



September 5, 2007

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Conceptual Framework: Communication Methods (TAB A)¹

During the July 2007 meeting, the Board reviewed staff's proposed concepts statement on communications methods and discussed concerns regarding how the unique role of the management's discussion and analysis (MD&A) is presented. Some believed that the MD&A has an important role in federal financial reporting and should not be presented as required supplementary information (RSI). RSI is an assurance category that indicates information that is not subject to audit. Attachment I, beginning on page 7, provides a summary of the Board's conclusions on the project as of the July 2007 meeting.

The discussion on the MD&A being a component of RSI highlighted one of the Board's primary interests regarding how information should be conveyed in financial reports. That interest involves the appropriate type of assurance needed for the information required by FASAB standards. The July 2007 discussion regarding the MD&A focused on the desired type of audit assurance for the MD&A rather than whether the MD&A is the proper vehicle for communicating information such as an analysis of the major issues affecting the entity.

Determining the appropriate type of audit assurance has been a longstanding issue in developing standards, but this topic has received increased visibility in recent standards. For example, in developing SFFAS 29, *Heritage Assets and Stewardship Land*, the Board discussed the issue of what type of assurance is appropriate for communicating heritage assets and stewardship land information. In addition, the FASAB will need to consider this issue in determining how to convey stewardship investment, fiscal sustainability, and other information necessary for achieving the broad federal financial reporting objectives.

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.

Because the kind of assurance needed for required information appears to be a significant factor in the Board's efforts to establish standards, staff has revised the proposed concepts statement to focus on this topic. The purpose of the meeting will be to discuss the revised concepts statement presented in Attachment II, beginning on page 11.

The primary changes are as follows:

- Clarified the purpose of the proposed statement (see the Introduction on page 16). The purpose of the statement is to provide guidance on selecting the kind of assurance to be required by standards. Although the FASAB does not set auditing standards, the FASAB does have a role in determining the kind of assurance that should be provided on information. FASAB standards indicate whether information should be categorized as Basic, Required Supplementary Information, or Other Accompanying Information. These categories indicate the type of assurance the auditor may provide. Auditors use FASAB standards to determine whether information should be audited or subjected to limited procedures. Attachment III, *Assurance Categories, an Excerpt from Implementation Guide to SFFAS 7, Accounting for Revenue and Other Financing Sources*, on page 26, discusses the auditor's role regarding each of the categories.
- Added discussion on assurance categories (see page 18). Focusing on assurance categories may be beneficial as the Board faces this issue in upcoming standards. Also, the process of categorizing information helps the FASAB assess:
 - Is the item essential for fair presentation based on its contribution to meeting reporting objectives?
 - If an item of information is not essential for fair presentation, should it be reported at all?
 - What is the boundary for required information?
 - What information should be presented in notes as opposed to RSI and vice versa?
- Removed the discussion on MD&A. Although the MD&A is important for communicating certain information to users, the focus of the revised concepts statement is now on selecting types of assurance. Assurance categories convey required information and indicate the kind of audit assurance that should be provided. The MD&A is a construct used to convey certain information to users. However, it does not indicate the kind of assurance that should be provided on the information. The MD&A is a candidate for placement in a category that does indicate the type of assurance. Attachment IV: *Overview of the FASAB's Role in Establishing the Kind of Assurance Desired for Items of Information Reported in a GPFFR*, on page 28, provides an overview of the process for establishing the kind of assurance on information required in constructs such as the MD&A.

The distinction between the construct used to communicate information and the placement of the vehicle in an assurance category is illustrated in SFFAC 3, *Management's Discussion and Analysis*. SFFAC 3 discusses the information that

should be presented in MD&A and discusses its placement in an assurance category. The MD&A provides a discussion and analysis of major issues to help users understand the information presented in a GPFFR. The discussion and analysis may be based partly on information contained in reports other than the GPFFR. Also, the concepts note that the MD&A should be categorized in RSI. Attachment V, *Excerpts from SFFAC 3, Management's Discussion and Analysis*, on page 30, presents these concepts. Upon completion of this project, should the Board decide that RSI is not the appropriate assurance category for the MD&A information, the Board may need to revisit SFFAC 3 and SFFAS 15, *Management's Discussion and Analysis*, which requires that the MD&A be included in a GPFFR as RSI.

- Added a chart on the assurance category decision process (see page 24). The chart illustrates the decision process for determining the appropriate assurance category for information.
- Other changes (see Attachment VI, beginning on page 34, for tracked changes). Given the clarified focus on assurance categories, other changes were made throughout the document to ensure consistency with the revised purpose. For example, the charts presenting the reporting model and communication methods were deleted. In addition, the proposed concepts statement was developed to reflect “what should be” the practice rather than “what is” the current practice. Moreover, preparers should have the flexibility to organize reports in the manner appropriate for the circumstances. The proposed concepts statement is not intended to suggest the sequence of locating information within the report or its format.

The following are questions to consider while reviewing the revised document.

1. Does the Board agree with the revised objective of focusing on assurance categories?
2. Does the Board agree that given the revised objective, it would not be necessary to discuss the MD&A in the proposed concepts statement?
3. Does the Board agree with the revised approach to the proposed concepts statement?

If you have questions or need additional information, please contact me at 202-512-2512 or by email at simmsr@fasab.gov as soon as possible. I will be able to consider and respond to your request more fully in advance of the meeting.

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TABLE OF CONTENTS

ATTACHMENT I SUMMARY OF BOARD VIEWS.....	7
ATTACHMENT II: OUTLINE OF PROPOSED CONCEPTS STATEMENT	12
Executive Summary	13
What is the Board proposing?	13
Why is the Board making this proposal?	13
Enhance existing concepts	13
Emerging issues	14
Concepts relied upon but not included in concepts statements	15
How would this proposal improve financial reporting?.....	16
How does this proposal contribute to meeting the federal financial reporting objectives?	16
Introduction	16
Proposed Concepts	17
GPFFRs	17
Advantages of GPFFRs.....	17
Limitations of GPFFRs.....	17
A GPFFR for the Federal Government as a Whole	18
Categories of Assurance for Communicating Information within a GPFFR	18
Basic.....	19
RSI.....	21
OAI	22
Selecting An Assurance Category.....	22
TBD	22
Appendix A: Basis for Conclusion [TBD].....	23
Appendix B: Deciding where an Item of Information should be placed within a GPFFR and what kind of Assurance should be provided.....	24
ATTACHMENT III: ASSURANCE CATEGORIES, AN EXCERPT FROM IMPLEMENTATION GUIDE TO SFFAS 7, <i>ACCOUNTING FOR REVENUE AND OTHER FINANCING SOURCES</i>	26
ATTACHMENT IV: OVERVIEW OF THE FASAB'S ROLE IN ESTABLISHING THE KIND OF ASSURANCE DESIRED FOR ITEMS OF INFORMATION REPORTED IN A GPFFR.....	28
ATTACHMENT V: EXCERPTS FROM SFFAC 3, <i>MANAGEMENT'S DISCUSSION AND ANALYSIS</i>	30
ATTACHMENT VI: TRACKED CHANGES VERSION.....	34
Executive Summary	34
What is the Board proposing?	34
Why is the Board making this proposal?	34
Enhance existing concepts	34
Emerging issues	35
Concepts relied upon but not included in concepts statements	37
How would this proposal improve financial reporting?.....	38
How does this proposal contribute to meeting the federal financial reporting objectives?	38
Introduction	38
Proposed Concepts	39

GPFFRs	39
Advantages of GPFFRs	39
Limitations of GPFFRs	40
A GPFFR for the Federal Government as a Whole	40
Categories of Assurance for Communicating Information within a GPFFR	41
Basic	41
RSI	46
OAI	47
Selecting An Assurance Category	51
TBD	52
Appendix A: Basis for Conclusion [TBD]	53

ATTACHMENT I
SUMMARY OF BOARD VIEWS

As of July 2007

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SUMMARY OF BOARD VIEWS		
MEETING	QUESTION/ ITEM FOR DISCUSSION	BOARD VIEW
November 2006	<p>1. Staff presented an outline of planned topics to discuss in a proposed concepts statement. The outline included the following objectives for the project.</p> <ul style="list-style-type: none"> a. Describe the financial statements used to present the elements critical to meeting financial reporting objectives and explain what constitutes a full set of financial statements; and b. Establish criteria for determining when financial statements, disclosures, MD&A, RSI other than MD&A, and OAI should be used in meeting the reporting objectives. 	<p>The order of the proposed objectives should be revised. The project should first establish criteria and second describe the financial statements. The revised order of the objectives is as follows:</p> <ul style="list-style-type: none"> • Establish criteria for determining when financial statements, disclosures, MD&A, RSI other than MD&A, and OAI should be used in meeting the reporting objectives; and • Describe the financial statements used to present the elements critical to meeting financial reporting objectives and explain what constitutes a full set of financial statements. <p>Also, it should be clear that the existing set of financial statements is not the end result. They may serve as a starting point for determining underlying concepts.</p>
January 2007	<p>2. Whether to conduct two types of outreach activities - roundtable meetings to discuss agency Performance and Accountability Report (PAR) issues and an educational session on cost accounting. Constituents had recently raised concerns that PARs have grown too voluminous and that agencies are not developing cost information to integrate with performance reporting, such as reporting the cost of specific programs and the amount spent on achieving results. Staff proposed the outreach efforts as a way to inform constituents on existing FASAB guidance and to gather information on whether additional FASAB guidance is needed.</p>	<p>The financial reporting project involved many broad subjects which required analysis. Consequently, the project needs further development before proceeding with outreach activities.</p>
January 2007	<p>3. Staff noted that management is responsible for the fair presentation of financial statements in accordance with generally accepted accounting principles (GAAP), and management is responsible for assertions that are implicit in financial reporting. Those assertions have an important role in determining what is presented in the financial report. However, much of the discussion on management's responsibility for financial reporting is found in auditing literature rather than in accounting literature.</p>	<p>A concept statement, such as the proposed concept statement on the federal financial report, may not be the best vehicle to discuss these topics. Management's responsibilities should be discussed in a standard or other vehicle because concept statements primarily guide the Board in its standards-setting activities.</p>

