



Federal Accounting Standards Advisory Board

August 9, 2018

Memorandum

To: Members of the Board

Robin M. Gilliam

From: Robin Gilliam, Assistant Director

Ross Simms

Ross Simms, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subj: Management's Discussion and Analysis: The Discussion and Analysis of Financial Statements—**TAB D**¹

MEMBER ACTIONS REQUESTED:

By, August 20, 2018, please review the materials and provide answers to the questions on page 7.

OBJECTIVE

The objective is to begin developing standards for improving the discussion and analysis of financial statements in management's discussion and analysis (MD&A). Staff will discuss other components of MD&A, such as a discussion and analysis of non-financial performance, in future Board meetings.

BRIEFING MATERIALS

The briefing material includes this memorandum and the following:

Attachment I: Working Draft Statement provides a draft statement to illustrate the guidance that could be proposed for a discussion and analysis of financial statements.

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.

Appendix I: Markup of Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion and Analysis* shows the changes made to the conceptual guidance.

BACKGROUND

During the June 2018 meeting, the Board discussed suggested improvements to MD&A guidance and improving the reporting of stewardship investments. Regarding MD&A guidance, the Board agreed to the following:

- Require a summary about performance instead of details.
- Retain the requirement for information on compliance with laws and regulations and the adequacy of internal control.
- Remove the requirement to segment information into discreet sections.
- Allow flexibility in the reporting of information regarding risks that had or will have a significant financial impact.

Staff will present an analysis and examples for the proposed improvements. Staff will also work with OMB to improve reported information regarding laws and regulations and the adequacy of internal control. In addition, once the Board agrees on the required information for MD&A, staff will consider the need for implementation guidance.

Regarding stewardship investments, the Board agreed that Statement of Federal Financial Accounting Standards (SFFAS 8), *Supplementary Stewardship Reporting*, should be rescinded and that MD&A of government-wide and component reporting entity general purpose federal financial reports should include stewardship investments information. However, the Board did not determine the level of detail that should be discussed. Consequently, staff would develop illustrations of the information that could be presented in MD&A regarding investments.

NEXT STEPS

Based on the Board's feedback, staff plans to develop illustrations of financial statement discussions and analyses and will conduct additional steps determined during the August meeting. Also, during future meetings, staff plans to discuss proposed guidance for non-financial performance reporting; systems, controls, and legal compliance; and forward-looking information.

MEMBER FEEDBACK

If you have any questions or comments, please contact both Mr. Simms and Ms. Gilliam by email at simmsr@fasab.gov and gilliamr@fasab.gov with a cc to paynew@fasab.gov by August 20, 2018.

The Discussion and Analysis of Financial Statements in MD&A

To determine the information that might be needed to improve MD&A reporting, staff believed it would be necessary to begin with the discussion and analysis of financial statements. Although MD&A should discuss several topics, the discussion and analysis of financial statements is a central component. Staff would like to learn the Board's preliminary views about this component and, upon determining the Board's preliminary views, staff can provide illustrations and propose additional guidance. The following discussion provides staff's recommendations for content improvements.

1. Separate Guidance for the Consolidated Financial Report of the U.S. Government and Component Reporting Entities

At least in the initial stages of the project, staff suggests developing separate guidance for the consolidated financial report of the U.S. government (CFR) and component reporting entities. The government-wide reporting entity is fundamentally different from component reporting entities. Primarily, the government-wide reporting entity can levy taxes, charge fees, and borrow while component reporting entities receive budget authority through appropriations made in the legislative process. Also, component reporting entities administer multiple programs, each with a distinct mission. Consequently, users expect different information when reviewing the CFR and component reporting entity MD&A and different analyses may be needed.

Question 1: Does the Board agree that separate guidance should be developed for the CFR and component reporting entities?

2. Focus on Financial Aspects of the Operating Performance Reporting Objective for Component Reporting Entities

Staff suggests that the financial statement discussion and analysis for component reporting entities primarily focus on financial aspects of the operating performance reporting objective. The operating performance objective states that financial reporting should provide information that helps the reader determine

- the costs of providing specific programs and activities and the composition of, and changes in, these costs
- the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs
- the efficiency and effectiveness of the government's management of its assets and liabilities²

² SFFAC 1, *Objectives of Federal Financial Reporting*, paragraph 14.

Staff would like to recommend this change from the conceptual guidance which focuses on financial results and position as the attributes of discussion and analysis. For instance, SFFAC 3, paragraph 26 notes

MD&A should help those who read it to understand the entity's financial results and financial position...

Staff believes the change is needed because of the nature of component reporting entities. Component reporting entities administer numerous, diverse programs and are not independent economic entities. Programs receive budget authority and Congress specifies the amount, purpose, and duration of their funding. Users expect to compare component reporting entity costs with its accomplishments and determine the amount of budgetary resources that may be needed in the future.

Further, information on the costs incurred in previous periods that remain unpaid would be useful in assessing the need for additional budgetary resources to liquidate liabilities. In addition, information on increased maintenance costs due to deteriorating assets may indicate capital concerns and the need for additional budgetary resources to address them. The discussion and analysis of entity-wide cost information and how the costs were allocated among segments would inform discussions on operating performance and the need for future resources.

Question 2: Does the Board agree that the discussion and analysis for component reporting entities should focus on the operating performance reporting objective?

3. Permit Flexibility in Determining the Basis for Component Reporting Entity Analysis

Staff suggests permitting component reporting entity management to consider different approaches for analyzing the financial statements. When discussing the financial statements, management could base the discussion on several different analyses. For instance, management could base the discussion on trends in costs and discuss the percentage change over a specified period and possibly the rationale for the change. Also, management could focus on 1) the components of cost of operations and their relationship to total cost of operations and/or 2) the changes in the cost components over a specified period.

Of the different approaches, existing guidance indicates the need to discuss the cause for changes in financial statement elements.³ However, providing a meaningful, entity-wide

³ SFFAC 3, par. 27 states,

Only those variations, balances and amounts, and stewardship matters of potential interest to readers who are not part of agency management should be discussed. Not all changes that are material to the GPFRR are sufficiently important to be included in MD&A. A line-byline analysis of the financial

discussion on the cause for element changes may be challenging because common data may not exist among diverse reporting entity programs. Each reporting entity program operates under specific laws and may be impacted by specific circumstances and conditions. For instance, a single component reporting entity may be responsible for administering an entitlement program and a public safety program. The cost of an entitlement program may be impacted by changes in the number of eligible recipients while a program intended to enhance public safety may be impacted by changes in the need for equipment or other capital assets.

Also, permitting flexibility would allow preparers to consider advances in technology which permit visualizations of data and links to additional detail.

Question 3: Does the Board agree that the guidance should permit management to consider different approaches for analyzing the financial statements, such as trend analysis, an analysis of the components of cost of operations, and causal analysis that primarily focuses on the rationale for changes?

4. Focus on the Stewardship Reporting Objective for the Government-Wide Reporting Entity

Staff suggests that the discussion and analysis for the government-wide reporting entity focus primarily on the stewardship reporting objective which states that financial reporting should provide information that helps the reader to determine whether

- the government's financial position improved or deteriorated over the period
- future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due
- government operations have contributed to the nation's current and future well-being⁴

The government-wide reporting entity can tax and borrow money to finance services when expenditures exceed receipts during a period. Users expect to determine whether the government can sustain public services and meet obligations when they come due. Also, users seek information about investments that provide long-term benefits for the nation.

While the stewardship objective requires information on financial position and financial condition, the financial statement discussion and analysis may include other financial aspects such as changes in costs.

Question 4: Does the Board agree that the discussion and analysis for the government-wide reporting entity should focus on the stewardship reporting objective?

statements is not generally appropriate. Instead, MD&A should summarize the most important items, explain the relevant causes and effects, and place them in context.

⁴ SFFAC 1, paragraph 16.

5. Investment Information

Staff suggests requiring trend information on stewardship investments. Reporting entities would present the annual investment made in the current period being reported and each of the preceding four years. The requirement would not be intended to impose an additional cost to preparers and would assist users in understanding that some of the costs of reporting entity operations provide long-term benefits to the nation.

Question 5: Does the Board agree with the suggestion to require trend information on stewardship investments.

6. Draft Exposure Draft

Staff developed draft MD&A guidance for the Board's consideration. Attachment I: Working Draft Statement provides a draft exposure draft to illustrate the guidance that could be proposed for a discussion and analysis of financial statements. The draft combines guidance from SFFAS 15, *Management's Discussion and Analysis*, and SFFAC 3, *Management's Discussion and Analysis* and staff primarily incorporated the language in SFFAC 3 into the Basis for Conclusions. SFFAC 3 explains the reasoning for MD&A requirements.

Question 6: Do Board members have comments regarding the draft exposure draft combining SFFAS 15 and SFFAC 3?

