



April 8, 2019

Memorandum

To: Members of the Board

From: Grace Wu, Assistant Director

Through: *Wendy M. Payne /s/*
Wendy M. Payne, Outgoing Executive Director
Monica R. Valentine
Monica R. Valentine, Incoming Executive Director

Subject: Materiality Comment Letters Summary¹ – Tab E

MEMBER ACTIONS REQUESTED:

- Please provide responses to the questions starting on page 18 before April 20.

MEMO OBJECTIVE

The meeting objective is to review responses and make decisions on issues to the exposure draft, *Materiality* (ED).

BRIEFING MATERIAL

This memorandum provides the staff summary and analysis. The staff’s summary and analysis is intended to support your consideration of the comments and not to substitute for reading the individual letters. The summary presents:

- A. Tally of Responses by Question..... 3
- B. Quick Table of Responses By Question..... 4
- C. Major Answers and Comments by Questions and by Respondent 6

Attachment 1 provides an overall summary of responses and a list of issues identified with staff analysis and recommendations.

Attachment 2 provides the original exposure draft with suggested edits based upon comments received and staff recommendations.

Attachment 3 provides the full text of each comment letter.

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 FASAB or its staff. Official positions of FASAB are determined only after extensive due process and deliberations.

Attachment 4 provides the original exposure draft issued.

BACKGROUND

SUMMARY OF OUTREACH EFFORTS

The exposure draft, *Materiality*, was issued October 15, 2018 with comments originally requested by January 23rd but subsequently revised to March 11, 2019 due to the partial government shutdown. Upon release of the exposure draft, notices and press releases were provided to:

- a) The Federal Register;
- b) *FASAB News*;
- c) The *Journal of Accountancy*, *AGA Topics*, the *CPA Journal*, *Government Executive*, and the *CPA Letter*;
- d) The Financial Statement Audit Network ; and
- e) Committees of professional associations generally commenting on exposure drafts in the past.

To encourage responses, a reminder notice was provided on March 4, 2019 to our Listserv.

RESULT

As of March 29, 2019, we have received 19 responses from the following sources:

Accounting Firm		
Federal Entity (user)		
Federal Entity (preparer)	15	
Federal Entity (auditor)	1	
Federal Entity (other)		If other, please specify: _____
Association/Industry Organization	2	
Nonprofit organization/Foundation		
Other		If other, please specify: _____
Individual	1	

The full text of the comment letters is provided as Attachment 3. Attachment 3 includes a table of contents and identifies respondents in the order their responses were received. The comment letters appear as an attachment to facilitate compilation and pagination. However, staff encourages you to read the letters in their entirety before you read the staff summary below.

STAFF SUMMARY OF RESPONSES – Table A: Tally Of Responses By Question

A. Tally of Responses by Question

QUESTION	YES/AGREE	AGREE WITH SUGGESTION	NO/DISAGREE	NO COMMENT
<p>Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.</p> <p>Q1a. Do you agree or disagree with the proposed materiality section?</p> <p>Please provide the rationale for your answer.</p>	15	4	0	0
<p>Q1.</p> <p>Q1b. Do you have any suggestions that would enhance the section?</p>	11	0	0	8
<p>Q2. The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, <i>Objectives of Federal Financial Reporting</i>. Refer to paragraph A14.</p> <p>Do you agree or disagree with the placement within concepts and specifically in SFFAC 1?</p> <p>Please provide the rationale for your answer.</p>	15	0	2	2

STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question

B. Quick Table of Responses by Question

A=Agree, AWS= Agree with suggestion, C=Comment but did not specify agreement or disagreement, D=Disagree, NC=No Comment

RESPONDENT (Organization or name if no org.)	Q1A. Do you agree or disagree with the proposed materiality section?	Q1B. Do you have any suggestions that would enhance the section?	Q2. Do you agree or disagree with the placement within concepts and specifically in SFFAC 1?
#1 Department of Defense	A	C	D
#2 Department of Health and Human Services	A	C	A
#3 Securities and Exchange Commission	AWS	NC	D
#4 Greater Washington Society of CPAs	A	NC	A
#5 Social Security Administration	AWS	C	A
#6 AGA	A	C	A
#7 Other Government Agency	A	C	A
#8 Mr. Mark Doehnert	A	C	NC
#9 Bureau of Engraving and Printing	A	NC	A
#10 Asset Leadership Network	AWS	C	NC
#11 General Service Administration	A	C	A
#12 Department of Treasury	A	NC	A
#13 Department of	A	NC	A

STAFF SUMMARY OF RESPONSES – Table B: Quick Table Of Responses By Question

RESPONDENT (Organization or name if no org.)	Q1A. Do you agree or disagree with the proposed materiality section?	Q1B. Do you have any suggestions that would enhance the section?	Q2. Do you agree or disagree with the placement within concepts and specifically in SFFAC 1?
Commence			
#14 Department of Labor	AWS	C	A
#15 Department of Agriculture -OIG	A	C	A
#16 Department of Homeland Security	A	NC	A
#17 Department of Interior	A	C	A
#18 Department of Housing and Urban Development	A	NC	A
#19 Department of Energy	A	NC	A

C. Major Answers and Comments by Questions and by Respondent

The table below table presents the major responses which may potentially affect the content of the exposure draft. As such, not every comment from the respondent was included in the table. Please review each letter in attachment 1 Comment Letters to see supportive/minor/editorial related comments.

<p>QUESTION #1 Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.</p> <p>Q1a. Do you agree or disagree with the proposed materiality section?</p> <p>Please provide the rationale for your answer.</p> <p><i>Staff Response: See attachment 1 for staff's analysis of below major/common comments. Minor comments or suggestions are discussed in below table.</i></p>	
<p>#3 Securities and Exchange Commission</p>	<p>Partially agree with the new language on materiality, with one exception: The last two sentences in proposed paragraph 191C state:</p> <p><i>Therefore, misstatements of relatively small amounts could have a material effect on the financial statements. For example, an amount that is not quantitatively material with respect to a very large line item may be material with respect to a smaller line item.</i></p> <p>The preceding sentences accurately state that “materiality may vary by financial statement, line item or group of line items within an entity.” However, a small amount that might be material to a single immaterial line would not, because of that, somehow become material to “the financial statements” taken as a whole. The discussion on qualitative materiality adequately covers situations where quantitatively small amounts could still be material – but those two concepts should be discussed separately.</p> <p><i>Staff response: See attachment 1 for detail discussion of this topic.</i></p>
<p>#5 Social Security Administration</p>	<p>(Note: please see the letter for more detail discussion on the topic, below are the key extracts from the letter.)</p> <p>We agree, with the exception of paragraph 191c, that updates and clarification are needed to the proposed materiality section. Regarding paragraph 191c, we agree with the first two sentences provided. Our concerns center on the last three sentences (as shown below) of paragraph 191c.</p> <p>We understand from those sentence, “Consequently, after quantitative and qualitative factors are considered...,” materiality may vary by statement or line items. We also agree that materiality differs based on qualitative factors (such as fraud), even if amounts do not meet the quantitative basis value. However, the next sentence, “Therefore, misstatements of relatively small amounts...” with</p>

STAFF SUMMARY OF RESPONSES – Table C: Major Answers and Comments by Questions and by Respondent

	<p>the example provided in the last sentence of paragraph 191c, could be interpreted that each line would have its own unique quantitative material value. This interpretation is of concern, if the quantitative materiality value were to fluctuate on a financial statement for every line item. We would also question, as to how would we establish this quantitative basis?</p> <p>We propose the following three options for updating paragraph 191c.</p> <p>Option 1 (SSA preferred) – “Materiality should be evaluated in the context of the specific reporting entity, and should consider both quantitative and qualitative factors. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size and nature of the misstatement.”</p> <p>Option 2 – “Materiality should be evaluated in the context of the specific reporting entity, and should consider both quantitative and qualitative factors. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item or group of line items within an entity.”</p> <p>Option 3 – “Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item or group of line items within an entity. Therefore, misstatements of relatively small amounts (that do not exceed the quantitative value basis) could have a material effect on the financial statements, if qualitative factors would affect the reader’s opinion of the financial statements.”</p> <p><i>Staff response: See attachment 1 for detail discussion of this topic.</i></p>
<p>#10 Asset Leadership Network</p>	<p>This is a great opportunity to straighten a lot of confusion about materiality, directly for financial reporting purposes but also indirectly for asset management, operations and auditing. The other areas may focus on full framework of internal control as indicated in the GAO Green Book: effective and efficient operations reliable financial and non-financial reporting and compliance with laws and regulations... This is also a great opportunity to harmonize the GAO Yellow Book (attestations audits, performance audits), the GAO Green Book and 2 CFR PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS.</p> <p>The placement of the addition should apply to more than high level budgets and operational results that apply to those budgets. The reader and others may believe materiality is confined to the section “Relationship of Financial Reporting</p>