SUMMARY OF BOARD VIEWS			
MEETING	QUESTION/ ITEM FOR DISCUSSION	BOARD VIEW	
March 2007	4. Does the Board agree that performance information is an integral part of financial reporting and of general purpose federal financial reports (GPFFR).	Performance information is an integral part of financial reporting and the GPFFR. However, this does not preclude developing alternative formats.	
March 2007	5. Does the Board agree to continue monitoring the progress in performance reporting rather than exploring the performance reporting topic at this time.	Continue monitoring progress in performance reporting rather than exploring the topic at this time. Staff will participate in work groups engaged in reviewing PAR formats and developing strategic directions for a financial reporting model.	
March 2007	6. Does the Board agree that the GPFFR components should be limited to those that are currently defined in professional literature and that are familiar to users, such as financial statements, disclosures, RSI (including MD&A), and other accompanying information. Existing GPFFRs primarily use the established reporting components such as financial statements, disclosures (notes), RSI (including MD&A and performance information), and other accompanying information. Commonly known reporting components will likely help ensure that users understand the importance of the information included in GPFFRs.	The project should focus on the existing components of the GPFFR - financial statements, disclosures, MD&A, RSI, and OAI, rather than exploring other possibilities. Although these components are audit status categories, they are discussed in the FASAB literature and are used by preparers.	
July 2007	7. Regarding the proposed concepts statement on communication methods, does the Board believe that the overall approach will provide a helpful tool for deliberating in the context of standards which method of communicating information within a financial report is appropriate? 8. What additional tools may be needed to support deliberation on the method of communicating information?	Members provided comments on the proposed concepts statement. Those comments included how to depict the unique role of the MD&A in federal financial reporting. Some believe that, in some cases, the MD&A is the only section of the GPFFR that users will read. However, currently, the MD&A is not audited. It is treated as RSI for audit purposes.	
	9. Regarding a description of the financial statements necessary for achieving the financial reporting objectives (an overview of financial statements) staff suggested that (1) SFFAC 2 be amended as needed rather than being superseded and (2) amendments related to ongoing standards projects be accomplished as those standards are developed.	Members agreed with the suggestions that (1)SFFAC 2 be amended as needed rather than being superseded and (2) amendments related to ongoing standards projects, such as Social Insurance and Sustainability Reporting, be accomplished as those standards are developed.	

ATTACHMENT II
OUTLINE OF PROPOSED CONCEPTS STATEMENT

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OUTLINE OF PROPOSED CONCEPTS STATEMENT COMMUNICATION METHODS IN FEDERAL FINANCIAL REPORTS

- I. Transmittal Letter [To be developed (TBD)]
- II. Preamble – Will be identical to the Elements preamble when it is finalized.
- III. Table of Contents [TBD]
- IV. Executive Summary
 - A. What is the Board proposing?
 1. Within the framework of general purpose federal financial reports (GPFFR)² that contain financial statements for component entities and the Federal Government as a whole, this Concepts Statement would establish criteria for determining when it is appropriate to categorize and communicate information as basic, required supplementary information (RSI), or other accompanying information (OAI) .
 - B. Why is the Board making this proposal?
 1. Need to enhance existing concepts, help address emerging issues, and incorporate concepts relied upon that are not yet in a concepts statement
 - a) Enhance existing concepts
 - (1) Existing concepts³ describe the GPFFR and identify the types of vehicles that may be used to communicate information within the report. Those vehicles include financial statements, notes to financial statements, management’s discussion and analysis (MD&A), and supplemental information. In addition, the concepts suggest different types of statements that may be used to communicate information about an entity.
 - (2) Given that there are several broad financial reporting objectives each with sub-objectives that require a variety of information, several financial statements may be used in conjunction with other vehicles to help achieve the objectives. However, the concepts are currently not explicit in the “lines” that separate how vehicles should be categorized for assurance purposes and conveyed to users. Through standards, the FASAB categorizes information as basic, RSI, or OAI. These categories indicate the kind of audit assurance the information should receive. Discussing these matters would help to determine whether information is essential for fair presentation based on its contribution to meeting the reporting objectives; if information is not essential should it be reported at all; the boundaries for required information; and the appropriate communication method to use. As a result, clarification is needed to help the Board in selecting and constituents in

² The term general purpose federal financial report, abbreviated “GPFFR,” is used as a generic term to refer to the report that contains the entity’s financial statements that are prepared and audited pursuant to the CFO Act of 1990, as amended.

³ SFFAC 2, *Entity and Display*, and SFFAC 3, *Management’s Discussion and Analysis*

responding to proposals on the assurance category most appropriate for presenting information within GPFFRs.

b) Emerging issues

- (1) Since the issuance of the initial concepts, substantial progress has been made in federal financial reporting and the community of federal financial report users, preparers, and auditors has grown. Along with the progress and growing community came various issues that the concepts needed to address. Included in the issues are questions regarding what level of assurance should be provided for the needed information and how it should be categorized.
- (2) Conditions have developed that have elevated the need for information concerning fiscal sustainability and its placement in a financial report. Presently, the nation is experiencing a large and growing long-term fiscal imbalance. Financial report users need information to help them understand and evaluate the current status and longer-term sustainability of federal programs. To determine how to effectively communicate this information and achieve the stewardship reporting objective, the FASAB has requested the recommendations of a group of experts with technical knowledge relevant to the issues and/or communications expertise relevant to the challenge. Ultimately, the FASAB will consider what level of assurance is appropriate for fiscal sustainability reporting.
- (3) Another topic that has evolved since the FASAB developed its initial set of concepts is the preparation of a report that combines financial statements and other information in a single document. The report is commonly known as a Performance and Accountability Report (PAR) for a Federal agency. The PAR evolved from various financial management reforms that required agencies to prepare several reports in different formats which at times caused duplication of efforts.⁴ The various reports included audited financial statements, an Annual Performance Report required by the Government Performance and Results Act of 1993 (GPRA), and other information. The desire to integrate information contained in separate reports and provide a comprehensive picture of each agency's performance led to the Reports Consolidation Act (RCA) of 2000. The RCA permitted and encouraged agencies to consolidate their annual financial statements and performance information in a single report, a PAR.
- (4) A PAR is comprehensive and includes a wealth of information. For example, it contains information on an agency's mission, goals, achievements, financial results, internal control and compliance, areas needing improvement and plans for improvement, improper payment efforts, and management challenges. However, constituents have noted that the benefits of consolidating information may be countered by the voluminous size of the

⁴ Report of the Committee on Governmental Affairs United States Senate to Accompany S.2712, To Amend Chapter 35 of Title 31, United States Code, to Authorize the Consolidation of Certain Financial and Performance Management Reports Required of Federal Agencies, and for Other Purposes, Report 106-337, July 11, 2000.

report and information overload. Information overload may hinder its understandability. In addition, constituents noted that the goal of linking financial and non-financial performance information needs improvement.

- (5) Cost is a financial performance measure and the FASAB issued managerial cost accounting standards to assist in efforts to integrate financial and non-financial performance information. While SFFAS 4, *Managerial Cost Accounting Standards and Concepts* became effective in 1998, agencies continue to experience challenges in fully implementing the requirements⁵ and in reporting reliable cost information.⁶
 - (6) Given these and other concerns with the PAR, the financial reporting community is considering methods of improving the format of the information. This may involve issues of how information should be categorized within a financial report and proposals are being considered for ways to streamline the existing report and make it a more useful tool for decision-making. One alternative currently being considered includes separating the document into two reports – a financial report (includes the MD&A, financial statements, disclosures in notes, RSI, and OAI) and a performance report. Agencies that prepare the two reports would also be required to prepare a highlights document. The highlights document would summarize the details in the financial and performance reports. Consideration of the appropriate level of assurance for re-formatted or new reports would be informed by these proposed concepts.
- c) Concepts relied upon but not included in concepts statements - summarize the Board's consideration of concepts used in developing standards such as
- (1) Implementation Guide to SFFAS 7, *Accounting for Revenue and Other Financing Sources*
 - (2) SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*
 - (3) SFFAS 26, *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25*
 - (4) SFFAS 29, *Heritage Assets and Stewardship Land*

⁵ *Financial Management: Achieving FFMA Compliance Continues to Challenge Agencies*, Government Accountability Office, September 2005, GAO-05-881.

⁶ Testimony Before the Subcommittee on Government Management, Organization, and Procurement, Committee on Oversight and Government Reform, House of Representatives, *Fiscal Year 2006 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Accountability and Fiscal Stewardship Challenges*, Government Accountability Office, March 20, 2007, GAO-07-607T.

C. How would this proposal improve financial reporting?

1. Enhance the framework regarding appropriate placement of information in light of the varying levels of assurance within a GPFFR.
 - a) Help the Board and constituents in understanding the functions and limitations of communication methods within GPFFRs.
 - b) Assist the Board and constituents in understanding how assurance categories relate.
 - c) Assist in selecting appropriate means of categorizing information within GPFFRs.
2. Facilitate the understandability, consistency, and comparability of financial reporting

D. How does this proposal contribute to meeting the federal financial reporting objectives?

1. Providing guidance on communication methods would contribute to consistency in reporting and assist users in understanding the location and nature of information in financial reports. This also contributes to the overall objective of demonstrating accountability and providing useful information as well as helping to achieve specific objectives of budgetary integrity, operating performance, stewardship, and internal control.

V. Acronyms [TBD]

VI. Questions for Respondents [TBD]

VII. Introduction

- A. This statement describes the assurance categories for communicating information within a GPFFR and provides conceptual guidance for selecting the category appropriate for the information to be reported.⁷ The complex nature of the federal government and its extensive financial reporting objectives requires various types of information, including financial and non-financial information, performance information, information on systems, internal control and compliance, as well as environment and forward-looking information. Reporting this information necessitates communicating information in different categories of assurance within a GPFFR. The different assurance categories for communicating information include:
 1. Recognition in basic financial statements
 2. Disclosure in notes to basic financial statements
 3. Disclosure in RSI, and
 4. Disclosure in OAI

⁷ It should be noted that before deciding which method of communication is most appropriate, a decision must be made regarding whether to include an item of information in a GPFFR. Concepts that provide guidance on whether to include an item in a GPFFR are discussed in earlier SFFACs, such as SFFAC 1, Objectives of Federal Financial Reporting, which discusses the financial reporting objectives and the qualitative characteristics of information in financial reports. This statement contains concepts that are consistent with the concepts established in the earlier SFFACs which are not superseded or modified by this Statement.