7. Consolidation of All Guidance Regarding MD&A

In addition to SFFAS 15 and SFFAC 3, preparers may look to other FASAB literature for MD&A guidance. For the CFR and component reporting entities that present a statement of social insurance, SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*, requires information about costs, assets and liabilities, social insurance commitments, budget flows, and the long-term fiscal projections together in one section in MD&A. Also, SFFAS 52, *Tax Expenditures*, requires a discussion on tax expenditures in the MD&A of the CFR. Consolidation of all MD&A guidance into a single standard would centralize the guidance and ease preparer access. Also, developing a single standard for MD&A may help facilitate an integrated presentation and improve users' access to information.

Question 7: Should all guidance regarding MD&A be consolidated into a single standard?

Questions for the Board

1. Does the Board agree that separate guidance should be developed for the CFR and component reporting entities?
2. Does the Board agree that the discussion and analysis for component reporting entities should focus on the operating performance reporting objective?
3. Does the Board agree that the guidance should permit management to consider different techniques for analyzing the financial statements, such as trend analysis, an analysis of the components of cost of operations, and causal analysis that primarily focuses on the rationale for changes?
4. Does the Board agree that the discussion and analysis for the CFR should focus on the stewardship reporting objective?
5. Does the Board agree with the suggestion to require trend information on stewardship investments?
6. Do Board members have comments regarding the draft exposure draft combining SFFAS 15 and SFFAC 3?
7. Should all guidance regarding MD&A be consolidated into a single standard?



Federal Accounting Standards Advisory Board

**MANAGEMENT'S DISCUSSION AND
ANALYSIS**
SUBTITLE

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by [date 90 days after issuance]

Month day, year

Working Draft – Comments Are Not Requested on This Draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

Deleted: ¶

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available at www.fasab.gov:

- [Memorandum of Understanding](#) among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- [Mission statement](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
- [FASAB newsletters](#)

Copyright Information

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from FASAB. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

Contact Us

Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mailstop 6H19
Washington, D.C. 20548
Telephone 202-512-7350
Fax 202-512-7366
www.fasab.gov



Federal Accounting Standards Advisory Board

ISSUE DATE

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled **TITLE**. Specific questions for your consideration appear on page 3, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose. Responses are requested by **DUE DATE**.

All comments received by FASAB are considered public information. Those comments may be posted to [FASAB's website](#) and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Please provide your comments by email to fasab@fasab.gov. If you are unable to email your responses, we encourage you to fax comments to 202-512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mailstop 6H19
Washington, D.C. 20548

We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received.

FASAB's rules of procedure provide that the Board may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. **or** A public hearing has been scheduled at 9:00 a.m. on Month Day, Year, in Room 7C13 at the Government Accountability Office, 441 G Street, NW, Washington, D.C. 20548.

FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

D. Scott Showalter
Chair

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

TBD

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

[Placeholder for a discussion about rescinding SFFAC 3 & SFFAS 15 to improve MD&A].

MATERIALITY

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

TABLE OF CONTENTS

Executive Summary	1
Questions for Respondents	3
Introduction	4
Proposed Standards	5
Appendix A: Basis for Conclusions	9
Appendix B: Illustrations.....	12
Appendix C: Abbreviations	13
Appendix D: Glossary.....	14

QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available in a Microsoft Word file for your use at <http://www.fasab.gov/documents-for-comment/>. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to 202-512-7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, D.C. 20548

All responses are requested by [insert date].

- Q1. A summary of the issue (one paragraph) should be presented followed by a question. If multiple questions follow one issue summary, use letters to distinguish them.
- Q2. New Question

INTRODUCTION

PURPOSE

1. **TBD** Brief history
 - a. TBD
 - b. TBD
 - i. TBD
 - ii. TBD
2. TBD

PROPOSED STANDARDS

SCOPE

3. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
- a. TBD
 - b. TBD
4. Management's discussion and analysis (MD&A) is a required section in each general purpose federal financial report (GPFFR) for (1) communicating managers' insights about the financial performance and results of the reporting entity, (2) increasing the understandability and usefulness of the GPFFR, and (3) providing information about the entity and its operations, successes, risks, and significant events, conditions, trends and contingencies that may affect future operations.

DEFINITIONS

5. TBD

STANDARDS

General

6. MD&A is required supplementary information and should accompany reporting entity basic financial statements and disclosures and other required supplementary information.

Comment [RS1]: Clarifies that MD&A is not intended to be a standalone presentation.

Organization and Structure

7. MD&A should assist users in understanding the entity's mission and structure. Management should
- a. discuss the organization and structure of the reporting entity, or
 - b. present a visual of the organization and structure of the reporting entity and inform users on how they can access more detailed information.
8. MD&A should assist users in understanding the goals and objectives of the reporting entity, including the relationships among the component reporting entity, other component reporting entities, and the government-wide reporting entity.

Financial Statements in General

9. MD&A should assist users in understanding the financial statements of the reporting entity and management should discuss the purpose of each financial statement and the information it presents.
10. Federal reporting entities have diverse missions and provide several different services, such as national defense, entitlement benefits, loans and loan guarantees, housing, and medical services to veterans. To assist users in understanding entity-wide financial activity during the period, MD&A should focus on:
 - a. information about past events, such as how much the cost of operations have changed over past periods
 - b. information about present events, such as the net position of the federal government at the end of the reporting period and the percentage change from the previous period
 - c. information about future events, such as projections of spending and revenue built into current policy and the changes in the deficit and debt held by the public
 - d. information to help confirm or revise past expectations such as a comparison of actual and budgeted amounts
 - e. alerting users to uncertainties inherent in the financial statements and transactions unique to the federal environment
 - f. improvements in operating efficiency
 - g. challenges to operating efficiency

COMPONENT REPORTING ENTITY

11. MD&A should assist users in evaluating the entity's operating performance and discuss an analysis of the entity's costs. The analysis may be based on several approaches including
 - a. trends, such as the percentage change in cost of operations over past periods
 - b. the ratio of cost of operations components to total cost of operations and the changes over past periods with links to more detailed information
 - c. the cause of changes in cost of operations during a period
12. The approach selected may depend on the nature of component reporting entity responsibility segments. For instance, if the reporting entity administers a single responsibility segment or responsibility segments with similar responsibilities, management may discuss the cause for changes in reporting entity costs. However, if the reporting entity administers several responsibility segments with diverse responsibilities and activities,

management may use a visual to illustrate each responsibility segment and their relative share of total operating costs over past periods.

13. MD&A should assist users in understanding the costs of operations that provide long-term benefits to the nation—non-federal capital, human capital, and research and development.
14. MD&A should provide a description of each investment category and present the annual investment made in the current period being reported and each of the preceding four years.

15. MD&A should discuss

- a. a summary of the reporting entity's non-financial performance plans and results, when and how detailed information will be available, and how a user can access the detailed information;
- b. a summary of key risks associated with prior period financial performance and results and initiatives management is taking to mitigate those risks and how those risks affect the agency as whole or specific responsibility segments;
- c. a summary of forward-looking information regarding the **possible future effects** of the most important **existing**, currently-known demands, risks, uncertainties, events, conditions, and trends.
- d. If possible, a summary of forward-looking information about the **possible future effects of anticipated** future demands, events, conditions, and trends.
- e. a summary about why and where estimates are used by
 - i. explaining inherent risk of measurement uncertainty for the agency as a whole or that is significant to specific responsibility segments.
 - ii. explaining significant changes resulting in prior period adjustments to the financial statements as a result of estimates and measurement uncertainty.
 - iii. providing references to specific notes with more details about estimates and measurement uncertainty.
- f. a discussion about the rationale for material changes in net position and net cost not related to estimates and measurement uncertainty.
- g. a summary about what management is doing to address compliance with laws, regulations, and the adequacy of internal controls;
- h. a summary of the reporting entity's relationship among other reporting entities, and the government-wide (GW) reporting entity, when the GW information would be available, and how a user can access information on the financial position of the government-wide reporting entity;

Comment [RG2]: Standards from SFFAS 15 – place holder for forward-looking standards

Comment [RG3]: Reporting principles presented in RA2-MU Memo Tab F

- i. for component reporting entities that present a statement of social insurance, provide information about costs, assets and liabilities, social insurance commitments, budget flows, and the long-term fiscal projections together in one section.

CONSOLIDATED FINANCIAL REPORT OF THE U.S. GOVERNMENT

16. MD&A should assist users in evaluating the stewardship of the government-wide reporting entity and discuss
- a. the financial position of the entity at the end of the reporting period
 - b. an analysis of the trend in financial position changes from prior years
17. MD&A should assist users in evaluating the financial condition of the government-wide reporting entity and discuss the trends in investments in productivity and economic growth—non-federal capital, human capital, and research and development.
18. For non-federal capital, human capital, and research and development, MD&A should present the annual investment made in the current period being reported and each of the preceding four years.
19. Also, to assist users in assessing the government's financial condition, MD&A should provide information about costs, assets and liabilities, social insurance commitments, budget flows, and the long-term fiscal projections together in one section.

