- information and analysis capabilities,
- strategic planning,
- human resource development and management, and
- constituent satisfaction.

Similar factors may be relevant for many federal reporting entities.

Kinds Of Financial Information Needed And Provided

183. The information produced by these accounting processes supports the overall reporting process. Traditionally, the items of information included in financial statements are classified in various "elements" of financial reporting, such as "assets," "liabilities," "revenues," or "expenses." In future projects, the FASAB may consider the definition of elements of federal financial reporting. For the purposes of this Statement of Concepts, however, it is not necessary to do so. It is sufficient to note that needed financial information identified by some current and potential users of federal financial reports can be classified under six broad headings:
- information on the sources and uses of budgetary resources,
- information about operations and the related resources,
- information about the government's assets,
- information about the government's liabilities and financial responsibilities,
- information that addresses concerns with the future, and
- Information that discloses the levels of financial controls.

184. Examples and further discussion of such information needs are provided in appendix B.

How This Information Flows Into Financial Reports

185. The core and environmental financial information, often supplemented with information from other sources, is the basis for a variety of general purpose and special purpose reports. For this reason, figure 1 culminates with the preparation of useful reports. A direct relationship exists between the accounting and reporting processes both for general purpose financial reports and for budget execution reports. The dotted line in figure 1 leading to other kinds of reports emphasizes that other kinds of information are often more heavily involved in producing them. Accounting contributes to these reports but has less influence over the nature, scope, and content of them. (Appendix C lists selected federal reports that are regularly prepared.)

Relationship Of Financial Reporting To Budgeting

186. "The budget" is a broad term that may include, among other things, a projection of spending authorities and means of financing them for a future period and a report of the actual spending and associated financing for a past period. The FASAB' recommendations may influence the reporting of actual budgetary data.

187. The Budget of the United States Government is the most widely recognized and used financial report of the federal government. The budget process is the government's principal mechanism for reaching agreement on goals, for allocating resources among competing uses, and for assessing the government's fiscal effects on economic stability and growth. Most attention is paid to these future-oriented roles of the budget.

188. Budget execution is designed to control and track tax receipts and the use of resources according to the purposes for which budget authority was approved. Actual receipts, obligations, and outlays are recorded by account, as is the status of budgetary resources at the end of each fiscal year.

189. Budgetary measurement is designed to assist in the control and allocation of resources by showing the cash outlays implied by each decision when the decision is made. In some cases, the budget now also includes accruals for costs in advance of the required cash outlay. Budgetary concepts are under continual review. They may be changed by law or, after consultation with the Congress, in the annual revision of OMB Circular A-11, “Preparation and Submission of Budget Estimates.”

190. The Board’s authority does not extend to recommending budgetary standards or budgetary concepts, but the Board is committed to providing reliable accounting information that supports budget planning and formulation. The Board also supports efforts to ensure the accuracy and reliability of reporting on the budget.

191. The Board’s own focus is on developing generally accepted accounting standards for reporting on the financial operations, financial position, and financial condition of the federal government and its component entities and other useful financial information. This implies a variety of measures of costs and other information that complements the information available in the budget. Together with budgetary reports, these reports will provide a more comprehensive and insightful understanding of the government’s financial position, results of operations, and financial condition than either set of reports alone.

Materiality (proposed section)

191a.The omission or misstatement of information is material if, in the light of surrounding circumstances, there is substantial likelihood that the judgment of a reasonable user relying on the information would change or be influenced by the inclusion or correction of the information.

191b.Materiality should be considered individually and in the aggregate and include both qualitative and quantitative considerations. Information that is not considered material from a quantitative standpoint may be considered qualitatively material if it would influence or change the judgment of the information user.

191c.Financial reporting should provide information that is useful to citizens, Congress, federal executives, and federal program managers in understanding or making rational decisions about the allocation and use of resources in the federal government. The information should be comprehensible to those who have a reasonable knowledge of the entity’s or the federal government’s activities and are willing to study the information with reasonable diligence. Consequently, the Board cannot specify or advise specifying a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

191d. In applying the concept of materiality, the needs of the users of the annual financial report should also be considered. In the federal government environment, such needs generally differ from those of users of commercial entity financial statements. For example, federal government financial statement user needs extend to having the ability to assess the efficiency and the effectiveness of the entity's programs. Further, compliance with budget and other finance-related laws, rules, and regulations is also a significant consideration of such users.

191e. This concept applies to all information included in the annual financial report and, therefore, is not limited to the principal schedules and related notes.

191f. Materiality of effects to be discussed should be evaluated in the context of the specific reporting entity. The omission of immaterial information does not constitute an error.

191g. In order to emphasize that materiality should be considered in applying all accounting standards, the Board has decided to place a notice at the end of each recommended Statement. The notice will read as follows:

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