A Category communicates information and indicates the level of audit assurance. For example, basic information is audited, while RSI and OAI are not. Accounting standards-setting plays a role in determining the kind of audit assurance needed for required information. FASAB standards provide criteria for preparing financial reports and standards indicate the kind of assurance needed for information communicated by vehicles such as financial statements. The process of placing information within a category helps to ensure that the item receives the intended level of assurance, rather than indicating a specific required format.

VIII. Proposed Concepts

A. GPFFRs

1. Advantages of GPFFRs

- a) A GPFFR communicates information to meet the common needs of diverse users. These users typically do not have the authority to specify the basis, form, and content of the reports they receive. A GPFFR is also comprehensive and provides information relevant to the financial reporting objectives⁸ to help users obtain the information they need for assessing accountability and for decision-making.
- b) The financial reporting objectives are broad and require information on various topics. For example, they call for information to assist users in understanding:
 - (1) how budgetary resources have been obtained and whether their acquisition and use were in accordance with the legal authorization;
 - (2) how much government programs cost, how were they financed, and what did they accomplish;
 - (3) whether the government's financial position improved or deteriorated over the period;
 - (4) whether future budgetary resources will likely be sufficient to sustain public services and meet obligations; and
 - (5) whether the government's internal controls are adequate to safeguard assets, detect likely problems, and adequately support performance measurement information.

2. Limitations of GPFFRs

- a) A GPFFR is not intended to provide all the information necessary for assessing accountability and decision-making or all the information to achieve the reporting objectives. Other reports and information sources may be beneficial to users and help achieve the reporting objectives. For example, the Budget of the United States Government is the foremost vehicle for making decisions such as how much to spend, on what programs to spend, and how to raise money necessary to accomplish goals. Also, the Government Accountability Office (GAO) and Inspectors General investigate how the federal government spends money and

⁸ SFFAC 1, *Objectives of Federal Financial Reporting*, describes the objectives of financial reporting.

provides reports on whether money was spent in accordance with its intended purpose.

- b) Moreover, legislation and administrative directives require information that helps achieve the reporting objectives. For instance, legislation and the Office of Management and Budget's (OMB) directives on performance reporting and internal control resulted in providing information on the efforts and accomplishments of federal programs and the adequacy of internal control.⁹
- c) As discussed in SFFAC 1, financial reporting focuses on the performance of the government entity, not necessarily the performance of management. For example, the stewardship objective involves how the "government's" operations have contributed to the nation's well-being. Also, the operating performance objective concerns the efforts, costs, and accomplishments of the "reporting entity." Although management's performance contributes to the performance of the government entity, many events and circumstances are beyond management's control, such as changes in the nation's economic conditions. A GPFFR may be limited in distinguishing management's performance from the performance of the government entity. Additional information sources may be needed to facilitate such an analysis. [May need to discuss more or clarify this paragraph]

3. A GPFFR for the Federal Government as a Whole

- a) In addition to the above role and limitations, there are unique considerations for a GPFFR for the federal government as a whole. The GPFFR for the federal government is a GPFFR that is consolidated from agency reports and directs users to information in other formats (individual agency reports, websites, etc.).¹⁰
- b) While a GPFFR is generally directed to five user groups (Citizens, Citizen Intermediaries, Congress, Federal Executives, and Program Managers), the report is primarily directed to citizens and citizen intermediaries (the media, public interest and advocacy groups). Also, information in GPFFRs should be reliable, relevant, consistent, comparable, understandable and timely. However, considering that the GPFFR for the federal government contains complex, aggregated information directed to citizens and citizen intermediaries, the qualitative characteristics of understandability and timeliness are particularly fundamental.¹¹ SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, provides a detailed discussion of these concepts.

B. Categories of Assurance for Communicating Information within a GPFFR

⁹ For example, the Federal Manager's Financial Integrity Act of 1982 and OMB directives require reporting on internal control. In addition, the GPRA requires agencies to prepare strategic plans, annual performance plans, and annual performance reports and the OMB provides guidance and oversight.

¹⁰ SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, par. 6.

¹¹ SFFAC 4, par. 9.

1. Providing an array of information in the most useful and cost-effective manner requires consideration of the adequacy of existing information and consideration of the types of assurance needed. Financial and non-financial information and narrative descriptions may be needed to communicate an adequate picture of the government's budgetary integrity, operating performance, stewardship, and systems and control. For example, to present an agency's performance in delivering a program, information on the number of consumers served and the cost of serving them may be needed. Also, narrative information, including reasons for significantly exceeding goals, may be used to help readers assess the agency's performance. The kinds of assurance needed to communicate this information include basic financial statements and notes, RSI, and OAI.
2. Information recognized in financial statements or disclosed in notes or supplemental information is categorized as either basic, RSI, or OAI. Each of these categories receives a different type of audit assurance. As a result, the placement of information within a category indicates the type of audit assurance that information may receive.
3. Several factors may be considered in determining the appropriate type of assurance. Some factors and the kind of assurance that should be provided for each category is discussed as follows.
 - a) Basic
 - (1) Basic information is the financial statements and notes that communicate information essential for fair presentation and meeting the reporting objectives. This information has the interest of a wide audience who expect the information to possess a higher level of credibility. This information must be prepared in conformity with standards and existing practices commonly known as generally accepted accounting principles (GAAP) and subjected to independent audit. The auditor expresses an opinion on whether the information is fairly stated in accordance with GAAP.
 - (2) The FASAB has a unique influence in federal financial reporting because the FASAB standards are used in preparing financial reports and developing financial management systems. FASAB standards also provide the criteria that independent auditors use in measuring whether financial statements and disclosures are presented fairly in accordance with GAAP.
 - (3) The discipline of preparing financial statements and notes in accordance with GAAP helps improve federal financial reporting and management. Preparing financial statements and notes utilizing a recognized set of standards leads to consistent definitions and measures and meaningful information. It also requires internal control and financial management systems that are capable of achieving the requirements. These processes help lead to reliable information useful for demonstrating the results of government activities and for decision-making.

(4) Although financial statements and notes are part of basic information, there are some characteristics that distinguish them. Those characteristics are discussed below.

(a) Basic Financial Statements

- i) Financial statements are the principal method of communicating accounting information to users.¹² Reporting on the multi-faceted activities of the federal government calls for accrual and non-accrual based financial statements.
 - a. Accrual-based financial statements are derived from the process of accrual accounting,¹³ articulate with one another and present elements recognized¹⁴ in monetary units.
 - b. Non-accrual basis financial statements recognize elements and present budgetary resources and financial projections related to financial condition.
- ii) Financial statements recognize elements such as assets, liabilities, revenues, expenses, and budgetary accounting elements. Elements comprise the building blocks of financial statements.
- iii) Items that are elements of financial statements and that meet basic recognition criteria are candidates for recognition in financial statements. The basic recognition criteria are (a) the item meets the definition of an element of financial statements and (b) the item is measurable.¹⁵ Unrecognized elements are candidates for disclosure in notes or supplementary information.
- iv) In the Federal Government, there are several types of reporting entities (organizations, suborganizations, programs, and the government as a whole) and several financial reporting objectives (budgetary integrity, operating performance, stewardship, and systems and control). Each reporting objective can be met to a certain degree by the statements prepared by or for one type of entity

¹² SFFAC 2, par. 54.

¹³ Accrual accounting records the effects on a reporting entity of transactions and other events and circumstances in the periods in which those transactions, events, and circumstances occur rather than only in the periods in which cash is received or paid by the entity. It starts with raw cash flows and varies the timing of their recognition to coincide with the events that cause the cash flows. Accrual accounting is also concerned with: measuring costs and revenues for a period; measuring asset and liability positions at the beginning and end of the period; and analyzing the reasons for change from one period to another.

¹⁴ The term recognize refers to the process of formally recording or incorporating an element into the financial statement of an entity. Recognition comprises depiction of an element in both words and numbers, with the amount included in the totals of the financial statements. For an asset or liability, recognition involves recording not only acquisition or incurrence of the item but also later changes in it, including changes that result in removal from the financial statements. Exposure Draft: Elements of Accrual-Basis Financial Statements and Basic Recognition Criteria, par. 4.

¹⁵ Exposure Draft: Elements of Accrual-Basis Financial Statements and Basic Recognition Criteria, par. 5

and to a greater or lesser degree by the statements prepared by or for the other types of reporting entities.¹⁶

(b) Disclosure in Notes to Basic Financial Statements

- i) Notes are integral to financial statements. They help in achieving the financial reporting objectives by providing:
 - a. Explanations that are essential to a users' understanding of items recognized in financial statements, including relevant measures of those items other than the measure in the financial statements and descriptions of accounting policies supporting amounts recognized;
 - b. Details on items that do or do not meet recognition criteria, which may include a useful measure of those items; Note, however, that disclosure is not a substitute for recognition.
 - c. Information to help users assess risks associated with recognized and unrecognized items; and
 - d. Information to assist in comparing budgetary and accrual basis measures used in reporting, such as reconciling the use of budgetary resources information with accrual-basis cost information.
- ii) Disclosure in notes may be narrative presentations or a quantitative presentation, such as a schedule with explanations.
- iii) Notes focus on financial statement elements. They are not intended to provide an overall analysis of past performance and future prospects.

b) RSI

- (1) RSI includes information that is required to accompany basic financial statements and notes, but is not essential for fair presentation. The information may be experimental in nature. This permits the communication of information that is relevant and important to the reporting objectives while additional accounting issues are being further researched. The information may be non-monetary or include information expressed in monetary units and it is likely that there are other credible sources of this information. RSI is not audited, but is subjected to certain limited procedures. The auditor reports whether information is missing.