EFFECTIVE DATE

20. The requirements of this Statement are effective for reporting periods beginning after September 30, 20##.

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

APPENDIX A: BASIS FOR CONCLUSIONS

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

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY [A7. – A12. MOVED FROM SFFAC 3 discussion and rationale and background sections]

- A1. In May 2017, the Federal Accounting Standards Advisory Board (FASAB or “the Board”) joined the Office of Management and Budget (OMB) and federal councils in revisiting financial reporting requirements and improving financial reporting. Board members reviewed financial reports and FASAB staff conducted roundtable discussions with the financial reporting community to determine potential areas for improvement. These efforts led to identifying the management’s discussion and analysis (MD&A) section of financial reports as an area in need of improvement in the near term.
- A2. The Board initiated the project to address concerns regarding the implementation of MD&A guidance. MD&A is based on conditions that exist at the reporting date and events that occurred in the preceding period. Statement of Federal Financial Accounting Standards (SFFAS) SFFAS 15, *Management’s Discussion and Analysis*, provides principles-based guidance for preparing MD&A and Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management’s Discussion and Analysis*, provides implementation guidance.¹
- A3. The guidance required management to present a section addressing the entity’s “performance goals, objectives, and results.” Typically, management includes non-financial performance information (NFPI) about the entity. However, since the issuance of SFFAS 15, reporting entities began reporting comprehensive NFPI in an Agency Performance Report issued after preparing the financial statements and MD&A. Reporting entities made the change to align NFPI with the preparation of reports needed for budget allocation decisions.
- A4. Because NFPI is currently aligned with budgetary reporting, reporting entities maintain a separate NFPI process to address MD&A requirements. Maintaining separate NFPI processes for budgetary and financial reporting imposes additional costs. Also, the actual

¹ The Board intended that SFFAC 3 would provide implementation guidance for the MD&A standards.

NFPI would not be complete when reporting entities prepare MD&A, raising concerns about the reliability of the information.

- A5. In addition, the Board noted that the model for MD&A resulted in a combined presentation of different topics. SFFAS 15 requires reporting entities to address distinct topics and reporting entities would need to rely on sources other than FASAB standards to prepare some of them.
- A6. Due to the evolution of NFPI reporting and systems, controls, and legal compliance since standards were developed, the resulting MD&A may not be integrated in a manner to help users understand the costs, accomplishments, and risks of the reporting entity's major programs.
- A7. A typical GPFFR is a highly summarized profile of a complex entity. It is based on conditions that exist at the reporting date and events that occurred in the preceding period. It shows what has happened, but it does not explain why it happened or what may reasonably be expected to happen in the future.
- A8. Financial reports have two key roles. One is a feedback role to provide information used for evaluating past decisions, expectations, and trends. Another is a predictive role to provide information used for formulating expectations and making decisions about the future. Both roles can be enhanced by insights and interpretations from an entity's management.
- A9. The managers of an entity have detailed knowledge of the transactions, events, and conditions reflected in the entity's financial report and of the policies that govern the entity's operations. The managers also have informed expectations regarding the future based on that knowledge. As a part of their stewardship responsibility, managers should explain the significance of key financial and nonfinancial information shown in the report, the strategies that led to the results reported, and the implications for future operations of events that have occurred or are likely to occur. The distinction between "financial" and "nonfinancial" information is arbitrary and often tenuous, but in this context "nonfinancial information" can include information on systems, controls, compliance with laws and regulations, and performance.
- A10. A Federal reporting entity's GPFFR should be understandable and useful to a wide audience, not just members of the entity's management and specialized analysts working for special interest groups, corporations, and other entities affected by the Government's actions. Therefore, the report should be accompanied by a concise narrative discussion and analysis. Even insiders and specialized analysts often need such a discussion and analysis to understand the report. Communication with a wide audience may require effective use of colors, graphs, photographs, and charts. Reporting understandable, accessible information on the Government's actions and the effects of its actions helps assure accountability and provides a more "level playing field" on which the public interest can best be served.
- A11. The Securities and Exchange Commission (SEC) has for many years recognized the importance of such a narrative discussion of the financial statements. To serve the

interests of investors and creditors, the SEC requires such a narrative discussion and analysis from management of companies under its purview. The SEC wants MD&A to help readers understand the entity's financial position and results of operations with the benefit of management's understanding and perspective. The SEC also wants MD&A to go beyond the basic financial statements, to include relevant forward-looking information. Research on MD&A for companies registered with the SEC shows that MD&A adds value to the financial statements. Forward-looking information, for example, can be an important contribution. 2

A12. 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.

Deleted: ¶

APPENDIX B: ILLUSTRATIONS

This appendix illustrates the application of the proposed provisions of this Statement to assist in clarifying their meaning. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the situations or methods illustrated. Additionally, these illustrations are not intended to provide guidance on determining the application of materiality. Application of the proposed provisions of this Statement may require assessing facts and circumstances other than those illustrated here and require reference to other applicable Statements.

APPENDIX C: ABBREVIATIONS

CFR	Consolidated Financial Report of the U.S. Government
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
GPFFR	General Purpose Federal Financial Report
IPSASB	International Public Sector Accounting Standards Board
OMB	Office of Management and Budget
SFAS	Statement of Financial Accounting Standards (FASB)
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

APPENDIX D: GLOSSARY

FASAB Members

D. Scott Showalter, Chair

R. Scott Bell

Gila J. Bronner

Robert F. Dacey

George A. Scott

Michael H. Granof

Patrick McNamee

Timothy F. Soltis

Graylin E. Smith

FASAB Staff

Wendy M. Payne, Executive Director

Ross Simms, Assistant Director

Robin Gilliam, Assistant Director

Federal Accounting Standards Advisory Board

441 G Street, NW

Suite 1155

Washington, D.C. 20548

Telephone 202-512-7350

Fax 202-512-7366

www.fasab.gov

FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

Deleted: FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

Modifications to Statement of Federal Financial Accounting Concepts 3: Management's Discussion and Analysis

Summary

MD&A is an important vehicle for (1) communicating managers' insights about the financial performance & results of the reporting entity, (2) increasing the understandability and usefulness of the GPFFR, and (3) providing information about the entity and its operations, successes, risks, and the future. Each general purpose federal financial report (GPFFR) should include a section devoted to management's discussion and analysis (MD&A). MD&A should provide a discussion about MD&A also should address significant events, conditions, trends and contingencies that may affect future operations.

Deleted: This document describes the concepts on which the Board relied in recommending standards for Management's Discussion and Analysis (MD&A) to be included in general purpose federal financial reports (GPFFR). ^[Summary] Concepts Statements are not authoritative in the sense that they do not establish standards or principles. Preparers may find them useful, but these concepts are not "prescribed guidelines" for required supplementary information as discussed in section 558 of the *Codification of Statements on Auditing Standards* published by the American Institute of Certified Public Accountants. No standards or prescribed guidelines for MD&A are presented in this statement of concepts.

Comment [RG1]: Service levels refers to: **Service level measures the performance of a system. Certain goals are defined and the service level gives the percentage to which those goals should be achieved.**

Deleted: accessible

Deleted: service levels,

Deleted: challenges

Deleted: Some federal agencies also refer to MD&A as the "overview."
The basic concept that underlies the standards for MD&A is:

Comment [RG2]: Add info here later

Deleted: . 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 ba... [1]

Deleted: A separate document titled *Standards for Management's Discussion and Analysis*... [2]

Comment [RG3]: Standards instead of concepts

Deleted: Statement Of Concepts
Basic Concept

Comment [RS4]: Delete Figure 1. The figure describes former reporting practices. ... [3]

Deleted: see figure 1 on 7

Deleted:)

Deleted: address

Deleted: program and

Deleted: measures,

Deleted: systems and controls,

Deleted: s

Deleted: problems

Standards

- Each general purpose federal financial report (GPFFR) should include a section devoted to management's discussion and analysis (MD&A). ¹ MD&A should provide a discussion about the reporting entity's financial performance and results, financial statements, compliance with laws and regulation and internal control, and actions taken or planned to address risks. 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.

Discussion and Rationale

FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

Deleted: FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

2. A typical GPFFR is a highly summarized profile of a complex entity. It is based on conditions that exist at the reporting date and events that occurred in the preceding period. It shows what has happened, but it does not explain why it happened or what may reasonably be expected to happen in the future.
3. Financial reports have two key roles. One is a feedback role to provide information used for evaluating past decisions, expectations, and trends. Another is a predictive role to provide information used for formulating expectations and making decisions about the future. Both roles can be enhanced by insights and interpretations from an entity's management.
4. The managers of an entity have detailed knowledge of the transactions, events, and conditions reflected in the entity's financial report and of the policies that govern the entity's operations. The managers also have informed expectations regarding the future based on that knowledge. As a part of their stewardship responsibility, managers should explain the significance of key financial and nonfinancial information shown in the report, the strategies that led to the results reported, and the implications for future operations of events that have occurred or are likely to occur. The distinction between "financial" and "nonfinancial" information is arbitrary and often tenuous, but in this context "nonfinancial information" can include information on systems, controls, compliance with laws and regulations, and performance.
5. A Federal reporting entity's GPFFR should be understandable and useful to a wide audience, not just members of the entity's management and specialized analysts working for special interest groups, corporations, and other entities affected by the Government's actions. Therefore, the report should be accompanied by a concise narrative discussion and analysis. Even insiders and specialized analysts often need such a discussion and analysis to understand the report. Communication with a wide audience may require effective use of colors, graphs, photographs, and charts. Reporting understandable, accessible information on the Government's actions and the effects of its actions helps assure accountability and provides a more "level playing field" on which the public interest can best be served.