STAFF SUMMARY OF RESPONSES – Table C: Major Answers and Comments by Questions and by Respondent

	<p>to Budgeting”.</p> <p><i>Staff response:</i></p> <p><i>The proposed materiality guidance intends to assist preparers in making materiality judgement. It is not a vehicle to harmonize all materiality discussion in different professions.</i></p>
<p>#14 Department of Labor</p>	<p>[1] Page 4, paragraph 191b. The word used is “can” in: “. . . it can be reasonably expected . . .” Page 4, paragraph 191d. The word used is “can” in: “. . . if it can be reasonably expected . . .” whereas in the same paragraphs, the word “may” is used. We suggest that “could” or “would” be used instead of “can.”</p> <p>[2] Page 4, paragraph 191b. We suggest that the “due” in “due diligence” be removed because of the legal/contractual connotations associated with the term “due diligence” versus “diligence,” which does not have that connotation.</p> <p>[3] Pages 4 and 5, paragraphs 191b, 191c, 191d, and 191e. Paragraphs 191b and 191d use “judgment” to refer to the judgment of the user, whereas in paragraphs 191c and paragraph 191e, “judgment” seems to refer to the judgment of the preparer. Please be specific as to whether paragraphs 191c and 191e are referring to the user’s judgment or the preparer’s judgment.</p> <p><i>Staff response:</i></p> <p><i>After considering above comments and wordings in the proposed paragraphs, it seems that the proposed paragraphs are properly worded.</i></p>

<p>QUESTION #2 Q1b. Do you have any suggestions that would enhance the section?</p>	
<p><i>Staff Response: See attachment 1 for staff’s analysis of below major/common comments. Minor comments and suggestions are discussed in below table.</i></p>	
<p>#1 Department of Defense</p>	<p>Basis for Conclusions suggestions</p> <p>Paragraph A7: The Government Accountability Office’s (GAO) 2018 <i>Government Auditing Standards</i> commonly known as the Yellow Book was considered within the Basis for Conclusions paragraph A7. It may be helpful to extend paragraph A7 to include a narrative explaining if the GAO Financial Audit Manual (FAM), specifically Volume 1 Section 230 paragraph .11 <i>Determining Materiality</i>, was considered within the Basis of Conclusions and the reasons for consideration. It may be valuable to include whether the 3 percent guidance from the GAO FAM was considered.</p> <p>Paragraph A12: Basis for Conclusion paragraph A12 discusses detailed</p>

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	<p>guidance on materiality is provided in existing literature. It may be helpful to included examples of the detailed guidance.</p> <p><i>Staff response: See attachment 1 for detail discussion of this topic.</i></p>
<p>#2 Department of Health and Human Services</p>	<p>HHS suggests the Materiality section include verbiage regarding Risk and it’s relation to the subject matter. Risk (relating to audit, material misstatements, controls, etc.) and Materiality (qualitative and/or quantitative) among other matters, need to be considered together in designing the nature, timing, and extent of financial statement preparation, audit procedures and evaluation of the results of those procedures.</p> <p><i>Staff response:</i></p> <p><i>The proposed materiality guidance intends to assist prepares in making materiality judgements, not to cover assessment of audit and internal control risks related to financial reporting.</i></p>
<p>#6 Association of Government Accountants</p>	<p>Some of our members believe the FASAB should clarify that authoritative guidance is only limited to items that are not clearly trivial (rather than items that are not “material”) and explain that financial statements may include immaterial misstatements. This would converge terms with audit standards (AU-C 450.05). It would also align with the preparer and auditor’s thought process that the financial statements are not expected to be perfect, which is acceptable, but allow preparers the option of balancing costs and benefits against including or correcting immaterial items.</p> <p><i>Staff response:</i></p> <p><i>The proposed materiality guidance clarifies what is material and that the financial statements should not contain material misstatements. The proposed guidance does not discuss about the immaterial misstatements is because it is an entity’s choice to include immaterial items, and it is up to the auditor to judge that including immaterial items would not mislead the user. Instead, the proposed basis of conclusion section A10 states: “Standards do not require perfection; instead, the standards allow for misstatements as long as they are not material. The Board believes that financial reporting should emphasize disclosing material information, not immaterial or irrelevant information.” This aligns with AGA’s discussion stated above.</i></p>
<p>#7 Other Government Agency (OGA)</p>	<p>Section 191(e) did not provide enough specifics to help an Entity with making a solid judgement on what are their materiality impacts for identified misstatements. Essentially, the guidance to preparers has not improved since materiality is not a new concept and will be an auditor’s consideration for misstatements/omissions. OGA questions "what should a preparer use to make the materiality “Call” in absence of the auditor’s review, when trying to determine</p>

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	<p>on their own if the misstatement is material"?</p> <p>Quantitative factors are not clearly defined and should be more specific. OGA suggests considering a percent of the “balance sheet” or “accounts receivables” amount as an initial review of the materiality. Then list a series of factors to determine possible impact of the misstatement or omission. Where are the “factors” for consideration and how will the misstatement or omission impact the “factors”.</p> <p>Suggest that FASAB explicitly mention that materiality should be defined by the reporting entity’s management. Because FASAB does not provide thresholds for materiality, management has the right to apply materiality standards in accordance with this guidance, as it deems appropriate provided that the financial statement user would not be improperly influenced by an amount deemed immaterial by management.</p> <p><i>Staff response: See attachment 1 for detail discussion of this topic.</i></p>
<p>#8 Mr. Mark Doehnert</p>	<p>(Note: please see the letter for more detail discussion on the topic, below are the key extracts from the letter.)</p> <p>Paragraph 191c states materiality should be evaluated in the context of the specific reporting entity and uses the term “line item,” such as “a very large line item” and “a smaller line item.” Appendix E:</p> <p>the term “line item” does not seem to be in the Consolidated Glossary, yet it appears to be important for the concept of materiality. It can also be important for internal control and risk management, such as in the concept of “entity-level control.” Therefore, recommend the term be added and defined/explained. And also how they differ from responsibility segments for which cost and financial data are collected. Examples would help in the definition. Note that there are definitions of the term online, such as https://pakaccountants.com/what-is-line-item/</p> <p>would seem to also need measures. Finally, “Operating Performance” is one of the four objectives of federal financial reporting, and “Stewardship and “Systems and Control” are both closely related. Thus either omission of material performance information or a material misstatement of such information would seem to directly bear on materiality. Therefore, recommend the word “performance” or words “performance information” be added,¹ such as in paragraph 191a as shown in the following as underlined proposed new text:</p> <p>accepted accounting principles (GAAP)^{15,1} will not contain misstatements, including omissions of information, considered material. Such omissions include information that is necessary for a user to understand the effect of particular material transactions, <u>performance information</u>, other events, and conditions on the entity’s financial statements, RSI, or RSSI.</p>

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	<p>191f. In applying materiality concepts, the specific needs of a reasonable financial report user should be considered. In the federal government environment, such needs generally differ from those of the commercial entity financial report user. For example, due to the visibility and sensitivity of government programs, federal government financial report user needs extend to having the ability to assess the allocation and use of resources in the federal government. <u>Operating performance is another.</u> Further, compliance with laws, regulations, contracts, and grant agreements is also a significant consideration of the user.^{15,7}</p> <p><i>Staff response: please see attachment 1 for the discussion related to 191C. In addition, “performance or operating information” is one type of information discussed in 191a & 191f.</i></p>
<p>#9 Bureau of Engraving and Printing</p>	<p>It would be nice if the guidance included examples of how to calculate materiality, because when it is calculated at an agency the auditors will ask the agency to support the components of the calculation and sometimes it can feel arbitrary and there isn’t always a 1:1 correlation, so having something from FASAB as an example to fall back on would be helpful.</p> <p><i>Staff response: See attachment 1 for detail discussion of this topic.</i></p>
<p>#10 Asset Leadership Network</p>	<p>(Note: please see the letter for more detail discussion on the topic, below are the key extracts from the letter.)</p> <p>Address the multidimensional aspects of materiality in financial reporting, asset management, operations and auditing. These differ but usually have a lot in common, but they should be viewed and used independently..... The auditing function should not try to set materiality threshold for those being audited. That is management’s responsibility. The auditor can, of course, assess certain issues of effectiveness, efficiency, reliability reporting and compliance with GAAP, laws, regulations, and compliance with internal policy. Materiality is contextual.</p> <p>The materiality section should cover how accounting and asset management relate.</p> <p>Place the content in another section, other than 191a. Another concept on its own would be worthwhile, as how things are managed from bottom to top depending upon the concept of materiality.</p> <p>There needs to be an expansion on the concept of qualitative materiality. Actively seek qualitatively material information that exposes waste, fraud and abuse and mismanagement. We suggest this can be done by requiring affirmations to compliance with the GAO Blue Book regarding internal controls.</p> <p>The section should harmonize with the Cost Accounting Standards “9903.305</p>