¹⁶ SFFAC 2, par. 56.

c) OAI

- (1) OAI includes information that may be presented beyond the minimum reporting requirements. FASAB may encourage the reporting of information to help in the development of information that may enhance overall federal financial reporting. OAI may also include information required by legislative initiatives and other organizations involved in federal financial reporting. In addition, the category may include information that preparers elect to present. Preparers may elect to present information that demonstrates accountability or may be useful for decision-making. OAI is not audited, but read for consistency with the financial statements.

C. Selecting An Assurance Category

- a) Selecting a category involves considering the nature of the information and the distinguishing features of each category. Basic is the first category that should be considered followed by RSI, then OAI. For example, if the information is essential to fair presentation and the reporting objectives, the information may be categorized as basic and reported in financial statements or notes depending on its characteristics. If not, the information may be a candidate for RSI or OAI. Appendix B illustrates the process for determining the placement of information and level of assurance that should be provided. In addition, SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, paragraph 40 and Figure 2 discusses other factors that may be considered when deciding between basic and RSI.

D. TBD

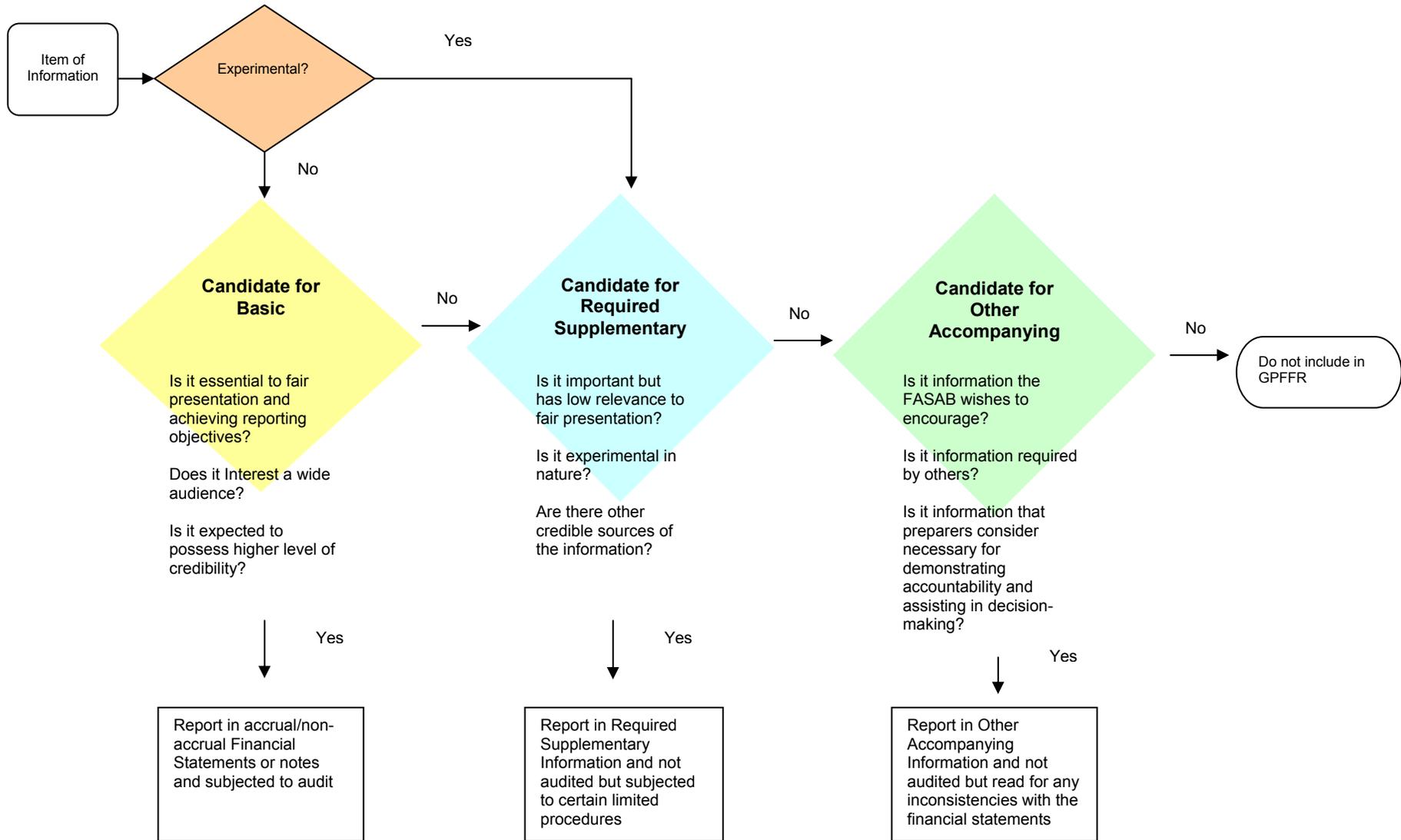
1. performance reporting
2. RSSI – Stewardship Investments

IX. Glossary

X. Appendix A: Basis for Conclusions [TBD]

Appendix A: Basis for Conclusion [TBD]

Appendix B: Deciding where an Item of Information should be placed within a GPFFR and what kind of Assurance should be provided



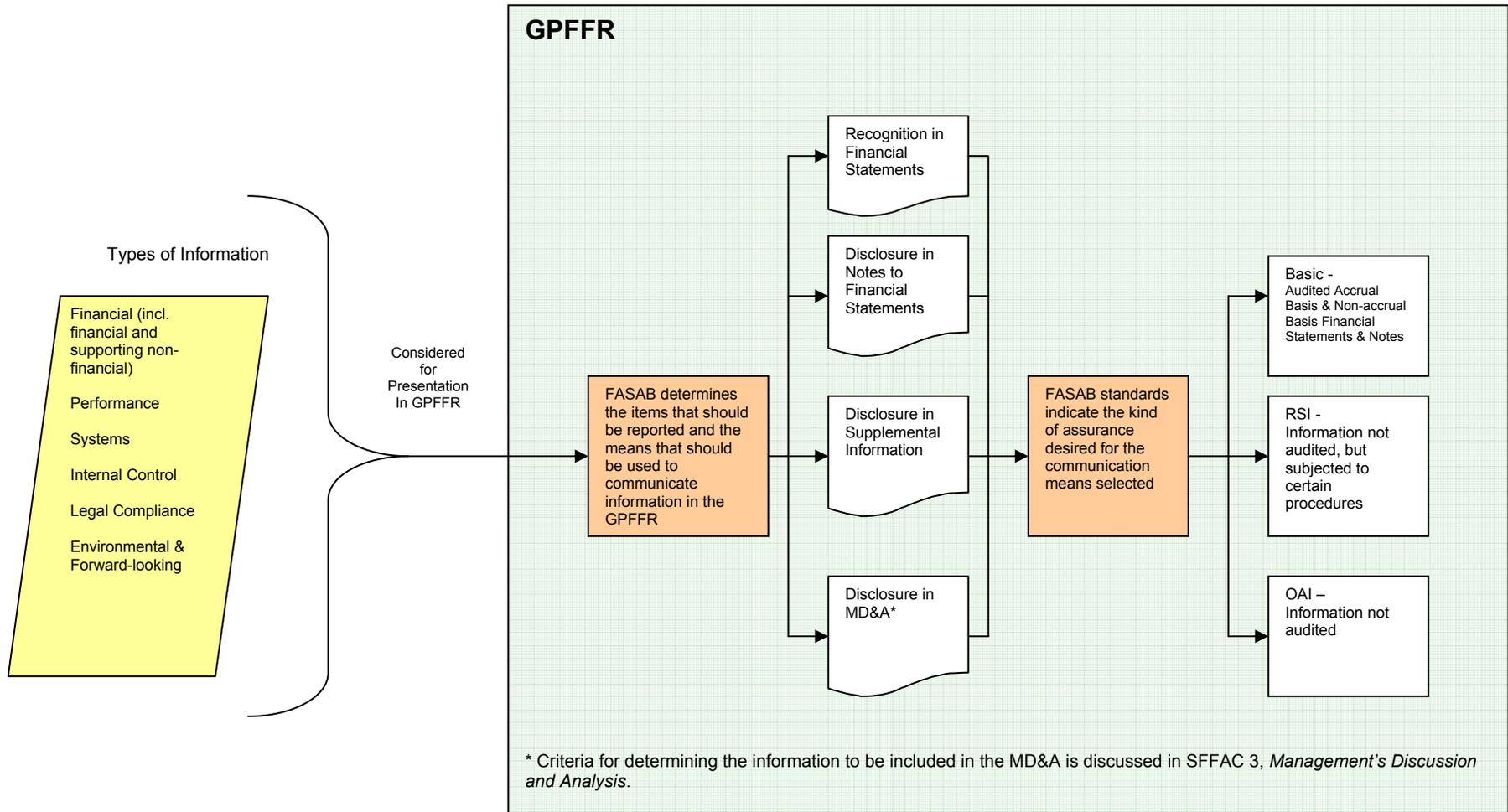
ATTACHMENT III
ASSURANCE CATEGORIES

ATTACHMENT III: ASSURANCE CATEGORIES, AN EXCERPT FROM IMPLEMENTATION GUIDE TO SFFAS 7, ACCOUNTING FOR REVENUE AND OTHER FINANCING SOURCES

Basic Information	Accompanying Information	
Basic Financial Statements and Notes [highest level of audit work]	Required Supplementary Information (RSI) [limited audit procedures]	Other Accompanying Information (OAI) [not audited]
<p>Fieldwork: The auditor examines the basic information and expresses an opinion whether it is fairly presented in accordance with relevant accounting standards. Each line in the statements, and each number in the statements and notes, is a separate "assertion" to be tested, but the auditor's tests are performed, and the auditor's opinion is expressed, in light of the auditor's judgment about materiality (whether a user's decision would be influenced). The judgment about materiality is influenced by the objectives of the financial statement or report and the uses contemplated for the information in it.</p> <p>Reporting: If basic information is missing or materially misstated the auditor expresses an adverse or "qualified" opinion (or, in some cases, disclaims an opinion).</p>	<p>Fieldwork: The auditor performs limited procedures specified by professional standards to review the RSI. These procedures are mainly inquiry and limited analytical procedures such as comparing information obtained for consistency with the auditor's knowledge and the evidence collected in connection with the examination of the basic information. Reporting: If RSI is missing or materially misstated, the auditor notes this, but may still express an unqualified opinion on the basic financial statements, if warranted.</p>	<p>Fieldwork: The auditor reads the other accompanying information to see whether it appears materially inconsistent with the financial statements, but does not audit the information. Reporting: The auditor notes any material inconsistency with the financial statements, but may still express an unqualified opinion on the basic financial statements, if warranted.</p>