Comment [RS5]: Move to basis for conclusions of new standard

Comment [RS6]: Move to basis for conclusions of new standard

Comment [RS7]: Move to basis for conclusions of new standard

Comment [RS8]: Move to basis for conclusions of new standard

Background

FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

Deleted: FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

6. The Securities and Exchange Commission (SEC) has for many years recognized the importance of such a narrative discussion of the financial statements. To serve the interests of investors and creditors, the SEC requires such a narrative discussion and analysis from management of companies under its purview. The SEC wants MD&A to help readers understand the entity's financial position and results of operations with the benefit of management's understanding and perspective. The SEC also wants MD&A to go beyond the basic financial statements, to include relevant forward-looking information. Research on MD&A for companies registered with the SEC shows that MD&A adds value to the financial statements. Forward-looking information, for example, can be an important contribution.²

Comment [RS9]: Could be moved to basis for conclusions of new standard or deleted

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.

Comment [RS10]: Move to basis for conclusions of new standard or deleted

Comment [RS11]: Delete the paragraph and Figure 1. The paragraph and figure describe practices that existed at the time of developing the Statement. The Board believes that Statements should provide guidance.

8.

Deleted: Page 7 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

Deleted: .¶

FY18 ALL STAFF-#667701-v3-18 06 SFFAC 3 TRACKED CHANGES.doc

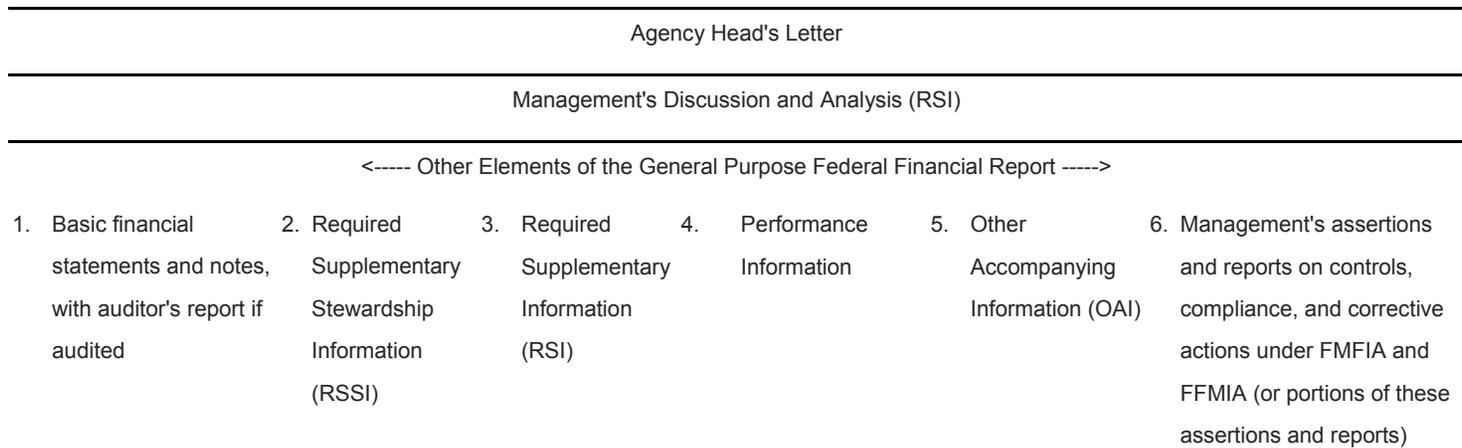
Deleted: FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

FY18 ALL STAFF-#667701-v3-18 06 SFFAC 3 TRACKED CHANGES.doc

Deleted: FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

FIGURE 1: Schematic Diagram of a Sample General Purpose Federal Financial Report

Comment [RS12]: Suggest deleting Figure 1. SFFAC 8 illustrates the Board's views on the reporting model.



The GPFFR is represented by MD&A plus columns 1-6 of the diagram. (The agency head's letter is part of the GPFFR by general practice, though it is not required by federal accounting principles.) This is not a literal depiction of the organization of a report. Information should be presented in a logical arrangement. MD&A will address major issues that are typically reported in more detail in the discrete sections of the GPFFR or in other publicly available reports that the GPFFR incorporates by reference. Incorporating another report by reference does not, by itself, mean that the separate report is subject to audit.

Unless law or managerial action requires more extensive audit review or examination of the material incorporated by reference, the FASAB expects that the auditor of the financial statements will treat the material incorporated by reference as other accompanying information, although it does not physically accompany the GPFFR. OMB has authority to provide specific guidance on the auditor's minimum responsibility regarding this material. OMB may, for example, direct auditors to treat the material incorporated by reference as if it were other accompanying information

FY18 ALL STAFF-#667701-v3-18 06 SFFAC 3 TRACKED CHANGES.doc

Deleted: FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

in an auditor-submitted document.

SFFAC 2 (paragraphs 106-111 and Appendix 1-F) calls for a "Statement of Performance Measures" as part of the GPFFR, but FASAB has not yet recommended standards for it. Other titles may be used for this section of the GPFFR. Performance indicators included in the GPFFR will either be those in the entity's annual performance report under the Government Performance and Results Act of 1993 (GPRA or the Results Act) or a subset of them.

Alternatively, that report may be incorporated by reference. Until further guidance is available, the agency should select the indicators to report in consultation with OMB.

The assertions and report on control called for by the Federal Managers Financial Integrity Act (FMFIA or Integrity Act) would not be stated in full in MD&A. They would be reported in a discrete section of the GPFFR or incorporated in the GPFFR by reference. They are within the scope of MD&A because highly important aspects of systems, compliance, and internal controls should be discussed in MD&A. "Highly important" in this context may imply a higher threshold than "materiality" for the financial statements.

If the report also includes financial statements for component entities (bureaus, responsibility segments, etc.), management should use its judgment in organizing the report. The component entities' financial statements may be discussed in separate sections of the report or as subsections of MD&A of the consolidated entity.

FY18 ALL STAFF-#667701-v3-18 06 SFFAC 3 TRACKED CHANGES.doc

Deleted: FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

9. MD&A should assist users in evaluating the operating performance of the reporting entity by providing a discussion to include,
- a. a summary of the reporting entity's mission and organization and how a user can access more detailed information;
 - b. a summary of the reporting entity's non-financial performance plans and results, when and how the information will be available, and, how a user can access the detailed information;
 - c. a summary of key risks associated with prior period financial performance and results and initiatives management is taking to mitigate those risks and how those risks affect the agency as whole or specific responsibility segments;
 - d. a summary about what management is doing to address compliance with laws, regulations, and the adequacy of internal controls;
 - e. a discussion about the rationale for material changes in net position and net cost not related to estimates and measurement uncertainty;
 - f. a summary of the purpose of each financial statement and the information presented ;
 - g. a summary of the reporting entity's relationship among other reporting entities, and the government-wide (GW) reporting entity, when the GW information would be available, and how a user can access information on the financial position of the government-wide reporting entity; and
 - h. Placeholder for investment discussion/decision

Deleted: address

Deleted: financial

Deleted: and results

Deleted: :

Deleted: <#>¶

Deleted:

Deleted: <#>¶

Deleted: ¶
 <#>the entity's structure, mission, goals, and objectives, with indicators 3 of its performance;¶
 ¶
 <#>actions taken or planned to improve performance, when appropriate;¶
 ¶
 <#>the financial statements;¶
 ¶
 <#>systems, internal controls* 4 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.¶

Deleted: To assist users in understanding the costs and accomplishments of the reporting entity, reporting entities should be segmented to associate the resources consumed by distinct lines of activity with outputs of that activity. For each responsibility segment presented in the Statement of Net Cost, MD&A should ¶
 ¶
 <#>provide a responsibility segment description including the goal(s) of the segment and accomplishments during the period¶
 <#>provide an analysis of the reasons for significant changes in gross cost and earned revenue¶
 <#>discuss the potential impact of key risks and mitigation strategies¶
 ¶

10.

Deleted: 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. The ... [4]

11.

12. To understand the information on performance, systems, controls, and legal compliance, it typically

Deleted: Regarding the entity's mission and performance, MD&A should inform the reader how well the reporting entity is doing. This means that it should tell the reader what ... [5]

FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

Deleted: FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

is necessary to understand something about the reporting entity's organizational structure, mission, and strategic plan. Accordingly, MD&A should concisely inform the reader about these topics.