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	<p>Materiality.</p> <p>There should be no expectation or excuse to indicate that some Government work deserves lower thresholds than commercial or non-government work. That may bias the use of thresholds. Government work needing lower thresholds may have been true in the past but not now in that most organizations use some form of the COSO Internal Control Framework. The internal control framework, if used properly, should drive for optimization of thresholds based upon facts, circumstances and valuations.</p> <p><i>Staff response:</i></p> <p><i>The proposed materiality guidance intends to provide general guidance on information presented in the financial statement not specific situation related to quantitative or qualitatively considerations, nor it intends to define who should set the materiality since each area has its own materiality assessment method. Asset management is one example of financial management activities as such it won't be called out in the guidance.</i></p> <p><i>In addition, this proposed guidance does not call out "lower" materiality in the federal environment, it only states: "differ from those of the commercial entity".</i></p>
<p>#11 General Service Administration</p>	<p>(Note: please see the letter for more detail discussion on the topic, below are the key extracts from the letter.)</p> <p>We agree with the language proposed for the materiality section, however due to the very general, high-level perspective, it lacks sufficient detail to support reporting entities making determinations based on materiality factors. Particularly we believe further guidance is needed regarding the quantitative perspective of materiality, to promote consistency in application and reduce the risk of conflicting interpretations of the guidance, such as amongst management, financial preparers and auditors.</p> <p>We recommend the FASAB consider guidance such as the Government Accountability Office's (GAO's) Financial Audit Manual (FAM), specifically Section 230 for additional levels of detail that would be appropriate to guide financial statements preparers. The FAM Section 230 parts .10, .11 and .12 provide auditors with general guidance for setting quantitative measures such as materiality benchmarks, materiality factors (such as 3% of the benchmark), performance materiality (1/3 of the materiality factor) and tolerable misstatements, used in developing audit plans and making assessments to form conclusions on the accuracy of financial information being audited.</p> <p>If the Board chooses not to develop more detailed guidance, such as is included in the FAM's Section 230, we recommend the Board include discussions of such FAM guidance or other AICPA Statements on Auditing Standards (SAS), to identify if they are, or are not, appropriate for preparers to apply those or similar</p>

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	<p>quantitative constructs in making decisions on matters of materiality for financial reporting.</p> <p><i>Staff response: See attachment 1 for detail discussion of this topic.</i></p>
<p>#14 Department of Labor</p>	<p>(Note: please see the letter for more detail discussion on the topic, below are the key extracts from the letter.)</p> <p>Please make it clear that this SFFAC applies to General Purpose Federal Financial Reports. “Financial statements” may be prepared for internal management purposes and for interim periods; they may exclude certain required annual accruals and adjustments; and they may exclude certain financial statements and disclosures which would otherwise be required under GAAP (e.g., exclusions could be: note disclosures that are an integral part of the financial statements; certain statements, such as the Statement of Budgetary Resources which are not required to be submitted as part of third quarter interim statements per OMB Circular A-136; and RSI/RSSI). However, GPFFR would include the financial statements and disclosures required by GAAP. Therefore, if the SFFAC refers to “financial statements,” it should be clear that these are GPFFR.</p> <p>Please provide a list of examples of the existing literature that already provides the detailed guidance on materiality considerations. The guidance should be “detailed” and not of a general nature, such as the guidance that is found in OMB Circular A-136. A list with examples would provide references that the reader may use for additional information on the topic of materiality. If there is no list of examples, then omit the sentence.</p> <p><i>Staff response:</i></p> <p><i>The proposed guidance 191a called out that the scope is for “information presented in accordance with generally accepted accounting principles.” So the guidance does not apply to interim report.</i></p> <p><i>See Attachment 1 for staff’s analysis on the detail guidance of materiality considerations.</i></p>
<p>#15 Department of Agriculture - OIG</p>	<p>If a change in the concept of materiality would enhance a reasonable financial report users’ reliability, make a case of what specific changes to the concept would look like. As presented, the effect may be increased ambiguity and additional audit effort merely to demonstrate compliance.</p> <p>Paragraph 191c comment. Don’t believe we need the last sentence, suggest omitting or clarifying. <i>“For example, an amount that is not quantitatively material with respect to a very large line item may be material with respect to a smaller line item.”</i></p>

STAFF SUMMARY OF RESPONSES – Table C: Major Answers and Comments by Questions and by Respondent

	<p><i>Staff response:</i></p> <p><i>See Attachment 1 for staff’s analysis on 191c wording.</i></p>
<p>#17 Department of Interior</p>	<p>DOI bureau noted that the definition of “materiality” is not apparent in the proposed section, although 191b describes what is considered “material”. In addition, the bureau questions why in 191f there is a reference to commercial entity financial report users. Also Paragraph A4 states, “...adds important elements such as a discussion of users...” This discussion does not seem to be included in the materiality section. Paragraph A6 generally references the users identified in SFFAC 1; however, is Appendix A a part of the materiality section?</p> <p>Please clarify if or what the differences are between a “reasonable financial report user” as used in Paragraph 191b. , a “reasonable user” as used in Paragraph 191d and a “user” in Paragraph 191a. If terms are interchangeable, please note so.</p> <p><i>Staff response:</i></p> <p><i>The guidance is about updating the materiality guidance to assist preparers in making materiality judgments and improving disclosures, not about definition.</i></p> <p><i>Commercial entity discussion added to emphasize that federal financial report users have different needs compared to users of commercial entity financial reports. The users identified in SFFAC 1 (citizens, Congress, federal executives, and federal program managers) are the users FASAB considered in developing the proposed materiality section.</i></p> <p><i>Discussion of/guidance about the user considerations were covered at 191b, 191d and 191f.</i></p>
<p>#18 Department of Housing and Urban Development</p>	<p>The materiality section is overly broad and could be clearer regarding the difference between management’s materiality and auditor’s materiality assessment, providing suggestions on when these should be used, and what qualitative and quantitative factors would be used to determine both amounts from account, statement, and disclosure viewpoints. This would provide for a more consistent government-wide approach. GNMA also notes that when management deems something “immaterial,” the burden of proof is on management to demonstrate and disclose what was considered in developing its materiality.</p> <p>GNMA did provide the suggestion that FASAB specifically state that the auditor (GAAS) materiality guidance is not applicable to management. Further, more defined guidance or interpretations should be provided to allow for government-wide consistency, specifically when applying for purposes of researching, testing, recording and disclosure of amounts. This suggested enhancement should include guidance as to when materiality would be calculated, and what</p>

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	<p>factors would be used to determine both qualitative and quantitative amounts from account, statement, and disclosure viewpoints. The Board should also consider including disclosure requirements indicating what management should be disclosing, including what Board determined to be material and why, to inform users as to what the magnitude of “acceptable omission” is for the financial statements.</p> <p><i>Staff response: See attachment 1 for detail discussion of this topic.</i></p>
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QUESTION #3 The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1?

Please provide the rationale for your answer.

Staff Response: See attachment 1 for staff’s analysis of below major/common comments. Minor comments and suggestions are discussed in below table.