ATTACHMENT IV
OVERVIEW OF FASAB'S ROLE

ATTACHMENT IV: OVERVIEW OF THE FASAB'S ROLE IN ESTABLISHING THE KIND OF ASSURANCE DESIRED FOR ITEMS OF INFORMATION REPORTED IN A GPFFR



ATTACHMENT V
EXCERPTS FROM SFFAC 3, *MANAGEMENT'S DISCUSSION AND
ANALYSIS*

ATTACHMENT V: EXCERPTS FROM SFFAC 3, *MANAGEMENT'S DISCUSSION AND ANALYSIS*

7. Several factors suggest that MD&A may be even more important for Federal reporting entities than for those in the private sector and may need to be more extensive in scope. These factors include the complexity of Federal operations, the myriad objectives they pursue, and the diverse nature of the groups affected by and interested in the Government's activities. Fundamentally, the Government's objective is to provide for the common defense and to promote the general welfare, not to earn a profit. Therefore, reporting on performance and other matters in a way that is understandable to diverse audiences is important. For these reasons, both SFFAC 1, Objectives of Federal Financial Reporting, and SFFAC 2, Entity and Display, refer to MD&A in concept as part of the general purpose federal financial report.

8. Page 130 presents a schematic diagram of a sample GPFFR. It is schematic because the information called for by the statements of federal financial accounting standards should be located in the report in a logical sequence, not necessarily in the order shown. MD&A for the reporting entity as a whole normally will be located immediately after the agency head's letter. Reporting entities that organize their GPFFR by responsibility segment may combine MD&A regarding each segment; alternatively, they may have MD&A for each responsibility segment located separately in each of the respective subsections of the report. Preparers have flexibility to structure their report in the manner most appropriate under the circumstances. This diagram, the entire statement of concepts, and the accompanying standards for MD&A are intentionally written in general terms, in light of the evolving practice of performance reporting and accountability reporting in the federal government. **The standards for MD&A define in general terms required supplementary information that should accompany financial statements prepared in conformance with federal accounting principles.** [Emphasis added]

9. MD&A should address:

- the entity's structure, mission, goals, and objectives, with indicators [footnote omitted] of its performance;
- actions taken or planned to improve performance, when appropriate;
- the financial statements;
- systems, internal controls [footnote omitted] and legal compliance, including corrective action taken or planned; and
- the future effects of existing, currently- known demands, risks, uncertainties, events, conditions and trends. MD&A may also address the possible future effects of anticipated future demands, events, conditions, trends, etc. that management believes would be important to the reader of the report.

10. MD&A should address these subjects even if, as will be true for many Federal reporting entities, separate documents report much of the information in more detail. Information about these subjects is essential to address the objectives of federal financial reporting regarding performance, stewardship, budgetary integrity, and systems and controls.

ATTACHMENT V: EXCERPTS FROM SFFAC 3, *MANAGEMENT'S DISCUSSION AND ANALYSIS*

13. Reporting information that helps people assess the performance of the Government's programs and organizations is an important objective of Federal financial reporting. For governmental entities, in contrast to profit-seeking entities, the financial result of governmental-type activities is rarely an adequate indicator of performance. (For a few governmental entities, mainly those that conduct primarily business-type instead of governmental-type activities, the financial results of operations may be an important, albeit rarely sufficient, performance indicator.) To assess performance, people need additional information on the consequences of the Government's activities. For a competitive, profit-seeking entity, the value of its products or services is measured by the amount of money customers are willing voluntarily to pay for them. In such a situation, the traditional income statement reports on both the efforts (measured by expenses incurred) and the accomplishments (measured by revenue earned) of the entity. For government, expense reflects efforts, as it does in the private sector, but indicators other than revenue must be used to report on accomplishments. A discrete section of the GPFFR therefore presents indicators of accomplishments (such as indicators of outputs and outcomes) and other indicators of performance. Alternatively, the GPFFR incorporates performance indicators by reference to a separate report such as the Annual Performance Report required by the Results Act. Either way, performance information is an integral part of the GPFFR and should be discussed in MD&A. Management's discussion and analysis should therefore address the most important facets of performance as well as the financial statements and supplementary information.

53. The Board concluded that, given the importance of MD&A as an integral part of the GPFFR, it would be appropriate to recommend standards for MD&A. At the same time, however, the Board concluded that **for now this information should be treated as required supplementary information**. The Board also agreed that no detailed requirements or guidelines for MD&A should be incorporated in federal accounting standards at this time beyond those proposed in the subsequent exposure draft (discussed below) titled Standards for Management's Discussion and Analysis. In other words, the Board agreed, a discussion and analysis that addresses the topics listed in the proposed standards should be an essential part of a complete GPFFR. At the same time, management should have great discretion about what to say regarding those topics, subject only to the criteria proposed in the exposure draft Standards for Management's Discussion and Analysis and the pervasive requirement that MD&A not be misleading. Because of this change, the Board decided to expose separately for further comment the proposed new standards and concepts. The exposure drafts were issued in October 1998; responses were requested by January 1999. [Emphasis added]

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ATTACHMENT VI
TRACKED CHANGES VERSION OF PROPOSED CONCEPTS
STATEMENT

[CHARTS OMITTED]

ATTACHMENT VI: TRACKED CHANGES VERSION
 OUTLINE OF PROPOSED CONCEPTS STATEMENT
 COMMUNICATION METHODS IN FEDERAL FINANCIAL REPORTS

- XI. Transmittal Letter [To be developed (TBD)]
- XII. Preamble – Will be identical to the Elements preamble when it is finalized.
- XIII. Table of Contents [TBD]
- XIV. Executive Summary

A. What is the Board proposing?

~~1.~~ Within the framework of general purpose federal financial reports (GPFFR)¹⁷ that contain financial statements for component entities and the Federal Government as a whole, this Concepts Statement would establish criteria for determining when ~~a means of communicating it is appropriate to categorize and communicate~~ information ~~(recognition in financial statements, presentation in disclosures to financial statements,¹⁸ presentation as basic, required supplementary information (RSI) other than MD&A, presentation in management's discussion and analysis (MD&A), and presentation as), or other accompanying information (OAI)) should be used in meeting the reporting objectives).~~

B. Why is the Board making this proposal?

1. Need to enhance existing concepts, help address emerging issues, and incorporate concepts relied upon that are not yet in a concepts statement

a) Enhance existing concepts

(1) Existing concepts¹⁹ describe the GPFFR and identify the types of ~~communication methods~~ vehicles that may be used ~~to communicate~~ information within the report. Those ~~methods~~ vehicles include ~~recognition in~~ financial statements, ~~presentation in disclosures~~ notes to financial statements, ~~presentation as RSI other than management's discussion and analysis (MD&A, presentation in MD&A, and presentation as OAI), and supplemental information.~~ In addition, the concepts suggest different types of statements that may be used to communicate information about an entity.

(2) Given that there are several broad financial reporting objectives each with sub-objectives that require a variety of information, several financial statements ~~and other communication methods~~ may be used ~~in conjunction with other vehicles~~ to help achieve the objectives. However, the concepts are currently not explicit in the "lines" that separate ~~each method of communication necessary~~ how vehicles should be categorized for achieving

¹⁷ The term general purpose federal financial report, abbreviated "GPFFR," is used as a generic term to refer to the report that contains the entity's financial statements that are prepared and audited pursuant to the CFO Act of 1990, as amended.

~~¹⁸ Disclosures are an integral part of basic financial statements. However, for the purposes of this statement, they are discussed separately.~~

¹⁹ SFFAC 2, *Entity and Display*, and SFFAC 3, *Management's Discussion and Analysis*

~~the financial reporting objectives, assurance purposes and conveyed to users. Through standards, the FASAB categorizes information as basic, RSI, or OAI. These categories indicate the kind of audit assurance the information should receive. Discussing these matters would help to determine whether information is essential for fair presentation based on its contribution to meeting the reporting objectives; if information is not essential should it be reported at all; the boundaries for required information; and the appropriate communication method to use. As a result, clarification is needed to help the Board in selecting and constituents in responding to proposals on the communication method, assurance category most appropriate for presenting information within GPFFRs.~~

b) Emerging issues

(1) Since the issuance of the initial concepts, substantial progress has been made in federal financial reporting and the community of federal financial report users, preparers, and auditors has grown. Along with the progress and growing community came various issues that the concepts needed to address, ~~such as the reporting of sustainability information and the reporting of financial and performance information. Included in the issues are questions regarding what method should be used to communicate the needed information. Included in the issues are questions regarding what level of assurance should be provided for the needed information and how it should be categorized.~~

- ~~In its *Strategic Directions* document, the FASAB noted that Operating Performance and Stewardship objectives were its primary near-term focus objectives. These objectives offer the greatest opportunity for the FASAB to play a direct role by developing standards to achieve the stated objectives. The overall Operating Performance objective states that federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities.~~

- ~~The Stewardship objective of financial reporting states that federal financial reporting should provide information that helps the reader to determine:~~

- ~~Whether the government's financial position improved or deteriorated over the period;~~

- ~~(2) Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due; and~~

- ~~(3)~~

- ~~(4) Whether government operations have contributed to the nation's current and future well-being.~~

- ~~(5)~~

- ~~(6) Thus, the Stewardship objective includes an analysis of financial position.~~

~~The objective seeks information on whether the government's financial position improved or deteriorated and the long-term implications of the budgetary process. The information necessary for the analysis is also necessary for achieving the Operating Performance objective. The Operating~~

~~Performance objective calls for information about assets and liabilities which contributes to information on financial position.~~