13. ↓

Comment [RS13]: Move to the Basis for Conclusions of new Standard

14. •

Deleted: 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 state... [6]

15. Regarding systems and controls, MD&A should tell the reader whether internal accounting and administrative controls (some authorities prefer the term "management controls") are adequate to ensure that:

- transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards;
- assets are properly acquired and used, safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud; and
- performance measurement information is adequately supported.

16. Reporting information that helps people assess the condition of the entity's management systems and of the relevant internal controls is an important objective of Federal financial reporting. The relevant internal controls for this purpose are those that support reporting on financial and operating performance and reporting on compliance with applicable laws.⁷ The great diversity of people (often with competing interests) affected by governmental action, and the fact that governments function within and by means of a framework of laws, mean that more attention to these matters is necessary than in financial reports for profit-seeking entities.

Deleted: Regarding the financial statements, MD&A should answer questions such as the following, to the extent that they are relevant and important for the entity: ¶
<#>What is the entity's financial position? What is its financial condition?⁵ How did this come about?¶
¶
<#> What were the significant variations: ¶
<#> from prior years?¶ ... [7]

17. An entity's ability to prepare auditable financial statements and other reliable reports for management from the entity's books and records is a positive signal about the finance-related systems and controls of that entity. By themselves, however, the financial statements of a governmental entity do not provide adequate information about the status of the entity's management systems and internal controls that support reporting on financial and operating performance and reporting on compliance with applicable laws. For these reasons, the GPFFR of a Federal reporting entity should include information about systems, internal controls, and legal compliance, in addition to the basic financial statements. This information-like the information on

Formatted: Indent: Left: 0", Hanging: 0.25", Numbered + Level: 1 + Numbering Style: 1, 2, 3, ... + Start at: 0 + Alignment: Left + Aligned at: 0" + Indent at: 0"

Comment [RS14]: The text could be revised and presented in the Basis for Conclusions section of the new standard

FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

Deleted: FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

performance-is presented in a discrete section of the GPFFR; alternatively it may be incorporated in the GPFFR by reference to separate reports such as those required by the Integrity Act. MD&A should therefore address the most important facets of this information on systems, controls and legal compliance, as well as the financial statements, supplementary information, and performance information.

Comment [RS15]: The text could be revised and discussed in the Basis for Conclusions section of the new standard

Comment [RS16]: Could be presented in the Basis for Conclusions

Relationship to Other Reports

Deleted: The information in the GPFFR about systems, internal controls, and legal compliance (column 6 in figure 1) may include the assertions and a summary of the reports on controls, legal compliance, and corrective actions pursuant to the Integrity Act and the Federal Financial Management Improvement Act (FFMIA), or those reports may be incorporated by reference. This information should be presented in conformance with guidelines published by OMB. MD&A, in turn, should discuss the most important aspects of the information on these topics. Referring to separately-issued reports on systems and controls does not eliminate the need to discuss these topics in MD&A.⁸

- 18. ▼
- 19. ▼
- 20. ▼
- 21. ▼
- 22. ▼

Authoritative Status of Accounting Concepts

Deleted: The performance information (column 4 in figure 1) may include the indicators in an entity's performance report pursuant to the Results Act or a selection of the most important performance indicators. Alternatively, a separate performance report may be incorporated by reference. This information should be presented in conformance with guidelines published by OMB. MD&A, in turn, will discuss the most important aspects of the performance information. Reference to a separately-issued performance report do... [8]

- 23. ▼

Deleted: he performance reports required by the Results Act may be voluminous for some agencies. In such cases, it may not be desirable to include all this information in the GPFFR. It is necessary to include at least some inform... [9]

Topics For MD&A

Deleted: In the same way, the GPFFR by itself may not provide a comprehensive report on systems, controls and legal compliance. There may be voluminous reports from management and auditors on these topics. It is neces... [10]

▼

Deleted: Combining information on these topics adds value by putting the information about performance, internal controls, and systems in the context of audited financial statements. For example, the quality of ... [11]

Discussion and Analysis of the Financial Statements

Comment [RS17]: Remove this language when converting the Statement to a standard

Deleted: This Statement of Federal Financial Accounting Concepts describes ideas and goals to guide the Board in its work. Concepts are not authoritative in the sense that they do not constitute accounting standards or princ... [12]

Deleted: 24. ... [13]

FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

Deleted: FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

26. Financial Results, Position and Condition⁹ -MD&A should help those who read it to understand the entity's financial results and financial position and the entity's effect on the financial position and condition of the Government.¹⁰ It should give readers the benefit of management's understanding of the significance and potential effect from both a short- and a long-term perspective of:
- the variations discussed in paragraph 14 in terms of major changes in types or amounts of assets, liabilities, costs, revenues, obligations and outlays;
 - particular balances and amounts shown in the basic financial statements, including the notes, such as those dealing with funds from dedicated collections, if relevant to important financial management issues and concerns; and
 - the entity's required supplementary stewardship information (because RSSI describes economic conditions that cannot be expressed in the basic financial statements).
 -
27. Only those variations, balances and amounts, and stewardship matters of potential interest to readers who are not part of agency management should be discussed. Not all changes that are material to the GPFFR are sufficiently important to be included in MD&A. A line-by-line analysis of the financial statements is not generally appropriate. Instead, MD&A should summarize the most important items, explain the relevant causes and effects, and place them in context.
28. Budgetary Integrity -MD&A should concisely explain how budgetary resources have been obtained and used, instances in which their acquisition and use were not in accordance with legal authorization, the status of budgetary resources, and how information on the use of budgetary resources relates to information on the cost of program operations. MD&A should explain when major support for cost of a program or activity is provided outside the reporting entity's budget and when the entity's budget supports a program primarily reported by another entity. The discussion should describe major financing arrangements, guarantees, and lines of credit, including those not recognized in the basic financial statements.
29. MD&A should explain major changes during the period to the budget originally approved, major failures to comply with finance-related laws, and other matters management believes necessary. These could include:
- unfunded liabilities that may require appropriations;

Comment [RG18]: Update par #

FY18 ALL STAFF-#667701-v3-18 06 SFFAC 3 TRACKED CHANGES.doc

Deleted: FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

- assets that could be sold to augment future budgetary resources;
- amounts of payments that have not been matched with obligations;
- anticipated increases in the cost to complete long-term projects in progress that may require additional obligations or appropriations.
-

30. Use of Estimates -MD&A should explain the use of estimates where that is important to understand issues discussed in MD&A, such as major risks and uncertainties or the key forward-looking information. For example, the future expenses and the long term obligations¹¹ associated with major social insurance programs such as Social Security and Medicare should be discussed in MD&A of the financial report of the relevant reporting entities. These estimates are inherently imprecise and sensitive to several assumptions. Such factors would, therefore, be worthy of discussion in MD&A.

Deleted: concisely

Deleted: the

Deleted: mentioned in [paragraph 31](#)

Deleted: discussed in [paragraph 32](#)

31. Current Demands, Risks, Uncertainties, Events, Conditions, and Trends-MD&A should describe important existing, currently-known demands, risks, uncertainties, events, conditions and trends-- both favorable and unfavorable--that affect the amounts reported in the financial statements and supplementary information.

32. Future Effects of Current Demands, Risks, Uncertainties, Events, Conditions and Trends- The discussion of these current factors should go beyond a mere description of existing conditions, such as demographic characteristics, claims, deferred maintenance, commitments¹² undertaken, and major unfunded liabilities, to include a discussion of the possible future effect of those factors. (This discussion of possible future effect of existing, currently-known factors is required pursuant to the standards in *Standards for Management's Discussion and Analysis*.)

Deleted: The information called for by this paragraph and [paragraph 32](#) is closely related. Preparers should combine the presentation of this information in whatever fashion is appropriate under the circumstances that apply to the reporting entity.

33. Future Effects of Anticipated Future Events, Conditions, and Trends-To the extent feasible and appropriate, the discussion should also encompass the possible future effects of anticipated future events, conditions, and trends, although this additional information is not required by the standards for MD&A.¹³ For example, MD&A might discuss the possible future effect of anticipated trends in the cost of inputs that may significantly affect future output costs. Other examples include the future effect of anticipated demographic trends, such as declining mortality rates, and the future effects of potential changes in behavior that may be caused by changes in Government programs. Such

FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

Deleted: FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

behavioral changes can greatly affect the future cost of some Governmental programs. For example, such effects can arise if subsidized insurance encourages the people or entities most at risk to participate in insurance programs ("adverse selection") or encourages risky behavior ("moral hazard").