<p>#1 Department of Defense</p>	<p>Materiality is first discussed in the “Reliability” section in paragraph 160 of SFFAC 1. The new “Materiality” narrative could be an extension of the “Reliability” section.</p> <p>Additional Comment: FASAB Handbook of Federal Accounting Standards and Other Pronouncements as Amended the Forward section that defines materiality; it would be helpful to amend SFFAC 1 with the new materiality clarification.</p> <p><i>Staff response: See attachment 1 for detail discussion of this topic.</i></p>
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<p>#2 Department of Health and Human Services</p>	<p>HHS agrees that the materiality concepts should be placed in the SFFAC 1; however, HHS disagrees with the recommended location of the concepts due to the important nature of the topic. Therefore, HHS proposes two (2) placement options:</p> <p><u>Option 1</u></p> <p>“Materiality” should have its own chapter in the SFFAC 1. HHS suggests placing this chapter between the current Chapter 6: Qualitative Characteristics of Information in Financial Reports and Chapter 7: How Accounting Supports Federal Financial Reporting. Creating a stand-alone chapter for “Materiality” emphasizes the importance of the concept.</p> <p><u>Option 2</u></p> <p>Materiality could be a separate component of the Objectives of Federal Financial</p>
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	<p>Reporting. The current objectives include: Budgetary Integrity, Operating Performance, Stewardship, and Systems and Controls. Materiality could be viewed as another important objective of federal financial reporting.</p> <p><i>Staff response: See attachment 1 for detail discussion of this topic.</i></p>
<p>#3 Securities and Exchange Commission</p>	<p>(Note: please see the letter for more detail discussion on the topic, below are the key extracts from the letter.)</p> <p>Adding language to SFFAC 1, Objectives of Federal Financial Reporting, would add additional language on materiality to the “non-Level A GAAP” portions of FASAB issuances, but it would be silent on the relationship between the new language in SFFAC 1 and the existing language on materiality in SFFAS 1, Accounting for Selected Assets and Liabilities (paragraphs 12-13), and SFFAS 3, Accounting for Inventory and Related Property, (paragraphs 7-15),</p> <p>Historically, FASAB has not amended or updated the “Introduction” paragraphs or the Appendices (such as the “Basis for Conclusions”) of SFFAS issuances, presumably because only the “Accounting Standards” sections of SFFAS issuances are considered authoritative guidance/Level A GAAP.</p> <p>Amending SFFAC 1 would be likely to cause confusion as to whether the guidance on materiality in SFFAS 1 and SFFAS 3 is still applicable, or whether that guidance is being effectively rescinded.</p> <p><i>Staff response: See attachment 1 for detail discussion of this topic.</i></p>
<p>#4 Greater Washington Society of CPAs</p>	<p>Suggests that the Board considers the need to keep the materiality discussions that are currently included in other FASAB publications, including for SFFAS 3, <i>Accounting for Inventory and Related Property</i>, once SFFAC 1 is amended to include this proposed materiality section.</p> <p><i>Staff response: The existing materiality discussion will be kept in the non-authoritative portions of the handbook (introductions and forwards) until this proposed concept is issued.</i></p>
<p>#5 Social Security Administration</p>	<p>While we agree with the placement in SFFAC 1, we question the placement in paragraph 191. This materiality paragraph is in the section of SFFAC 1 that discusses the financial reporting and the budget, which does not seem to relate directly to the discussion around materiality. We suggest creating a materiality section in SFFAC 1 and inserting this language (requires adjustment of paragraph numbering).</p> <p><i>Staff response: See attachment 1 for detail discussion of this topic.</i></p>

STAFF SUMMARY OF RESPONSES – Table C: Major Answers and Comments by Questions and by Respondent

<p>#6 Association of Government Accountants</p>	<p>Some of the members struggled with the placement of the section in the “Relationship of Financial Reporting to Budgeting” section of SFFAC 1. Some have suggested “Chapter 5: Balancing Costs And Benefits In Recommending Standards” or “Chapter 6: Qualitative Characteristics Of Information In Financial Reports” would be a better placement. One of our members suggested including the section in the Forward portion of SFFAC 1 under the Materiality heading for better effectiveness since concepts do not contain specific authoritative requirements for federal agencies. Therefore, including the additional “Materiality” text in the Foreword portion would be appropriate.</p> <p><i>Staff response: See attachment 1 for detail discussion of this topic.</i></p>
<p>#7 Other Government Agency (OGA)</p>	<p>SFFAC 3 Management Discussion and Analysis should include this as discussion point by management based on the defined concepts of materiality.</p> <p><i>Staff response: The existing discussion about the materiality in SFFAC 3 (repeated in SFFAS 15²) will remain relevant after this proposed materiality guidance is issued because it distinguishes MD&A considerations from those for basic information. No additional/repeated discussion will be added in SFFAC 3 since all the discussion related to the materiality will be covered by this proposed guidance in SFFAC 1.</i></p>
<p>#10 Asset Leadership Network</p>	<p>The concept of materiality and the proper use of materiality should be its own high-level concept document and expansion of the concept and the accountability for disclosure of material information. Frequently, organizations do not want to provide material information. Transparency is good and drives prioritization, accountability and self-correction. Materiality having its own concept will improve performance. Understanding the concept of materiality, if approached correctly, is liberating. Concurrently, material information must be disclosed. Negative or embarrassing material information must be disclosed.</p> <p><i>Staff response: See attachment 1 for detail discussion of this topic.</i></p>

NEXT STEPS

Members are requested to provide input on the draft concepts and the suggestions will be compiled for discussion at the April meeting.

² SFFAS 15, par. 5 – “Because MD&A must be concise if it is to be useful, management must select the most important matters to discuss. This means that some items that are material to the financial statements, notes, and other sections of the GPFRR may not be discussed in MD&A.”

MEMBER FEEDBACK

If you require additional information or wish to suggest another alternative not considered in the staff proposal, please contact staff as soon as possible. In most cases, staff would be able to respond to your request for information and prepare to discuss your suggestions with the Board, as needed, in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at (202) 512-7377 or by e-mail at wuq@fasab.gov with a cc to paynew@fasab.gov.

QUESTIONS FOR THE BOARD

- 1) Does the Board agree or disagree with staff's suggestion to delete the last two sentences in 191C related to potential materiality difference on line items?
- 2) Does the Board agree or disagree with staff's suggestion that no detail discussion on materiality quantitative and qualitative considerations will be added on the proposed guidance?
- 3) Does the Board agree or disagree with staff's suggestion that materiality should have its own chapter and can be placed between the current Chapter 6: *Qualitative Characteristics of Information in Financial Reports* and Chapter 7: *How Accounting Supports Federal Financial Reporting*?
- 4) Does the Board agree or disagree with staff's suggestion to issue the materiality guidance and then delete the non-authoritative portions of the handbook after the materiality concepts are finalized?
- 5) Does the Board agree or disagree with the proposed changes to the original ED?
- 6) Does the Board agree or disagree with staff's suggestion to forgo a hearing on the proposed statement and proceed with finalizing the standard statement?
- 7) Does the Board wish to discuss any other matters not identified by staff in the proposed sections?

Attachment 1 Summary of Results and Staff Analysis

This attachment provides an overall summary of responses and a list of issues identified with staff's analysis and recommendations.

Summary of Results

Nearly all the respondents agreed with the proposed materiality guidance and placement of the proposed guidance in Concept 1, *Objectives of Federal Financial Reporting (Concept 1)*. The respondents agreed that the proposed materiality guidance provides a good discussion of users, scope, and factors to consider in the federal government environment. A number of respondents raised concerns on the discussions of materiality difference on line items. Some respondents suggested different placement for the proposed materiality guidance in Concept 1.

Major responses that may potentially affect the content of the exposure draft are presented in above Table C: Major Answers and Comments by Questions and by Respondent. The major/common responses have been analyzed and summarized below, along with the staff's suggestion for proposed changes to the original ED for the Board's consideration. Minor edits and suggestions discussed in Table C are not included below.

Question 1: ED Q1a The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

Staff Analysis:

15 out of 19 respondents supported proposed materiality guidance, 4 out of 19 supported the guidance with suggested improvements.

Respondents' reasons for supporting the proposal were quite similar to both the Board's intent and the task force's pilot results, as stated in the materiality ED. Respondents believed materiality is a key to better reporting, and current guidance does not provide clear guidance on how to apply materiality in the federal environment. In addition, the foreword portion of the Handbook may conflict with some aspects of the auditing standards. Respondents saw the proposed materiality guidance as a major improvement. As such, they welcomed the change.

Materiality Difference on Line Items 2 out of 4 respondents who supported with suggested improvement have similar concerns on the discussions of materiality differences on line items in proposed paragraph 191C.

191C *Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item or group of line items within an entity. Therefore, misstatements of relatively small amounts could have a material effect on the financial statements. For example, an amount that is not quantitatively material with respect to a very large line item may be material with respect to a smaller line item.*

Attachment 1 Summary of Results and Staff Analysis

Both respondents stated that the last two sentences are confusing. With the example provided in the last sentence of paragraph 191c, it could be interpreted that each line would have its own unique quantitative material value.