~~(7)~~

~~(3)(2) Conditions have developed that have elevated the need for information concerning fiscal sustainability and its placement in a financial report. Presently, the nation is experiencing a large and growing long term fiscal imbalance. Financial report users need information to help them understand and evaluate the current status and longer-term sustainability of federal programs. To determine how to effectively communicate this information and achieve the stewardship reporting objective, the FASAB has requested the recommendations of a group of experts with technical knowledge relevant to the issues and/or communications expertise relevant to the challenge. Conditions have developed that have elevated the need for information concerning fiscal sustainability and its placement in a financial report. Presently, the nation is experiencing a large and growing long-term fiscal imbalance. Financial report users need information to help them understand and evaluate the current status and longer-term sustainability of federal programs. To determine how to effectively communicate this information and achieve the stewardship reporting objective, the FASAB has requested the recommendations of a group of experts with technical knowledge relevant to the issues and/or communications expertise relevant to the challenge. Ultimately, the FASAB will consider what level of assurance is appropriate for fiscal sustainability reporting.~~

~~(4)(3)~~ Another topic that has evolved since the FASAB developed its initial set of concepts is the preparation of a report that combines financial statements and other information in a single document. The report is commonly known as a Performance and Accountability Report (PAR) for a Federal agency. The PAR evolved from various financial management reforms that required agencies to prepare several reports in different formats which at times caused duplication of efforts.²⁰ The various reports included audited financial statements, an Annual Performance Report required by the Government Performance and Results Act of 1993 (GPRA), and other information. The desire to integrate information contained in separate reports and provide a comprehensive picture of each agency's performance led to the Reports Consolidation Act (RCA) of 2000. The RCA permitted and encouraged agencies to consolidate their annual financial statements and performance information in a single report, a PAR.

~~(5)(4)~~ A PAR is comprehensive and includes a wealth of information. For example, it contains information on an agency's mission, goals, achievements, financial results, internal control and compliance, areas needing improvement and plans for improvement, improper payment efforts, and management challenges. However, constituents have noted that the benefits of consolidating information may be countered by the voluminous size of the report and information overload. Information overload may hinder

²⁰ Report of the Committee on Governmental Affairs United States Senate to Accompany S.2712, To Amend Chapter 35 of Title 31, United States Code, to Authorize the Consolidation of Certain Financial and Performance Management Reports Required of Federal Agencies, and for Other Purposes, Report 106-337, July 11, 2000.

its understandability. In addition, constituents noted that the goal of linking financial and non-financial performance information needs improvement.

~~(6)(5)~~ Cost is a financial performance measure and the FASAB issued managerial cost accounting standards to assist in efforts to integrate financial and non-financial performance information. While SFFAS 4, *Managerial Cost Accounting Standards and Concepts* became effective in 1998, agencies continue to experience challenges in fully implementing the requirements²¹ and in reporting reliable cost information.²²

~~(7)(6)~~ Given these and other concerns with the PAR, the financial reporting community is considering methods of improving the format of the information. This may involve issues of wherehow information should be reportedcategorized within a financial report and proposals are being considered for ways to streamline the existing report and make it a more useful tool for decision-making. One alternative currently being considered includes separating the document into two reports – a financial report (includes the MD&A, financial statements, disclosures in notes, RSI, and OAI) and a performance report. Agencies that prepare the two reports would also be required to prepare a highlights document. The highlights document would summarize the details in the financial and performance reports. Consideration of the appropriate level of assurance for re-formatted or new reports would be informed by these proposed concepts.

c) Concepts relied upon but not included in concepts statements - summarize the Board's consideration of concepts used in developing standards such as

- (1) Implementation Guide to SFFAS 7, *Accounting for Revenue and Other Financing Sources*
- (2) SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*
- (3) SFFAS 26, *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25*
- (4) SFFAS 29, *Heritage Assets and Stewardship Land*

~~This concepts statement would provide useful guidance to the Board and its constituents. Important roles of the conceptual framework include identifying methods of communicating information and describing when a method should be used. This statement provides this information and helps those affected by or interested in standards to understand better the purposes, content, and characteristics of information provided in federal financial reports.~~

²¹ *Financial Management: Achieving FFMA Compliance Continues to Challenge Agencies*, Government Accountability Office, September 2005, GAO-05-881.

²² Testimony Before the Subcommittee on Government Management, Organization, and Procurement, Committee on Oversight and Government Reform, House of Representatives, *Fiscal Year 2006 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Accountability and Fiscal Stewardship Challenges*, Government Accountability Office, March 20, 2007, GAO-07-607T.

C. How would this proposal improve financial reporting?

1. ~~Enhance the framework regarding financial statements and other communication methods~~
1. Enhance the framework regarding appropriate placement of information in light of the varying levels of assurance within a GPFFR.
 - a) Help the Board and constituents in understanding the functions and limitations of ~~financial statements and other~~ communication methods within GPFFRs.
 - b) Assist the Board and constituents in understanding how ~~financial statements and other communication methods~~ assurance categories relate.
 - c) Assist in selecting appropriate means of ~~communicating~~ categorizing information within GPFFRs.
2. Facilitate the understandability, consistency, and comparability of financial reporting

D. How does this proposal contribute to meeting the federal financial reporting objectives?

1. Providing guidance on communication methods would contribute to consistency in reporting and assist users in understanding the location and nature of information in financial reports. This also contributes to the overall objective of demonstrating accountability and providing useful information as well as helping to achieve specific objectives of budgetary integrity, operating performance, stewardship, and internal control.

XV. Acronyms [TBD]

XVI. Questions for Respondents [TBD]

XVII. Introduction

- A. This statement describes the methods of assurance categories for communicating information within a GPFFR and provides conceptual guidance for selecting the method category appropriate for the information to be reported.²³ The complex nature of the federal government and its extensive financial reporting objectives requires various types of information, including financial and non-financial information, performance information, information on systems, internal control and compliance, as well as environment and forward-looking information. Reporting this information necessitates

²³ It should be noted that before deciding which method of communication is most appropriate, a decision must be made regarding whether to include an item of information in a GPFFR. Concepts that provide guidance on whether to include an item in a GPFFR are discussed in earlier SFFACs, such as SFFAC 1, Objectives of Federal Financial Reporting, which discusses the financial reporting objectives and the qualitative characteristics of information in financial reports. -This statement contains concepts that are consistent with the concepts established in the earlier SFFACs which are not superseded or modified by this Statement.

~~different methods of~~ communicating information in different categories of assurance within a GPFFR. The different ~~methods of~~ assurance categories for communicating information include:

1. Recognition in basic financial statements
- ~~2. Presentation through disclosure~~
- ~~3. Presentation as RSI other than MD&A,~~
- ~~4. Presentation in MD&A, and~~
- ~~5. Presentation as OAI~~
2. Disclosure in notes to basic financial statements
3. Disclosure in RSI, and
4. Disclosure in OAI

A Category communicates information and indicates the level of audit assurance. For example, basic information is audited, while RSI and OAI are not. Accounting standards-setting plays a role in determining the kind of audit assurance needed for required information. FASAB standards provide criteria for preparing financial reports and standards indicate the kind of assurance needed for information communicated by vehicles such as financial statements. The process of placing information within a category helps to ensure that the item receives the intended level of assurance, rather than indicating a specific required format.

XVIII. Proposed Concepts

A. GPFFRs

1. Advantages of GPFFRs

- a) A GPFFR communicates information to meet the common needs of diverse users. These users typically do not have the authority to specify the basis, form, and content of the reports they receive. A GPFFR is also comprehensive and provides information relevant to the financial reporting objectives²⁴ to help users obtain the information they need for assessing accountability and for decision-making.
- b) The financial reporting objectives are broad and require information on various topics. For example, they call for information to assist users in understanding:
 - (1) how budgetary resources have been obtained and whether their acquisition and use were in accordance with the legal authorization;
 - (2) how much government programs cost, how were they financed, and what did they accomplish;
 - (3) whether the government's financial position improved or deteriorated over the period;
 - (4) whether future budgetary resources will likely be sufficient to sustain public services and meet obligations; and

²⁴ SFFAC 1, *Objectives of Federal Financial Reporting*, describes the objectives of financial reporting.

(5) whether the government’s internal controls are adequate to safeguard assets, detect likely problems, and adequately support performance measurement information.

2. Limitations of GPFFRs

- a) A GPFFR is not intended to provide all the information necessary for assessing accountability and decision-making or all the information to achieve the reporting objectives. Other reports and information sources may be beneficial to users and help achieve the reporting objectives. For example, the Budget of the United States Government is the foremost vehicle for making decisions such as how much to spend, on what programs to spend, and how to raise money necessary to accomplish goals. Also, the Government Accountability Office (GAO) and Inspectors General investigate how the federal government spends money and provides reports on whether money was spent in accordance with its intended purpose.
- b) Moreover, legislation and administrative directives require information that helps achieve the reporting objectives. For instance, legislation and the Office of Management and Budget’s (OMB) directives on performance reporting and internal control resulted in providing information on the efforts and accomplishments of federal programs and the adequacy of internal control.²⁵ ~~Appendix B illustrates the relationship of a GPFFR and other sources of information that contribute to demonstrating accountability and decision-making.~~
- c) As discussed in SFFAC 1, financial reporting focuses on the performance of the government entity, not necessarily the performance of management. For example, the stewardship objective involves how the “government’s” operations have contributed to the nation’s well-being. Also, the operating performance objective concerns the efforts, costs, and accomplishments of the “reporting entity.” Although management’s performance contributes to the performance of the government entity, many events and circumstances are beyond management’s control, such as changes in the nation’s economic conditions. A GPFFR may be limited in distinguishing management’s performance from the performance of the government entity. Additional information sources may be needed to facilitate such an analysis. [May need to discuss more or clarify this paragraph]

3. A GPFFR for the Federal Government as a Whole

- a) In addition to the above role and limitations, there are unique considerations for a GPFFR for the federal government as a whole. The GPFFR for the federal

²⁵ For example, the Federal Manager’s Financial Integrity Act of 1982 and OMB directives require reporting on internal control. In addition, the GPRA requires agencies to prepare strategic plans, annual performance plans, and annual performance reports and the OMB provides guidance and oversight.

government is a GPFFR that is consolidated from agency reports and directs users to information in other formats (individual agency reports, websites, etc.).²⁶

- b) While a GPFFR is generally directed to five user groups (Citizens, Citizen Intermediaries, Congress, Federal Executives, and Program Managers), the report is primarily directed to citizens and citizen intermediaries (the media, public interest and advocacy groups). Also, information in GPFFRs should be reliable, relevant, consistent, comparable, understandable and timely. However, considering that the GPFFR for the federal government contains complex, aggregated information directed to citizens and citizen intermediaries, the qualitative characteristics of understandability and timeliness are particularly fundamental.²⁷ SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, provides a detailed discussion of these concepts.