34. An anticipated condition such as a prospective demographic trend or potential behavioral change may not, in itself, constitute a contingency or assumed risk that must be recognized, disclosed, or reported pursuant to [SFFAS 5](#). Likewise, it may not be something that must be discussed in MD&A pursuant to the *Standards for Management's Discussion and Analysis*. Even so, if there is a reasonable prospect of a major effect on the reporting entity due to the anticipated condition, then MD&A should include this information to the extent feasible.
35. Where appropriate, the description of possible future effects of both existing and anticipated factors should include quantitative forecasts* or projections*. Such forecasts or projections can show the implications of existing policies and conditions in light of anticipated or reasonably possible future conditions. For example, for MD&A of the Government-wide financial statements, long-term projections of the deficit or surplus may be important indicators of financial condition and sustainability. For insurance programs, this kind of projection-which actuaries sometimes call "dynamic analysis"-would consider possible interactions among current assets, reserves, policies in force, expected future business or populations covered by the insurance, and potential behavioral changes such as adverse selection and moral hazard, if appropriate. Some programs are inter-related among themselves and/or with conditions in the private sector. For example, flood insurance programs and disaster assistance programs may be related to such an extent that analysis of programs individually would not provide a good idea of their potential impact on the Government. To the extent feasible, projections should consider the potential implications of such relationships.
36. The future implications of current or anticipated factors often can better be expressed as a range of possible outcomes and associated probabilities than as a single point estimate. Sometimes the implications may best be discussed in nonfinancial as well as financial terms. Forward-looking information can be highly useful, but management should avoid turning this part of MD&A into mere "lobbying" for more budgetary authority.
37. Understanding Financial Reporting-MD&A should make federal financial statements understandable to a wide audience, not just to users who are specialized analysts or members of the entity's management. There may be many potential sources of misunderstanding. Management should try

FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

Deleted: FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

to identify those sources of misunderstanding that may be important and deal with them in MD&A. Some of these are general and pervasive, such as those that may arise in the minds of new users of federal financial statements. New users may have been budget-oriented rather than accrual-accounting oriented, or may be accustomed to seeing financial statements prepared on the basis of private sector accounting standards. A general discussion and reference to the Statement of Financing and the basis of accounting footnote may be sufficient for such users, although more specific treatment may be appropriate where the resulting differences in the reported amounts may be important to the understanding of users.

38. Emphasis that may be given in the financial statements to the costs of suborganizations and programs may require cautionary discussion of the relevance and utility of cost information. When MD&A itself discusses the cost of program outcomes, the problems of associating costs with outcomes may need to be discussed. In addition, the possible imprecision of cost information should be mentioned when it could be relevant to users' understanding. Similarly, any account-level discussion in MD&A of variations, balances, and amounts in the basic and stewardship information made in response to paragraphs 26 and 27 may require mention of the imprecision of amounts cited.

39. ▼

Discussion and Analysis of Systems, Controls and Legal Compliance

40. ▼

41. ▼

42. Financial Performance. The objectives and needs of the Federal Government are markedly different from the objectives and needs of non-governmental organizations. This difference extends to the needs of those who use financial statements of governmental organizations. Their needs are different in many ways from the needs of investors, which the SEC's requirements address.

43. ▼

Comment [RG19]: Update par numbers

Deleted: Exceptions and disclaimers in the auditor's report should be mentioned in MD&A, and management should respect the auditor's professional judgment if management expresses disagreement with auditor's findings. (This does not mean that management must refrain from stating views that differ from the auditor's; e.g., different views as to whether a weakness in control is material.) There may be other sources of misunderstanding. Management should be sensitive to them and guide the user to a better understanding when the problem could significantly affect the conclusions and judgments of substantial numbers of users.

Comment [RS20]: TBD after focusing on the discussion and analysis of financial statements

Deleted: The schematic diagram of a sample GPFRR on page 7 includes a discrete section that reports on the status of the entity's management systems and internal controls that support (1) preparation of financial statements and performance information in accordance with Federal Accounting Standards and management's criteria, respectively, and (2) the entity's compliance with applicable laws.¹⁴ That section also describes material problems revealed by audits or otherwise known to management, and the corrective actions taken or planned regarding material problems.

Deleted: Where relevant, management should discuss the results of audits of non-Federal entities such as those pursuant to the Single Audit Act as amended and OMB Circular A-133. MD&A should also discuss actions taken, in progress, or planned to address systemic problems in program design that contributed to the audit findings. Where relevant, management should describe the methods used to limit, detect, and recover improper payments; (... [14])

Comment [RS21]: Basis for Conclusions of new standard

Deleted: Discussion and Analysis of Performance]

Deleted: Measurement

Deleted: In particular, reporting on the performance of governmental programs, organizations, and activities requires information that goes beyond the change in net assets and, indeed, beyond financial (... [15])

Deleted: The actual outcomes, accomplishments, or degree to which predetermined objectives are met provide indicators or measures of some aspects of effectiveness.¹⁵ MD&A should objective (... [16])

FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

Deleted: FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

44. The entity's financial performance should be summarized to provide significant indicators of its financial operations for the reporting period. Indicators of financial performance are presented in notes and supplementary information as well as on the face of the principal financial statements, e.g., information about management of loans and accounts receivable.

Deleted: Financial performance is only one aspect of performance for governmental entities. Financial performance should be discussed to the extent relevant for the entity, in a way that appropriately balances the discussion of financial and nonfinancial performance relevant to the program or other reporting entity.

45. •

46. The discussion of financial performance should:

- include both positive and negative results;
- present historical and future trends, if relevant (see [paragraphs 31-36](#) regarding projections of the financial effects of known and anticipated demands, commitments, events, risks, uncertainties or trends for which a material financial effect is reasonably possible);
- be illustrated with charts and graphs, whenever helpful, for easy identification of trends;
- explain the significance of the trends;
- provide comparison of actual costs to budget;
- provide other explanatory information that management believes readers will need to understand the significance of the indicators, the results, and any variations from goals or plans.

Deleted: The discussion of performance should relate to major goals and objectives from the agency's strategic plan and to the indicators reported pursuant to the Results Act. It should explain what key performance indicators say about program performance. The summary discussion of performance in MD&A should: ¶ <#>discuss the strategies and resources the agency uses to achieve its performance goals;¶ ¶ <#>provide a clear picture of actual and planned performance across the agency; and¶ ¶ <#>explain the procedures that management has designed and followed to provide reasonable assurance that the reported performance information is relevant and reliable.¶

Deleted: results to goals or benchmarks

Deleted: ¶ <#>explain variations from goals and plans; and¶

Deleted: To further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what they plan to do to improve program performance.

Deleted: Understanding Performance Reporting-Important limitations and difficulties associated with performance measurement and reporting should be noted to the extent relevant to the vital performance indicators discussed in MD&A. The relevant limitations will vary from program to program, but some common factors that may need to be discussed include the following: ¶ <#>performance usually cannot be fully described by a single indicator;¶ ¶ <#>indicators of performance do not, by themselves, say why performance is at the level reported; and¶ ... [17]

47. ▼

48. ▼

49. ▼

This Statement of Recommended Concepts was adopted unanimously by the eight members of the Federal Accounting Standards Advisory Board serving on the Board in April 1999.

Appendix A: Basis For Conclusions

Deleted: For these and other reasons, performance indicators generally need to be accompanied by suitable explanatory information. Explanatory information helps report users understand reported indicators, assess the reporting entity's performance. ... [18]

Deleted: Background and Project History¶ ¶ 50. ... [19]

FY18 ALL STAFF-#667701-v3-18 06 SFFAC 3 TRACKED CHANGES.doc

Deleted: FY18_ALL_STAFF-#667701-v3-18_06_SFFAC_3_TRACKED_CHANGES.doc

Page 1: [1] Deleted	Ross E Simms	5/23/2018 11:16:00 AM
----------------------------	---------------------	------------------------------

. 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.

Page 1: [2] Deleted	Ross E Simms	5/23/2018 11:16:00 AM
----------------------------	---------------------	------------------------------

A separate document titled *Standards for Management's Discussion and Analysis* presents the standards for MD&A. The standards for MD&A say that MD&A should address:

the entity's mission and organizational structure;

the entity's performance goals and results;

the entity's financial statements;

the entity's systems, controls, and legal compliance; and

the possible future effects on the entity of existing, currently-known demands, risks, uncertainties, events, conditions and trends.

The discussion and analysis of these subjects may be based on information in other discrete sections of the GPFFR or it may be based on reports separate from the GPFFR. The standards require MD&A to be included in each GPFFR as required supplementary information (RSI).

Page 1: [3] Comment [RS4]	Ross E Simms	7/10/2018 2:59:00 PM
----------------------------------	---------------------	-----------------------------

Delete Figure 1. The figure describes former reporting practices.

RG -ok

Page 7: [4] Deleted	Ross E Simms	5/23/2018 1:16:00 PM
----------------------------	---------------------	-----------------------------

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. The following paragraphs explain the implications of this

Page 7: [5] Deleted	Ross E Simms	5/23/2018 1:17:00 PM
----------------------------	---------------------	-----------------------------

Regarding the entity's mission and performance, MD&A should inform the reader how well the reporting entity is doing. This means that it should tell the reader what the reporting entity and its programs have accomplished, and how well the entity is managing its programs. To do this, MD&A should answer such questions as:

What do we need to know to gauge operating success?

How do we measure what we accomplished?

What do the measurements show?

Page 8: [6] Deleted

Ross E Simms

5/23/2018 1:20:00 PM

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.