Staff Recommendation: *The last two sentences of 191C discuss quantitative and qualitative materiality consideration on the line items which likely conflict with the Board's intention to provide no detail guidance on the quantitative and qualitative consideration of materiality. Since the sentence above starting with "Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item or group of line items within an entity." clearly stated the possibility of materiality difference within an entity, staff suggests taking out the last two sentences to avoid confusion.*

Question 2: ED Q1b. Do you have any suggestions that would enhance the section?

Staff Analysis:

11 out of 19 respondents provided some suggestions about enhancing the section. 6 out of the 11 suggested providing detail specific guidance or example or detail references to the existing literatures on materiality considerations. They believed by doing so, it would provide a more consistent government-wide approach. In addition, 3 out of 11 would like to specify that it is management's responsibility to set up materiality not the auditor.

Staff Recommendation: *The proposed materiality guidance intends to provide general guidance on information presented in the financial statement. It does not intend to provide specific situation related to quantitative or qualitative considerations, nor does it intend to define who should set the materiality since each area has its own materiality assessment method. In ED 191e and A12, it clearly states that "the Board does not provide specific qualitative or quantitative thresholds for materiality" and provides the reasons (entity specific and enough existing guidance) why the Board chose not to do so. In addition, this guidance will be a Concept document. Detail consideration of the materiality may be a discussion topic for a Standard but not a Concept.*

There is a possibility to provide a detail reference of existing literatures on materiality such as AICPA AU-C 320 and GAO FAM 230 in A12. However, by doing so, it may provide user the impression that the Board endorses some materiality literature but not the others such as cost management's. As such, staff suggests no change in the ED about this.

Different financial reporting professions have their own materiality guidance. It is not this concept's intention to define who should set up the materiality. Staff suggests no change in the ED about this.

Question 3: ED Q2 The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14. Do you agree or disagree with the placement within concepts and specifically in SFFAC 1?

Staff Analysis:

15 out of 19 respondents supported the proposed placement in Concept 1. While 2 out of 19 have no comment on this topic, 2 out of 19 disagreed on the placement. One disagreed respondent suggested another location other than section 191 in SFFAC 1 to place the materiality guidance. Another disagreed respondent stated: “amending SFFAC 1 would be likely to cause confusion as to whether the guidance on materiality in SFFAC 1 and SFFAS 3 is still applicable, or whether that guidance is being effectively rescinded.”

3 out of 15 agreed respondents suggested creating a separate chapter in SFFAC 1 to place the proposed materiality guidance due to its importance to the financial reporting. Others suggested to be placed as a section other than section 191 in various chapters. However, none of them suggested the same location.

Staff Recommendation:

Placement *The use of materiality impacts an organization at various levels and areas of responsibility, accountability and mission. Due to its importance to the federal financial reporting, staff agreed with the respondents that the proposed materiality should have its own chapter. Staff suggests placing this chapter between the current Chapter 6: Qualitative Characteristics of Information in Financial Reports and Chapter 7: How Accounting Supports Federal Financial Reporting because materiality discussion would follow well after the discussion of the qualitative characteristics of information in financial reports.*

Impact to Existing Guidance *As pointed in the ED Basis for Conclusion A3 that materiality currently is discussed in SFFAC 3, SFFAS 1 and SFFAS 3. An amendment to SFFAC 3 is proposed in ED 191g section. The SFFAS1 and SFFAS 3 have the materiality discussion in Forward section that is not considered as official guidance. Therefore, they can be revised through the handbook update process. The issuance of the proposed materiality guidance also likely affects other documents in the handbook such as Technical Releases.*

Staff suggests issuing the materiality guidance first so a clearer guidance can be available to user soon. The research of other areas affected can be done after the issuance. The Handbook’s non-authoritative sections on materiality in SFFAS 1 and SFFAS 3 can be deleted without seeking comment. Needed changes to Technical Releases would be accomplished through appropriate due process.



Federal Accounting Standards Advisory Board

MATERIALITY:

AMENDING STATEMENT OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS (SFFAC) 1, *OBJECTIVES OF FEDERAL FINANCIAL REPORTING*, AND SFFAC 3, *MANAGEMENT'S DISCUSSION AND ANALYSIS*

Statement of Federal Financial Accounting Concepts 9

XXXX, 2019

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. 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 is available from FASAB or its website:

- [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: Federal Accounting Standards Advisory Board, exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters](#), and other items of interest are posted on FASAB's website at: www.fasab.gov.

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SUMMARY

~~This Statement of Federal Financial Accounting Concepts (Statement or SFFAC) updates concepts The Federal Accounting Standards Advisory Board proposes concepts regarding related to the application of materiality in the federal financial reporting environment. Through an amendment to SFFAC 1, *Objectives of Federal Financial Reporting*, and SFFAC 3, *Management's Discussion and Analysis*, this Statement SFFAC statement would clarify implementation of materiality concepts in the issuance of federal financial statements. It also helps provide financial statement users improve their understanding and comprehension of federal financial reports. materiality concepts, specify the scope of materiality, and list factors to consider when applying materiality.~~

A reporting entity considers materiality in the application of specific requirements to information contained in its general purpose federal financial reports. This ~~proposed~~ materiality ~~section~~ ~~concepts~~ ~~Statement~~ ~~would~~ clarifies the materiality guidance. It ~~would~~ defines the users, scope, and factors to consider when applying materiality in the federal environment. It ~~would~~ helps federal financial report preparers apply the materiality concepts to provide important information in federal financial reports.

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CONCEPTS

AMENDMENTS TO SFFAC 1, OBJECTIVES OF FEDERAL FINANCIAL REPORTING

1. This paragraph amends Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, by inserting a ~~header chapter~~ titled *Materiality* ~~immediately after paragraph 191~~ ~~between the current chapter 6: *Qualitative Characteristics of Information in Financial Reports* and chapter 7: *How Accounting Supports Federal Financial Reporting*~~ along with text that reads as follows¹:

Materiality

~~191a~~164a. A reporting entity considers materiality in the application of accounting and reporting requirements. The Board intends that information presented in accordance with generally accepted accounting principles (GAAP)^{15.1} will not contain misstatements, including omissions of information, considered material. Such omissions include information that is necessary for a [reasonable financial report user](#) ([reasonable user](#)) to understand the effect of particular material transactions, other events, and conditions on the entity's financial statements, required supplementary information (RSI), or required supplementary stewardship information (RSSI).

FN12.1 Such information would include financial statements and notes to the financial statements, required supplementary information, and required supplementary stewardship information.

- 164b. A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it can [reasonably](#) be ~~reasonably~~ expected that the judgment of ~~a reasonable financial report user~~ ([a reasonable user](#)), relying on the information would change or be influenced by the correction or inclusion of the information. A reasonable ~~financial report~~ user has knowledge of the reporting entity's activities and is willing to study the information with due diligence.
- 164c. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity. ~~Therefore, misstatements of relatively small amounts could have a material effect on the financial statements. For example, an amount that is not quantitatively material with respect to a very large line item may be material with respect to a smaller line item.~~

¹ ~~Because the inserted chapter will become chapter 7: *Materiality*, the current chapters after chapter 6 in SFFAC 1 will be renumbered to accommodate the insertion.~~

- 164d. Misstatements should be considered individually and, in the aggregate, and materiality determinations regarding such misstatements should include both qualitative and quantitative considerations. Information that is not considered material from a quantitative standpoint may be considered qualitatively material if it can ~~reasonably~~ be ~~reasonably~~ expected to change or influence the judgment of a reasonable user. Qualitative considerations include the public accountability of the reporting entity; applicable legal and regulatory requirements; the visibility and sensitivity of government programs, activities, and functions; as well as other factors that may affect a reasonable user's judgments about the information.
- 164e. The Board establishes materiality concepts and related factors to consider in making judgments. Due to the factors discussed in paragraphs 164c and 164d, the Board does not provide specific qualitative or quantitative thresholds for materiality.
- 164f. In applying materiality concepts, the specific needs of a reasonable ~~financial report~~ user should be considered. In the federal government environment, such needs generally differ from those of the commercial entity financial report user. For example, due to the visibility and sensitivity of government programs, federal government financial report user needs extend to having the ability to assess the allocation and use of resources in the federal government. Further, compliance with laws, regulations, contracts, and grant agreements is also a significant consideration of the user.^{15.2}

FN 15.2 Information requiring protection from unauthorized disclosure is referred to as "classified national security information." The application of financial accounting standards needs to support the legal requirements to protect classified national security information.