B. Methods Categories of Assurance for Communicating Information within a GPFFR

1. Providing an array of information in the most useful and cost-effective manner requires consideration of the adequacy of existing information and consideration of the types of communication methods-assurance needed. Financial and non-financial information and narrative descriptions may be needed to communicate an adequate picture of the government’s budgetary integrity, operating performance, stewardship, and systems and control. For example, to present an agency’s performance in delivering a program, information on the number of consumers served and the cost of serving them may be needed. Also, narrative information, including reasons for significantly exceeding goals, may be used to help readers assess the agency’s performance. ~~Methods that help the GPFFR~~The kinds of assurance needed to communicate this information are include basic financial statements, disclosures and notes, RSI, MD&A, and OAI. Appendix C provides an overview of each method.

2. Information recognized in financial statements or disclosed in notes or supplemental information is categorized as either basic, RSI, or OAI. Each of these categories receives a different type of audit assurance. As a result, the placement of information within a category indicates the type of audit assurance that information may receive.

~~Financial statements and disclosures provide the means of communicating information that is essential to the reporting objectives.~~

3. Several factors may be considered in determining the appropriate type of assurance. Some factors and the kind of assurance that should be provided for each category is discussed as follows.

a) Basic

(1) Basic information is the financial statements and notes that communicate information essential for fair presentation and meeting the reporting

²⁶ SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, par. 6.

²⁷ SFFAC 4, par. 9.

objectives. This information has the interest of a wide audience who expect the information to possess a higher level of credibility. This information must be prepared in conformity with standards and existing practices commonly known as generally accepted accounting principles (GAAP) and subjected to independent audit. The auditor expresses an opinion on whether the information is fairly stated in accordance with GAAP.

(2) The FASAB has a unique influence in federal financial reporting because the FASAB standards are used in preparing financial reports and developing financial management systems. FASAB standards also provide the criteria that independent auditors use in measuring whether financial statements and disclosures are presented fairly in accordance with GAAP.

(3) The discipline of preparing financial statements and disclosures notes in accordance with GAAP helps improve federal financial reporting and management. Preparing financial statements and disclosures notes utilizing a recognized set of standards leads to consistent definitions and measures and meaningful information. It also requires internal control and financial management systems that are capable of achieving the requirements. These processes help lead to reliable information useful for demonstrating the results of government activities and for decision-making.

~~• In light of the overall role of financial statements and disclosures, the other methods accompany financial statements and disclosures to enhance users' understanding of the entity's performance and future prospects. The following provides additional features of each method.~~

~~• Financial Statements and Disclosures²⁸~~

~~(1) As noted earlier, financial statements and disclosures provide the methods of communicating information essential to the reporting objectives. This information has the interest of a wide audience who expect the information to possess a higher level of credibility. This information must be prepared in conformity with GAAP and subjected to independent audit.~~

~~(4) Although financial statements and notes are part of basic information, there are some characteristics that distinguish them. Those characteristics are discussed below.~~

~~(a) Basic Financial Statements~~

~~i) Question 3-a~~

~~i) Financial statements are the principal method of communicating accounting information to users.²⁹ Reporting on the multi-faceted~~

Does the Board agree with the proposal that financial statements and disclosures communicate information that is essential to the reporting objectives, has the interest of a wide audience, and is expected to possess a higher level of credibility?

²⁸ Board projects such as Elements and Basic Recognition Criteria of Accrual Basis Financial Statements and Sustainability Reporting may provide additional concepts that will inform and discuss.

²⁹ SFFAC 11, p. 11.

activities of the federal government calls for accrual and non-accrual based financial statements.

- a. Accrual-based financial statements are derived from the process of accrual accounting,³⁰ articulate with one another and present elements recognized³¹ in monetary units.
- b. Non-accrual basis financial statements recognize elements and present budgetary resources and financial projections related to financial condition.

~~ii) Although they are both essential for achieving~~ Financial statements recognize elements such as assets, liabilities, revenues, expenses, and budgetary accounting elements. Elements comprise the reporting objectives, there are characteristics that distinguish building blocks of financial statements and disclosures. These characteristics are discussed below.

iii) Items that are elements of financial statements and that meet basic recognition criteria are candidates for recognition in financial statements. The basic recognition criteria are (a) the item meets the definition of an element of financial statements and (b) the item is measurable.³² Unrecognized elements are candidates for disclosure in notes or supplementary information.

~~ii) Financial Statements~~

iv) In the Federal Government, there are several types of reporting entities (organizations, suborganizations, programs, and the government as a whole) and several financial reporting objectives (budgetary integrity, operating performance, stewardship, and systems and control). Each reporting objective can be met to a certain degree by the statements prepared by or for one type of entity and to a greater or lesser degree by the statements prepared by or for the other types of reporting entities.³³

³⁰ Accrual accounting records the effects on a reporting entity of transactions and other events and circumstances in the periods in which those transactions, events, and circumstances occur rather than only in the periods in which cash is received or paid by the entity. It starts with raw cash flows and varies the timing of their recognition to coincide with the events that cause the cash flows. Accrual accounting is also concerned with: measuring costs and revenues for a period; measuring asset and liability positions at the beginning and end of the period; and analyzing the reasons for change from one period to another.

³¹ The term recognize refers to the process of formally recording or incorporating an element into the financial statement of an entity. Recognition comprises depiction of an element in both words and numbers, with the amount included in the totals of the financial statements. For an asset or liability, recognition involves recording not only acquisition or incurrence of the item but also later changes in it, including changes that result in removal from the financial statements. Exposure Draft: Elements of Accrual-Basis Financial Statements and Basic Recognition Criteria, par. 4.

³² Exposure Draft: Elements of Accrual-Basis Financial Statements and Basic Recognition Criteria, par. 5

³³ SFFAC 2, par. 56.

~~Financial statements are the principal method of communicating accounting information to users.³⁴ They recognize³⁵ elements such as assets, liabilities, revenues, expenses, and budgetary accounting elements. Elements comprise the building blocks of financial statements.~~

~~(b) Items that are elements of financial statements and that meet basic recognition criteria are candidates for recognition in financial statements. The basic recognition criteria are (a) the item meets the definition of an element of financial statements and (b) the item is measurable.³⁶ Unrecognized elements are candidates for disclosure or RSI.~~

~~(b) Disclosure in Notes to Basic Financial Statements~~

~~i) Reporting on the multi-faceted activities of the federal government calls for accrual and non-accrual based financial statements.~~

~~ii) —~~

~~iii) Accrual based financial statements are derived from the process of accrual accounting,³⁷ articulate with one another and present elements recognized in monetary units.~~

~~iv) —~~

~~v) Non-accrual basis financial statements also recognize elements in monetary units and present budgetary resources and financial projections related to financial condition.~~

~~vi) —~~

~~vii) Question 3 b~~

~~viii) —~~

~~ix) —~~

~~x) —~~

Does the Board agree with the proposal that accrual and non-accrual-based financial statements are needed to report on the activities of the federal government?

³⁴ ~~SFFAC 2, par. 54.~~

³⁵ ~~The term recognize refers to the process of formally recording or incorporating an element into the financial statement of an entity. Recognition comprises depiction of an element in both words and numbers, with the amount included in the totals of the financial statements. For an asset or liability, recognition involves recording not only acquisition or incurrence of the item but also later changes in it, including changes that result in removal from the financial statements. Exposure Draft: Elements of Accrual-Basis Financial Statements and Basic Recognition Criteria, par. 4.~~

³⁶ ~~Exposure Draft: Elements of Accrual-Basis Financial Statements and Basic Recognition Criteria, par. 5~~

³⁷ ~~Accrual accounting records the effects on a reporting entity of transactions, events, and circumstances in the periods in which those transactions, events, and circumstances occur rather than only in the periods in which cash is received or paid by the entity. It starts with raw cash flows and varies the timing of their recognition to coincide with the events that cause the cash flows. Accrual accounting is also concerned with: measuring costs and revenues for a period; measuring asset and liability positions at the beginning and end of the period; and analyzing the reasons for change from one period to another.~~

~~xi)~~

~~xii)~~

~~xiii)~~

~~xiv)~~

~~xv)~~

~~xvi)~~

~~xvii) —~~

~~xviii) In the Federal Government, there are several types of reporting entities (organizations, suborganizations, programs, and the government as a whole) and several financial reporting objectives (budgetary integrity, operating performance, stewardship, and systems and control). Each reporting objective can be met to a certain degree by the statements prepared by or for one type of entity and to a greater or lesser degree by the statements prepared by or for the other types of reporting entities. (SFFAC 2, par. 56)~~

~~xix)~~

~~xx)~~

~~xxi) Disclosures to Financial Statements~~

~~xxii) —~~

~~□i) Disclosures are items reported in notes that Notes are integral to financial statements. Disclosures They help in achieving the financial reporting objectives by providing:~~

~~□a. Explanations that are essential to a users' understanding of items recognized in financial statements, including relevant measures of those items other than the measure in the financial statements and descriptions of accounting policies supporting amounts recognized;~~

~~□b. Details on items that do or do not meet recognition criteria, which may include a useful measure of those items; Note, however, that disclosure is not a substitute for recognition.~~

~~□c. Information to help users assess risks associated with recognized and unrecognized items; and~~

~~□d. Information to assist in comparing budgetary and accrual basis measures used in reporting, such as reconciling the use of budgetary resources information with accrual-basis cost information.~~

~~xxiii) —~~

~~xxiv) —~~

~~xxv) —~~

~~xxvi) —~~

~~xxvii) —~~

~~xxviii) —~~

~~xxix) —~~

~~xxx) —~~

~~xxxi) —~~

~~xxxii) —~~

- ~~xxxiii)~~
- ~~xxxiv)~~
- ~~xxxv)~~
- ~~xxxvi) Question 3-c~~
- ~~xxxvii)~~

Does the Board agree with the proposed major purposes of disclosures?