Page 8: [7] Deleted

Ross E Simms

5/23/2018 1:23:00 PM

Regarding the financial statements, MD&A should answer questions such as the following, to the extent that they are relevant and important for the entity:

What is the entity's financial position? What is its financial condition?⁵ How did this come about?

What were the significant variations:

- from prior years?

- from the budget?⁶

- from performance plans, long-term plans, or other relevant plans in addition to the budget?

What is the potential effect of these factors, of changed circumstances, and of expected future

trends? In other words, to the extent that it is feasible to project the effects of these factors, will future financial position, condition, and results, as reflected in future financial statements, probably be different from this year's and, if yes, why? (Any such discussion should acknowledge that the future is unpredictable and will be influenced by factors outside the reporting entity's control, including actions by Congress.)

Page 9: [8] Deleted **Ross E Simms** **5/23/2018 1:32:00 PM**

The performance information (column 4 in figure 1) may include the indicators in an entity's performance report pursuant to the Results Act or a selection of the most important performance indicators.

Alternatively, a separate performance report may be incorporated by reference. This information should be presented in conformance with guidelines published by OMB. MD&A, in turn, will discuss the most important aspects of the performance information. Reference to a separately-issued performance report does not eliminate the need to discuss performance in MD&A.

Page 9: [9] Deleted **Ross E Simms** **5/23/2018 1:33:00 PM**

he performance reports required by the Results Act may be voluminous for some agencies. In such cases, it may not be desirable to include all this information in the GPFFR. It is necessary to include at least some information about performance with the financial statements, however, so that people who use the GPFFR can understand why the costs reported in the financial statements were incurred and the consequences of doing so.

Page 9: [10] Deleted **Ross E Simms** **5/23/2018 1:33:00 PM**

In the same way, the GPFFR by itself may not provide a comprehensive report on systems, controls and legal compliance. There may be voluminous reports from management and auditors on these topics. It is necessary to include at least some information about these topics, however, so that users of the GPFFR can understand whether the resources on which it reports were properly safeguarded and used for the purposes intended, whether reliable reports can be prepared, and whether the other objectives of internal controls are being met. This information is important both to provide a basis for understanding the financial statements themselves and to address the objectives of federal financial reporting.

Page 9: [11] Deleted **Ross E Simms** **5/23/2018 1:33:00 PM**

Combining information on these topics adds value by putting the information about performance, internal controls, and systems in the context of audited financial statements. For example, the quality of information on the cost of outputs and outcomes of programs is enhanced by linking these indicators to the audited Statement of Net Cost. This is true even though the Statement of Net Cost may be too highly aggregated to identify separately all the programs reported on for the Results Act. Similarly, the auditor's tests of transactions and controls in connection with the audit of the financial statements provide information about the condition of the systems and controls used to safeguard resources and to assure

that they are used for the intended purposes, in conformance with law. ([Paragraphs 15](#) and [40-49](#) say more about the discussion and analysis of systems, controls, and performance.)

Page 9: [12] Deleted	Ross E Simms	5/23/2018 1:34:00 PM
-----------------------------	---------------------	-----------------------------

This Statement of Federal Financial Accounting Concepts describes ideas and goals to guide the Board in its work. Concepts are not authoritative in the sense that they do not constitute accounting standards or principles for federal reporting entities. In particular, they are not "prescribed guidelines" for required supplementary information as discussed in [section 558 of the Codification of Statements on Auditing Standards published by the American Institute of Certified Public Accountants](#) .

Page 9: [13] Deleted	Ross E Simms	5/23/2018 2:25:00 PM
-----------------------------	---------------------	-----------------------------

24. This section provides specific suggestions for the content of MD&A. Like the other sections of this document, this material does not constitute accounting standards or principles for federal reporting entities. Except to the extent that OMB may issue supplementary mandatory guidance regarding the content of MD&A, the following items should be read as suggestions to be considered, not as prescriptive rules that must be followed.

Mission and Organizational Structure

25. MD&A should contain a brief description of the mission(s) of the entity and describe its related organizational structure.

Page 13: [14] Deleted	Ross E Simms	5/23/2018 4:11:00 PM
------------------------------	---------------------	-----------------------------

Where relevant, management should discuss the results of audits of non-Federal entities such as those pursuant to the Single Audit Act as amended and OMB Circular A-133. MD&A should also discuss actions taken, in progress, or planned to address systemic problems in program design that contributed to the audit findings. Where relevant, management should describe the methods used to limit, detect, and recover improper payments; to assure that grantees and other nonfederal recipients of Federal funds use the funds as intended; and to assure that Federal and nonfederal entities comply with finance-related laws and regulations. MD&A should include a concise description of any major problems in these areas and of the corrective action taken or planned.

Page 13: [15] Deleted	Robin Gilliam	7/10/2018 10:57:00 AM
------------------------------	----------------------	------------------------------

In particular, reporting on the performance of governmental programs, organizations, and activities requires information that goes beyond the change in net assets and, indeed, beyond financial information.

Page 13: [16] Deleted	Robin Gilliam	7/10/2018 10:58:00 AM
------------------------------	----------------------	------------------------------

The actual outcomes, accomplishments, or degree to which predetermined objectives are met provide indicators or measures of some aspects of effectiveness.¹⁵ MD&A should objectively discuss the entity's program results and indicate the extent to which its programs are achieving their intended objectives.¹⁶ Efficiency and effectiveness are important elements of performance measurement, and measuring cost is an integral part of assessing the efficiency and effectiveness of programs. Relating outputs (the quantity of services provided) to inputs (the cost incurred to provide the services) provides an indicator or measure of one aspect of efficiency. Information about effectiveness is often combined with cost information to help assess "cost effectiveness."

Page 14: [17] Deleted	Robin Gilliam	7/10/2018 11:02:00 AM
------------------------------	----------------------	------------------------------

Understanding Performance Reporting-Important limitations and difficulties associated with performance measurement and reporting should be noted to the extent relevant to the vital performance indicators discussed in MD&A. The relevant limitations will vary from program to program, but some common factors that may need to be discussed include the following:

performance usually cannot be fully described by a single indicator;

indicators of performance do not, by themselves, say why performance is at the level reported; and

focusing exclusively on quantifiable indicators can sometimes have unintended consequences.

Page 14: [18] Deleted	Robin Gilliam	7/10/2018 11:02:00 AM
------------------------------	----------------------	------------------------------

For these and other reasons, performance indicators generally need to be accompanied by suitable explanatory information. Explanatory information helps report users understand reported indicators, assess the reporting entity's performance, and evaluate the significance of underlying factors that may have affected the reported performance. Explanatory information may include, for example, information about factors substantially outside the entity's control, as well as information about factors over which the entity has significant control.

Page 14: [19] Deleted	Robin Gilliam	7/10/2018 11:03:00 AM
------------------------------	----------------------	------------------------------

Background and Project History

50. The Board identified MD&A as a topic for its agenda shortly after the Board's inception. The Board deferred work on this topic, however, until it completed recommendations for an initial set of basic

accounting standards. FASAB published an initial exposure draft on MD&A in January, 1997. The Board received comment letters on the initial exposure draft from the following sources:

	Federal (internal)	Nonfederal (external)	Total
Users, Academics and Others ¹⁷		4	4
Auditors	7	3	10
Preparers and Financial Managers	16		16
Total	23	7	30

¹⁷ This category include representational organizations, retired federal employees, federal employees responding as individuals, and federal contractors, as well as academics and other GPFFR users.

51. The basic rationale for MD&A has not changed since the initial exposure draft. As a result of its deliberations after receiving comments on the 1997 exposure draft, however, the Board made certain changes. The more significant changes are discussed below.

Concepts and Standards

52. The initial exposure draft was presented as a statement of recommended concepts. The Board proposed that it would deal with MD&A conceptually, with the understanding that OMB would provide authoritative guidance on MD&A to implement the concepts. This approach would have been similar to the one used to deal with the topics of entity and display. The Board dealt with those topics conceptually in [SFFAC 2](#). OMB then provided authoritative guidance in its Bulletin on Form and Content. The 1997 exposure draft asked respondents whether all or part of its provisions should be issued as recommended standards rather than recommended concepts. Responses were

mixed; most of those who commented on this question favored concepts, but a significant number expressed the view that standards would be appropriate.

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.

Responses to Second Exposure Draft

54. The Board received comment letters on the second exposure draft from the following sources:

	Federal (internal)	Nonfederal (external)	Total
Citizens, Users, Academics and Others		3	3
Auditors ¹⁸	3	3	6
Preparers and Financial Managers	11		11
Total	14	6	20

¹⁸ Includes the AICPA's Federal Accounting and Auditing Subcommittee and the Comptroller General's Advisory Council on Government Audit Standards.

55. Most comments were generally favorable, but comments were mixed regarding some points. A few auditors and preparers expressed some concern about requiring forward-looking information as RSI. Others expressed support for doing so. After considering these responses, the Board agreed to defer the recommended implementation date of the standard by one year and to make minor editorial changes to the standards and concepts that were exposed for comment.