- 164g. To emphasize that materiality should be considered in applying all FASAB standards, the Board will place the following notice at the end of each Statement:

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial.^{FN}

FN Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled ~~How Accounting Supports Federal Financial Reporting~~ *Materiality* for a detailed discussion of the materiality concepts.

AMENDMENT TO SFFAC 3, *MANAGEMENT'S DISCUSSION AND ANALYSIS*

2. This paragraph amends SFFAC 3, *Management's Discussion and Analysis*, footnote 10 at paragraph 26. Footnote 10 is amended as follows:

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

APPENDIX A: BASIS FOR CONCLUSIONS

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

PROJECT HISTORY

- A1. The Board added a note disclosures project to its agenda in October 2017 with the objective of improving the relevance, clarity, consistency, and comparability of disclosures among federal entities. FASAB formed a task force to conduct related research. FASAB also conducted a survey on disclosures in which a majority of respondents indicated that materiality-based judgment can assist in eliminating redundancy and unnecessary disclosure by providing only relevant information.
- A2. Currently, materiality is discussed in three issuances: SFFAC 3, *Management's Discussion and Analysis*; Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*; and SFFAS 3, *Accounting for Inventory and Related Property*. The clarity, detail, and organization of the guidance, however, could be improved. As such, the Board agreed to update the materiality guidance to assist preparers in making materiality judgments and improving disclosures.
- A3. In February 2018, staff presented draft materiality concepts to the note disclosures task force. The task force included federal financial report preparers, auditors, and consultants. Task force members agreed that the draft was not significantly different from their understanding of the application of materiality in practice, but it would help in applying materiality concepts in the federal environment as a result of its improved clarity, detail, and organization.

PROPOSED MATERIALITY [CONCEPTS](#)

- A4. The proposed materiality [section concepts](#) do not include substantive changes to underlying concepts. Rather, to provide better guidance, they add important elements, such as a discussion of users, a clearer concept of misstatement, and specific federal environment considerations.
- A5. In developing the proposed [section concepts](#), several sources were considered, including the materiality discussion in the current *FASAB Handbook*, other accounting standards boards' publications, relevant audit standards, and Securities and Exchange Commission (SEC) guidance.
- A6. Federal financial report users have different needs compared to users of commercial entity financial reports. The users identified in SFFAC 1 (citizens, Congress, federal executives, and federal program managers) are the users FASAB considered in developing the proposed materiality [section concepts](#).

A7. FASAB considered guidance from the Government Accountability Office's 2018 *Government Auditing Standards* for the materiality section's federal environment related discussion.² This guidance, commonly referred to as the *Yellow Book*, states the following:

6.03 Standards used in conjunction with GAGAS require the auditors to apply the concept of materiality appropriately in planning and performing the audit.^{FN omitted} Additional considerations may apply to GAGAS engagements that concern government entities or entities that receive government awards. For example, for engagements conducted in accordance with GAGAS, auditors may find it appropriate to use lower materiality levels than those used in non-GAGAS audits because of the public accountability of government entities and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programs.

A8. Misstatements are often easier to assess using quantitative considerations. However, they should be assessed using qualitative considerations as well. Therefore, these proposed ~~section concepts~~ clarify that materiality should be assessed using both quantitative and qualitative considerations.

A9. The SEC Staff Accounting Bulletin Topic 1.M states, "Even though a misstatement of an individual amount may not cause the financial statements taken as a whole to be materially misstated, it may nonetheless, when aggregated with other misstatements, render the financial statements taken as a whole to be materially misleading."³ The Board has a similar view. Misstatements should be considered individually and in the aggregate.

A10. Standards do not require perfection; instead, the standards allow for misstatements as long as they are not material. The Board believes that financial reporting should emphasize disclosing material information, not immaterial or irrelevant information.

A11. The proposed concepts define materiality in terms of the likelihood that a reasonable user's judgment would be affected by the misstatement. SFFAS 1, *Accounting for Selected Assets and Liabilities*, states that materiality depends on whether "omitting or misstating information about the item makes it probable that the judgment of a reasonable person"⁴ would be affected. In SFFAS 1, "probable" was recognized as being "subject to broad interpretation" and did not mean "more likely than not."⁵ In SFFAS 5, *Accounting for Liabilities of The Federal Government*, "probable" is defined as "more likely than not."⁶ The Board does not believe "more likely than not" is appropriate in assessing materiality because it would be a lower degree of likelihood compared to the general meaning of "probable" in other sectors and SFFAS 1. Using "probable" in the materiality concepts could lead to unreasonable expectations regarding precision. The Board believes "reasonably expected" is more consistent with current practice and is appropriate in the federal government environment.

² GAO, *Government Auditing Standards 2018 Revision*, GAO-18-568G (Washington, D.C.: Jul 17, 2018), 117-118.

³ The SEC "Codification of Staff Accounting Bulletins, Topic 1: Financial Statements"; available online at <https://www.sec.gov/interps/account/sabcodet1.htm#M>; last accessed April 8, 2019.

⁴ SFFAS 1, par.13.

⁵ SFFAS 1, par.127 and 128.

⁶ SFFAS 5, par.19, footnote 9.

- A12. The Board does not provide specific quantitative or qualitative considerations in the proposed ~~section~~ **concepts**. Both quantitative and qualitative considerations are typically entity specific. Existing literature already provides detailed guidance on materiality considerations. Materiality considerations could vary depending on whether the reporting entity is a sub-component, component, or the government-wide reporting entity. Consequently, the materiality considerations may differ as financial information is consolidated from sub-component to component to government-wide reporting entities.
- A13. In certain situations, an entity may have a quantitatively significant balance or activity that would lead to a high quantitative entity-wide materiality amount. If used to assess materiality for the entity's other balances or activities, such materiality amounts could allow misstatements that would affect reasonable financial report users' judgments regarding the rest of the entity's activities. In such cases, qualitative factors could lead to a separate materiality consideration.

Comment [GW1]: This section is new

SUMMARY OF OUTREACH EFFORTS AND RESPONSES

- A14. The Board issued the exposure draft (ED) on October 15, 2018, with comments originally requested by January 23 but subsequently revised to March 11, 2019, due to the partial government shutdown.
- A15. Upon release of the ED, FASAB provided notices and press releases to the FASAB subscription email list, the Federal Register, FASAB News, the Journal of Accountancy, Association of Government Accountants Topics, the CPA Journal, Government Executive, the CPA Letter, the Financial Statement Audit Network, and committees of professional associations generally commenting on EDs in the past (for example, the Greater Washington Society of CPAs and the Association of Government Accountants Financial Management Standards Board).
- A16. The Board did not rely on the number of respondents in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered each response and weighed the merits of the points raised. The respondents' significant comments are summarized below.
- A17. FASAB received 19 responses from preparers, users of federal financial information, and professional associations. Nearly all respondents agreed with the proposed materiality concepts and their placement in an SFFAC. This provides broad flexibility when exercising materiality judgments, while also providing consistency across standards without overriding existing materiality guidance.
- A18. Some respondents suggested creating a separate chapter in SFFAC 1 regarding materiality due to its importance. After carefully considering the comments received and the fact that materiality concepts may impact an organization at various levels and areas of responsibility, accountability, and mission, the Board proposed to place the proposed materiality guidance in SFFAC1 by **creating a new chapter 7 titled *Materiality***.

Comment [GW2]: To be finalized after the meeting

Comment [GW3]: To be finalized.

BOARD APPROVAL

A19. This Statement was approved for issuance by all members of the Board.

APPENDIX B: ABBREVIATIONS

FASAB	Federal Accounting Standards Advisory Board
FN	Footnote
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
SEC	Securities and Exchange Commission
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
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Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name: William Fleming

Please identify your organization, if applicable.

Organization: U.S. Securities and Exchange Commission

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

Partially agree with the new language on materiality, with one exception: The last two sentences in proposed paragraph 191C state:

Therefore, misstatements of relatively small amounts could have a material effect on the financial statements. For example, an amount that is not quantitatively material with respect to a very large line item may be material with respect to a smaller line item.

The preceding sentences accurately state that "materiality may vary by financial statement, line item or group of line items within an entity." However, a small amount that might be material to a single immaterial line would not, because of that, somehow become material to "the financial statements" taken as a whole. The discussion on qualitative materiality adequately covers situations where quantitatively small amounts could still be material – but those two concepts should be discussed separately.

b. Do you have any suggestions that would enhance the section? The two sentences quoted above are confusing and should be deleted, for reasons stated above.