- ~~xxxviii)~~
- ~~ii) Disclosures~~ Disclosure in notes may be narrative presentations or a quantitative presentation, such as a schedule with explanations.
- ~~iii) Disclosures~~ Notes focus on financial statement elements. They are not intended to provide an overall analysis of past performance and future prospects.

b) RSI

- ~~(2)~~
- ~~(3) RSI³⁸~~
- ~~(4)~~
- ~~(5) RSI includes information that is information~~ required to accompany basic financial statements. ~~However, unlike disclosures, this information and notes, but~~ is not ~~considered~~ essential for fair presentation ~~in accordance with GAAP. RSI may communicate important. The~~ information ~~that~~ may be experimental in nature. This permits the communication of information that is relevant and important to the reporting objectives while additional accounting issues are being further researched. ~~The~~ information may be non-monetary or include information expressed in monetary units.
- ~~(6)~~
- ~~(7)~~
- ~~(8) Question 3-d~~
- ~~(9)~~

Does the Board agree with the proposed characteristics of RSI?

- ~~(10)~~
- ~~(11) Additional Considerations for RSI [TBD]~~
- ~~(12)~~

³⁸ ~~[Board projects such as Elements and Basic Recognition Criteria of Accrual-Basis Financial Statements and Sustainability Reporting may provide additional concepts that will inform this discussion.]~~

- ~~(13) —~~
- ~~(14) —~~
- ~~(15) —~~
- ~~(16) —~~
- ~~(17) —~~
- ~~(18) —~~
- ~~(19) — MD&A³⁹~~
- ~~(20) —~~
- ~~(21) —~~

~~□(1) To enhance the overall understandability and usefulness and it is likely that there are other credible sources of a GPFFR, this information is presented in the MD&A. The MD&A provides context for the financial statements and disclosures and may include items that do not meet the definition of elements. It integrates information to provide a concise analysis of an entity's financial and performance results and prospects for the future and information on compliance and management systems and internal control. It also provides readers with insights into the key information used in managing the entity. The basic concepts for MD&A are discussed in SFFAC 3, *Management's Discussion and Analysis*. It states that: RSI is not audited, but is subjected to certain limited procedures. The auditor reports whether information is missing.~~

~~The MD&A is an important vehicle for (1) communicating managers' insights about the reporting entity, (2) increasing the understandability and usefulness of the general purpose federal financial report (GPFFR), and (3) providing understandable and accessible information about the entity and its operations, service levels, successes, challenges, and future.⁴⁰~~

~~b)c) It should address the reporting entity's performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems. The discussion and analysis of these subjects may be based partly on information contained in reports other than the GPFFR. MD&A also should address significant events, conditions, trends and contingencies that may affect future operations.⁴¹ OAI~~

- ~~● Providing the above information contributes to the reporting objectives. For example, discussing the entity's performance measures provides information on the operating performance objective, and discussing the financial statements informs users on stewardship. Also, presenting information about systems and control and compliance helps achieve the systems and control and budgetary integrity objectives.~~
- ~~● Although MD&A provides information for each of the objectives, it is not intended to be a verbose discussion vehicle. In presenting information, MD&A discusses the most important matters that will probably affect the judgments and decisions of users relying on the GPFFR.⁴² For example, the MD&A may discuss the most important results during the period, the cost of achieving them, and how the results relate to goals, e.g. where the goals met? In addition, management may discuss the challenges that could affect performance~~

³⁹ ~~[Board projects such as Elements and Basic Recognition Criteria of Accrual-Basis Financial Statements and Sustainability Reporting may provide additional concepts that will inform this discussion.]~~

⁴⁰ ~~SFFAC 3, Executive Summary.~~

⁴¹ ~~SFFAC 3, par. 1~~

⁴² ~~SFFAS 15, Management's Discussion and Analysis, par. 6.~~

~~and how those challenges are being addressed. Relevant charts and other graphics may be used to support narrative discussions, emphasize information, show trends, or illustrate proportions.~~

- ~~• The MD&A is also useful as a stand-alone highlights document for a novice reader with little technical background. SFFAC 3 provides additional concepts and discusses the relationship of the reporting objectives to information in the MD&A.~~

~~1. Question 3-e~~

The MD&A section helps provide a picture of a GPFFR, but it primarily summarizes the concepts stated in SFFAC 3. Does the Board believe that an MD&A section is necessary for this document, considering that it discusses concepts already presented?

- ~~• OAI⁴³~~
- ~~• OAI includes information that may be presented beyond the minimum reporting requirements. Preparers may consider this information necessary for demonstrating accountability and decision-making and may elect to present it along with the MD&A, basic financial statements and disclosures, and RSI.~~

⁴³ ~~[Board projects such as Elements and Basic Recognition Criteria of Accrual-Basis Financial Statements and Sustainability Reporting may provide additional concepts that will inform this discussion.]~~

~~2. Question 3 f~~

In 1996, prior to the FASAB's designation as the accounting standards-setting body for the federal government, the Board issued a standard that provided guidance for reporting information in OAI. SFFAS 7, *Accounting for Revenue and Other Financing Sources*, included guidance for reporting tax gap information (taxes or duties due from non-compliant tax payers or importers) and other items as OAI. The information was considered necessary to help users understand the extent of non-compliance with laws, but constituents believed that the information was too imprecise to be "required." Subsequently, FASAB received the designation from the American Institute of Certified Public Accountants and auditors began considering FASAB standards as the highest level of federal GAAP. However, the guidance for OAI remained in the standard.

Given the status of FASAB standards, constituents may not be clear whether OAI information is required supplemental or information that the Board encourages agencies to report. Other accounting standards-setting bodies, such as the Canadian Public Sector Accounting Board (PSAB), use non-GAAP vehicles to provide guidance on voluntarily reported information. The PSAB uses statements of recommended practices (SORP) rather than standards. SORPs provide general guidance to encourage and assist entities in reporting relevant information. They also assist in developing a common approach to reporting issues and facilitate comparability while permitting practice to evolve.

Given the FASAB's GAAP status, does the Board wish to explore the development of non-authoritative vehicles for encouraging and assisting agencies in reporting information as OAI? If not, should this concept statement address the Board's intentions with respect to encouraging or not encouraging OAI?

- ~~Relationship to the objectives of financial reporting [TBD]~~
- ~~Component entity~~
- ~~Federal Government~~

- ~~Purposes and limitations [TBD]~~
- ~~Component entity~~
- ~~Federal Government~~

- ~~Selecting a Method of Communicating Information~~
- ~~Each communication method is important for inclusion in a GPFFR. However, some information may be better communicated by one method while other information may be better communicated by another method. The process of selecting among the methods of communication involves following a series of steps.~~

~~3. Question 3-g~~

Does the Board believe that each method of communication is important for inclusion in a GPFFR, considering that each method serves a different role?

- ~~Consider the nature of the information. Different processes may be considered based on whether the information is derived from accrual basis or non-accrual basis reporting.~~
- ~~Accrual Basis Items~~
- ~~Determine whether the information can be recognized in a financial statement, e.g. meets recognition criteria. If not, the information may be a candidate for a disclosure, RSI, MD&A, or OAI.~~
- ~~Determine whether the information comprises a disclosure, such as meeting the definition of an element, but not meeting recognition criteria. If not, the item may be a candidate for RSI, MD&A, or OAI.~~
- ~~For items not comprising financial statements and disclosures, determine placement by considering the purpose and features of RSI, MD&A, and OAI. For example, the MD&A provides an overview of the entity.~~
- ~~Non-accrual Basis Information~~
- ~~Determine whether there are factors that indicate presentation as a financial statement or presentation in disclosures versus RSI and MD&A. Those factors include:~~
- ~~Significance, relevance, or importance of the item in light of the financial reporting objectives. High significance, relevance, or importance implies basic financial statement information.~~
- ~~Relevance to fair presentation. Can a set of financial statements be said to present fairly if information is missing or materially misstated?~~

- ~~The strength of the signal the Board wishes to be sent in the financial report. The stronger the signal, the more likely the information should be considered a part of the financial statements.~~
- ~~The strength of the signal the Board wishes to be sent in the auditor's report. The stronger the signal, the more likely the information should be considered a part of basic financial statements.~~
- ~~Whether a wide audience is interested in the information. Wide interest implies basic financial statement information.⁴⁴~~
- ~~Consider the distinguishing purpose and features of financial statements, disclosures, RSI, MD&A, and OAI.~~
 4. ~~—~~
 5. ~~Question 3 h~~

(1) OAI includes information that may be presented beyond the minimum

Does the Board agree with the approach of developing a series of decisions that may be made in selecting a communication method?

reporting requirements. FASAB may encourage the reporting of information to help in the development of information that may enhance overall federal financial reporting. OAI may also include information required by legislative initiatives and other organizations involved in federal financial reporting. In addition, the category may include information that preparers elect to present. Preparers may elect to present information that demonstrates accountability or may be useful for decision-making. OAI is not audited, but read for consistency with the financial statements.

C. Selecting An Assurance Category

- a) Selecting a category involves considering the nature of the information and the distinguishing features of each category. Basic is the first category that should be considered followed by RSI, then OAI. For example, if the information is essential to fair presentation and the reporting objectives, the information may be categorized as basic and reported in financial statements or notes depending on its characteristics. If not, the information may be a candidate for RSI or OAI. Appendix B illustrates the process for determining the placement of information and level of assurance that should be provided. In addition, SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, paragraph 40 and Figure 2 discusses other factors that may be considered when deciding between basic and RSI.

⁴⁴ ~~SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, paragraph 40 and Figure 2.~~

| G-D. TBD

1. performance reporting
2. RSSI – Stewardship Investments

XIX. Glossary

XX. Appendix A: Basis for Conclusions [TBD]

| [Appendix A:](#) Basis for Conclusion [TBD]