Incorporation of Guidance in OMB Bulletin 97-01

56. This document, like both exposure drafts, integrates some of the guidance in OMB Bulletin 97-01 for preparing the "Overview" of the financial report with some of the guidance proposed in FASAB's initial exposure draft for MD&A. Some portions of the guidance regarding performance measurement in 97-01's discussion of the "Overview" have been omitted. As an interim step prior to implementation of the Results Act, OMB and many agencies used the Overview as a major vehicle for reporting on performance, not just as a summary and analysis. With the full implementation of the Results Act in FY 1999, however, it will be appropriate to implement the financial reporting model contemplated in [SFFAC 2](#) . This contemplates a discrete section of the GPFFR focused on performance. Alternatively, performance information may be incorporated in the GPFFR by reference to another report or reports.

Management's Assertions

57. Senior management of the reporting unit is responsible for the content of the GPFFR, including MD&A. Consistent with that, the initial exposure draft included the following paragraph:
MD&A should include a discrete section with management's explicit assertions that it is

responsible for maintaining internal accounting and administrative controls that are adequate to ensure that

transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards;

assets are properly safeguarded to deter fraud, waste, and abuse; and

performance measurement information is adequately supported. [footnote omitted]

58. This paragraph, which was based on the language of objective four in [SFFAC 1](#) , was modified after the first exposure. The Board concluded that such assertions should be presented in a separate section of the GPFFR, not in MD&A. Alternatively, management's assertions about internal control and related information about systems, controls, and compliance may be incorporated in the GPFFR by reference to another report or reports. (As noted previously, pilot agencies are including these assertions in their accountability reports.) FASAB expects to consider whether a new statement of standards is needed to assure that Federal financial reports adequately address objective four of Federal financial reporting, "Systems and Controls." As noted in [paragraph 41](#) , MD&A should include a description of any major deficiencies in the management systems and internal controls designed to provide reasonable assurance that management responsibilities are satisfactorily carried out. It also should describe the corrective action planned.

Accountability Reports

59. The Board notes that the concept and practice of the "Accountability Report" continue to evolve through the pilot project voluntarily undertaken by several agencies. The Board supports this evolution and encourages agencies to participate in the pilot project. The concepts and standards FASAB recommends are intended to be applicable to the GPFFR of Federal entities, whether those reports are prepared pursuant to the Chief Financial Officers Act, the Government Management Reform Act, or some future law that might establish a statutory basis for Accountability Reports. In

the event of such future legislation, OMB will need to resolve any questions about how to apply existing Federal accounting standards in the context of new legislative requirements.

Incorporation by Reference

60. Some respondents were disturbed by the notion of providing program performance information through reference. Some were concerned that, if readers are merely directed to other reports for this information, the GPFFR will become irrelevant. They believe that the GPFFR should contain information about program performance, systems, and controls, not only in MD&A but also in discrete sections, such as the Statement of Program Performance discussed and illustrated in [SFFAC 2, paragraphs 106-111](#) and [Appendix 1-F](#).
61. The Board agrees that, as is stated in [paragraph 20](#), "it is necessary to include at least some information about performance with the financial statements . . . so that people who use the GPFFR can understand why the costs reported in the financial statements were incurred and the consequences of doing so."
62. The Board acknowledges that [SFFAC 2](#) calls for and illustrates a Statement of Program Performance Measures. (Footnote 13 in [SFFAC 2](#) explains that this statement is not "basic" information as that term is used in audit standards: "The Statement of program performance measures is not a basic financial statement. Nevertheless, it is an important component of the financial reports.") The Board continues to believe that performance information is a vital, integral part of general purpose financial reporting. It should be noted, however, that [SFFAC 1](#) and [SFFAC 2](#) were issued before the performance planning and reporting requirements of GPRA became effective. The Results Act creates an elaborate new planning and reporting environment that is still evolving. Some details of the reporting model that were envisioned conceptually in [SFFAC 2](#) may accordingly need to be revised slightly.
63. This statement of concepts is intended to be consistent with the previously stated goals and concepts of the Board, while recognizing that some details of how best to achieve those goals in the new context still need to be defined. OMB will play a key role in this process; FASAB may also provide further guidance in future projects. FASAB agrees that the GPFFR should not address performance, systems, and controls only by means of reference to other reports. The standards for MD&A require that MD&A do more than refer to other documents.
64. Others expressed concern that, if MD&A is to be regarded as RSI, audit problems might arise from

"incorporation by reference" in MD&A of information drawn from other sources that might not be subject to audit or review as basic or required supplementary information, and for which authoritative guidance had not been provided by a standard setter. The Board noted that most of those who commented, including most auditors, did not appear to be greatly concerned about this potential problem. The Board concluded, therefore, that any such problems were not likely to be insurmountable. The Board did, however, agree to defer by one year the implementation date of the standard to allow OMB and GAO time to resolve any audit issues that may arise.

Appendix B: Glossary

See Consolidated Glossary in "[Appendix E: Consolidated Glossary](#)."

Footnotes

¹[\[Summary\]](#) The term general purpose 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 pursuant to federal accounting principles.

¹ 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. entities may refer to these reports using different terms, such as "Annual Report," "Accountability Report," "Financial Management report," etc. [Paragraphs 54-112](#) and [Appendix 1 of Statement of Federal Financial Accounting Concepts 2](#), *Entity and Display*, describe and illustrate the contents of the GPFFR. For more information on the "Accountability Report" see [paragraph 59](#) and the glossary. (Other words defined in the glossary are marked with an asterisk.) See also *Toward a Report to Citizens on the State of their Nation and the Performance of Their Government: proceedings of the AGA Task Force on a Report to Citizens on the State of the Nation*, Association of Government Accountants, 1994.

² Research on MD&A in private sector financial reporting suggests that forward-looking information in

MD&A, in particular, is a significant source of added value for financial analysts. See Stephen H. Bryan, "Incremental Information Content of Required Disclosures Contained in Management Discussion and Analysis," *The Accounting Review* Vol. 72 No. 2, (April 1997), pp. 285-301.

³ This document uses the terms "performance measure" and "performance indicator" synonymously. Some people use the term "performance indicator" instead of "performance measure" because the performance of government programs typically involves several factors or dimensions, and many of these dimensions of performance cannot be measured precisely.

⁴ Words marked with * are defined in the glossary.

⁵ The traditional concepts of "financial position" and "financial condition" are typically applicable to revolving funds, Government corporations, and other reporting entities that are intended to be self-financing. The concepts may be less relevant, or may require some qualification or modification, for other kinds of Federal reporting entities.

⁶ Management should use its judgment to decide what variances are relevant for MD&A. It will not always be essential or appropriate to discuss all variances.

⁷ Internal controls are also relevant to other objectives. For example, controls help management assure efficient and effective use of resources for the purpose intended. They also support preparation of performance reports pursuant to GPRA. See, for example, [paragraph 40](#) .

⁸ Note that the purpose of the pilot Accountability Reports is to eliminate the need for numerous separate reports and to include the information required by those reports in a single report. For example, the Integrity Act requires an assertion on controls by the agency head. Pilot agencies are including this assertion in the Accountability Report.

⁹ For many readers program performance information is more important than the financial statements. The order in which topics are discussed in this document does not imply that performance information is of secondary importance. See [paragraphs 43](#) and following.

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

¹¹ The term "obligations" is used here in the customary sense, not as it is used in budgetary accounting.

¹² The term "commitments" is used here in the customary sense, not as it is used in budgetary accounting.

¹³ Some projections that could involve consideration of anticipated factors would be presented as required supplementary stewardship information pursuant to the standards exposed for comment in FASAB's exposure draft Accounting for Social Insurance, February, 1998.

¹⁴ These responsibilities are defined in numerous laws and administrative requirements, including the Federal Financial Management Improvement Act, OMB Circulars A-123 and A-127, and OMB Bulletin 98-08. A law of special importance in this connections is the Federal Managers' Financial Integrity Act of 1982 (FMFIA or the Integrity Act). The Integrity Act requires, in part, that "internal accounting and administrative controls of each executive agency shall be established.. and shall provide reasonable assurance that --

- (i) obligations and costs are in compliance with applicable law;
- (ii) funds, property, and other assets are

(iii)

safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

¹⁵ [SFFAC 1, paragraph 206](#) notes that, to the extent feasible and practical, effectiveness evaluation should focus on program results or effects in the sense of "impacts*," i.e., the difference between what actually occurred and what would have occurred in the absence of the program. Assessing impacts of Governmental action in this sense typically requires program evaluations or other techniques that transcend annual performance reporting, although these techniques often will avail of information in the annual performance reports. Valid and reliable evaluations of program impacts are not feasible for some programs. When they are conducted, they often require several years of data, are expensive, and typically are not performed on an annual basis for a given program.

¹⁶ [Paragraphs 106-111 and Appendix 1-F of Statements of Federal Financial Accounting Concepts 2](#) , *Entity and Display*, discuss and illustrate reporting on performance in the GPFFR.