- Q2.** The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

Disagree. Adding language to SFFAC 1, *Objectives of Federal Financial Reporting*, would add additional language on materiality to the “non-Level A GAAP” portions of FASAB issuances, but it would be silent on the relationship between the new language in SFFAC 1 and the existing language on materiality in SFFAS 1, *Accounting for Selected Assets and Liabilities* (paragraphs 12-13), and SFFAS 3, *Accounting for Inventory and Related Property*, (paragraphs 7-15),

Historically, FASAB has not amended or updated the “Introduction” paragraphs or the Appendices (such as the “Basis for Conclusions”) of SFFAS issuances, presumably because only the “Accounting Standards” sections of SFFAS issuances are considered authoritative guidance/Level A GAAP.

However, this distinction about differing levels of GAAP status for the various sections of SFFAS issuances doesn’t appear to be clearly stated anywhere in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, or anywhere else in the FASAB Handbook. Although there is an implied reference to this in paragraph 14 of SFFAS 3 (“accounting and reporting provisions of the Board’s recommended standards”), there is no clear indication that the Introduction sections (even though the paragraphs are numbered) and the Basis for Conclusions of SFFAS documents are not considered authoritative/Level A guidance.

Because of this, amending SFFAC 1 would be likely to cause confusion as to whether the guidance on materiality in SFFAS 1 and SFFAS 3 is still applicable, or whether that guidance is being effectively rescinded.

Recommendation:

If the Board intends to add new language on materiality to SFFAC 1, it should consider adding new language to the *Foreword* of the FASAB Handbook (see the existing “Materiality” section, page 4), in order to:

- Clearly state which sections of SFFAS documents should be considered authoritative guidance/Level A GAAP, in accordance with the GAAP hierarchy in SFFAS 34,
- Clearly state that SFFAC documents are below the level of the Level A-D GAAP hierarchy in SFFAS 34, but should take precedence over other sources of literature, and

- Explain the hierarchical relationship of (a) SFFAC documents and (b) the non-authoritative sections of SFFAS documents: which one is higher than the other, (a) or (b)?

Additional Comment:

SEC has no objections to the citation of SEC Staff Accounting Bulletin Topic 1.M in paragraph A9 of the Basis for Conclusions.



OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

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

DEC 20 2018

Dear Ms. Payne:

The Department of Defense (DoD) is pleased to submit the attached comments to the Federal Accounting Standards Advisory Board (FASAB) on the proposed Exposure Draft (ED), *Materiality*. The DoD generally agrees with the proposed ED with one exception. Detailed responses to FASAB's questions are contained in the attachment.

Thank you for considering the DoD's input.

Sincerely,

Kim Laurance
Director, Accounting and Finance Policy

Enclosure:
As stated



FASAB Exposure Draft: Materiality: Amending Statements of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, and SFFAC 3, Management's Discussion and Analysis
Questions for Respondents due January 23, 2019

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

DoD Response: *Agree.* The exposure draft amends SFFAC 1, Objectives of Federal Financial Reporting, and SFFAC 3, Management's Discussion and Analysis by presenting concepts regarding the application of materiality in the federal financial reporting environment. The materiality guidance clarifies that the intent is to present financial statements and notes free of material misstatements or omissions. The amendment requires that materiality be evaluated in the context of the specific reporting entity, the quantitative or qualitative impact, visibility/sensitivity of government programs, and the needs of a report user that has knowledge of the reporting entity's activities and is willing to study the information with due diligence. This amendment provides helpful guidance to the reporting entity without prescribing specific materiality thresholds or other burdensome requirements.

FASAB Exposure Draft: *Materiality: Amending Statements of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, and SFFAC 3, Management's Discussion and Analysis*
Questions for Respondents due January 23, 2019

b. Do you have any suggestions that would enhance the section?

DoD Response: It would be clearer to the reader to slightly re-word the second sentence of paragraph 191a. "The Board intends that information presented in accordance with generally accepted accounting principles (GAAP) not contain material misstatements, including omissions of the information."

Basis for Conclusions suggestions

Paragraph A7: The Government Accountability Office's (GAO) 2018 *Government Auditing Standards* commonly known as the Yellow Book was considered within the Basis for Conclusions paragraph A7. It may be helpful to extend paragraph A7 to include a narrative explaining if the GAO Financial Audit Manual (FAM), specifically Volume 1 Section 230 paragraph .11 *Determining Materiality*, was considered within the Basis of Conclusions and the reasons for consideration. It may be valuable to include whether the 3 percent guidance from the GAO FAM was considered.

Paragraph A12: Basis for Conclusion paragraph A12 discusses detailed guidance on materiality is provided in existing literature. It may be helpful to included examples of the detailed guidance.

- Q2. The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*.
Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

DoD Response: Disagree. Materiality is first discussed in the "Reliability" section in paragraph 160 of SFFAC 1. The new "Materiality" narrative could be an extension of the "Reliability" section.

Additional Comment: FASAB Handbook of Federal Accounting Standards and Other Pronouncements as Amended the Forward section that defines materiality; it would be helpful to amend SFFAC 1 with the new materiality clarification.

FASAB Exposure Draft: Questions for Respondents due January 23, 2019

Materiality

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

HHS agrees with the proposed materiality section since it assists the user, preparer, or auditor in effectively applying accounting and reporting requirements as it relates to the concept of "Materiality" when reviewing, preparing, or auditing financial statements. The proposed materiality guidance will improve the understanding and comprehension of federal financial reports by financial statement users.

b. Do you have any suggestions that would enhance the section?

HHS suggests the Materiality section include verbiage regarding Risk and it's relation to the subject matter. Risk (relating to audit, material misstatements, controls, etc.) and Materiality (qualitative and/or quantitative) among other matters, need to be considered together in designing the nature, timing, and extent of financial statement preparation, audit procedures and evaluation of the results of those procedures.

FASAB Exposure Draft: Questions for Respondents due January 23, 2019***Materiality***

- Q2.** The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

HHS agrees that the materiality concepts should be placed in the SFFAC 1; however, HHS disagrees with the recommended location of the concepts due to the important nature of the topic. Therefore, HHS proposes two (2) placement options:

Option 1

“Materiality” should have its own chapter in the SFFAC 1. HHS suggests placing this chapter between the current Chapter 6: Qualitative Characteristics of Information in Financial Reports and Chapter 7: How Accounting Supports Federal Financial Reporting. Creating a stand-alone chapter for “Materiality” emphasizes the importance of the concept.

Option 2

Materiality could be a separate component of the Objectives of Federal Financial Reporting. The current objectives include: Budgetary Integrity, Operating Performance, Stewardship, and Systems and Controls. Materiality could be viewed as another important objective of federal financial reporting.



January 16, 2019

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Statement of Federal Financial Accounting Concepts, *Materiality: Amending Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, and SFFAC 3, Management's Discussion and Analysis*.

The GWSCPA consists of approximately 3,300 members, and the FISC includes nearly 30 GWSCPA members who are active in financial management, accounting, and auditing in the Federal sector. We sincerely appreciate the opportunity by the Board to share our views.

Our responses to the ED questions are included below.

- Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.
- a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.
 - b. Do you have any suggestions that would enhance the section?
- A1. The FISC agrees with the proposed materiality section. The proposed materiality concepts are generally consistent with the concepts used by other standard setters.
- Q2. The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

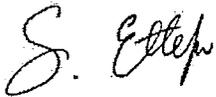
Ms. Payne, Federal Accounting Standards Advisory Board
January 16, 2019

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1?
Please provide the rationale for your answer.

- A2. The FISC agrees with the placement within SFFAC 1. The FISC suggests that the Board considers the need to keep the materiality discussions that are currently included in other FASAB publications, including Standards for Federal Financial Accounting Standards No. 3, *Accounting for Inventory and Related Property*, once SFFAC 1 is amended to include this proposed materiality section.

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,



Sherif R. Ettifa
FISC Chair

FASAB Exposure Draft: Questions for Respondents due January 23, 2019

Materiality

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name: Joanne Gasparini, Acting Deputy Chief Financial Officer

Please identify your organization, if applicable.

Organization: Social Security Administration (SSA)

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

SSA Response: We agree, with the exception of paragraph 191c, that updates and clarification are needed to the proposed materiality section. The proposed materiality section provides additional clarity for applying the concept of materiality to financial statements by expanding on the concept of misstatements when considering the needs of key users in the Federal environment. Additionally, the Board emphasizes the importance of evaluating both quantitative and qualitative factors in the determination of materiality, without providing specifics, which allows entities broader flexibility in exercising materiality judgments.

Regarding paragraph 191c, we agree with the first two sentences provided:

191c. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement.

FASAB Exposure Draft: Questions for Respondents due January 23, 2019***Materiality***

Our concerns center on the last three sentences (as shown below) of paragraph 191c.

Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item or group of line items within an entity. Therefore, misstatements of relatively small amounts could have a material effect on the financial statements. For example, an amount that is not quantitatively material with respect to a very large line item may be material with respect to a smaller line item.

Per our reading, it appears the proposed language indicates that the materiality basis from a quantitative perspective could be different for every line on the financial statements. If our interpretation is correct, we believe additional information is necessary, such as providing examples and additional information on how to make these determinations. If our interpretation is incorrect, we ask that the language be updated to avoid any possible confusion. (Please note, we offer proposed updated language under Q1b below.)

We understand from the sentence, “Consequently, after quantitative and qualitative factors are considered...,” materiality may vary by statement or line items. We also agree that materiality differs based on qualitative factors (such as fraud), even if amounts do not meet the quantitative basis value. However, the next sentence, “Therefore, misstatements of relatively small amounts...” with the example provided in the last sentence of paragraph 191c, could be interpreted that each line would have its own unique quantitative material value. This interpretation is of concern, if the quantitative materiality value were to fluctuate on a financial statement for every line item. We would also question, as to how would we establish this quantitative basis?

Currently, GAO Financial Audit Manual (FAM) Section 230.9 provides guidance on using either Total Assets or Total Expenses, as a benchmark for quantitative materiality. This benchmark provides a starting point to establish a materiality threshold on a quantitative basis. However, if the materiality value changes from line to line, what would be the basis, other than perhaps the use of percentage changes (which raises a question of the starting value to evaluate the change)? In addition, should the quantitative value be subject to change line by line? For example, if an entity has Total Assets of \$100 billion, with Property, Plant, Equipment valued at \$5 million at the end of one year and later discovers that the full \$5 million was an error and the value should be zero, would this be a quantitative material difference, requiring restatement? From an individual line item perspective, the quantitative basis would be a 100 percent error; however, the likely impact on the reader would be minimal, given the relative value to the Total Assets and the related quantitative basis of the Total Assets. While qualitative factors may cause the error to be material, it is problematic to evaluate each line separately from a quantitative perspective.

We understand that each financial statement, due to the different purposes and information provided, could potentially have its own quantitative materiality threshold, if that is the intended interpretation of the proposed language. The GAO FAM guidance does provide options (the larger of the values) to use Assets or Expenses as a benchmark; thus, indicating that the quantitative value may depend on the overall type

FASAB Exposure Draft: Questions for Respondents due January 23, 2019***Materiality***

of activity (or statement) being reviewed. However, we believe having a different quantitative materiality threshold for different line items on the same statement would be problematic.

While our interpretation of this guidance may be incorrect, we want to ensure that it is clear to the reader that materiality can vary according to each agency's determination when considering all factors (quantitatively and qualitatively).

Please see our proposed updated language under the next sub-question (Q1b).

b. Do you have any suggestions that would enhance the section?

SSA Response: As discussed above, we propose the following three options for updating paragraph 191c.

Option 1 (SSA preferred) – “Materiality should be evaluated in the context of the specific reporting entity, and should consider both quantitative and qualitative factors. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size and nature of the misstatement.”

This option would remove the potentially confusing language regarding quantitative materiality varying by statement and line item(s) and would stress the consideration of both quantitative and qualitative factors. This option allows materiality to be based on non-quantitative values.

Option 2 – “Materiality should be evaluated in the context of the specific reporting entity, and should consider both quantitative and qualitative factors. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item or group of line items within an entity.”

Option 2 would not include the sentence with the example discussing strictly quantitative basis (last sentence of paragraph 191c). This option, we believe is valid when evaluating all factors and that material items could vary in size based on qualitative factors. However, this language may still be confusing to the reader. If this language is considered too vague, we offer the following option:

Option 3 – “Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item or group of line items within an entity. Therefore, misstatements of relatively small amounts (that do not exceed the quantitative value basis) could have a material effect on the financial statements, if qualitative factors would affect the reader's opinion of the financial statements.”

FASAB Exposure Draft: Questions for Respondents due January 23, 2019***Materiality***

This option provides more information on how small dollar misstatements could still be material based on qualitative factors. (If that is the intent of the language.)

- Q2.** The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

SSA agrees. The placement of the proposed materiality concepts in an SFFAC provides broader flexibility when exercising materiality judgments, while also providing consistency across standards, without overriding existing materiality guidance.

While we agree with the placement in SFFAC 1, we question the placement in paragraph 191. This materiality paragraph is in the section of SFFAC 1 that discusses the financial reporting and the budget, which does not seem to relate directly to the discussion around materiality. We suggest creating a materiality section in SFFAC 1 and inserting this language (requires adjustment of paragraph numbering).



January 23, 2019

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

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB) on its Exposure Draft of *Materiality: Amending Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, and SFFAC 3, Management's Discussion and Analysis*. The FMSB is comprised of 19 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members and its views do not represent all members of AGA. Local AGA chapters and individual members are also encouraged to comment separately. For full disclosure and transparency, current members of the FMSB do not work with or provide consulting services with classified organizations within the Federal Government.

We appreciate the FASAB's continued effort in setting and providing clarification of the standards relating to the Federal Government. We also appreciate the efforts to converge the materiality concept in line with the other standard setters. We have reviewed the Exposure Draft and have provided our responses below based on the questions in the Exposure Draft.

Q1

The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

Initially we questioned whether FASAB should be setting materiality standards for auditors and federal government entities, considering the language in SFFAC 1.191. However, we noted other standard setters including the SEC, PCOAB, IFRS and GAO are providing materiality guidance in their respective publications. We believe there needs to be convergence of standards and/or concept statements for consistency across all public and non-public entities and addressing materiality is key to better reporting. Moreover, we believe that if the current guidance in the Forward portion of SFFAC 1 is followed literally it could be in direct conflict with several aspects of the auditing standards. For example, the current wording could inappropriately treat the risk of incorrect rejection the same as the risk of incorrect acceptance. The objective of financial reporting by preparers and the objective of assurance by auditors and regulators requires a focus on the risk of incorrect acceptance (that is, the risk that auditor concludes that the financial statements are fairly presented in all material respects when, in reality, the audited financial statements are not fairly presented in all material respects). The risk and consequences of over-reporting are insignificant compared

to the risk and consequences of under-reporting (AU-C 200.A37). We believe the proposed materiality section would help settle conflicts such as this. We request the FASAB change the materiality section in the *Handbook's* Forward to be consistent with the final language in the concepts statement. We agree with the proposed section.

Do you have any suggestions that would enhance the section?

Some of our members believe the FASAB should clarify that authoritative guidance is only limited to items that are not clearly trivial (rather than items that are not “material”) and explain that financial statements may include immaterial misstatements. This would converge terms with audit standards (AU-C 450.05). It would also align with the preparer and auditor’s thought process that the financial statements are not expected to be perfect, which is acceptable, but allow preparers the option of balancing costs and benefits against including or correcting immaterial items.

Q2

The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

We agree the proposed standard should be included in SFFAC 1 since materiality is an overall concept and should be applied respectively. Additionally, since FASAB is not providing specifics the concept statements would be the most appropriate location for the discussion.

Some of the members struggled with the placement of the section in the “Relationship of Financial Reporting to Budgeting” section of SFFAC 1. Some have suggested “Chapter 5: Balancing Costs And Benefits In Recommending Standards” or “Chapter 6: Qualitative Characteristics Of Information In Financial Reports” would be a better placement. One of our members suggested including the section in the Forward portion of SFFAC 1 under the Materiality heading for better effectiveness since concepts do not contain specific authoritative requirements for federal agencies. Therefore, including the additional “Materiality” text in the Foreword portion would be appropriate.

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact Lealan Miller, Chair at lmiller@eidebailly.com or at 208-383-4756.

Sincerely,



Lealan Miller, CGFM, CPA
Chair- AGA Financial Management Standards Board

cc: John H. Lynskey, CGFM, CPA, AGA National President

Association of Government Accountants

Financial Management Standards Board
July 2018 – June 2019

Lealan Miller, Chair

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FASAB Exposure Draft: Questions for Respondents due 23 January 2019

Materiality

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input checked="" type="checkbox"/>	
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Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

Majority of the stakeholders agree with the proposed materiality section in response to FASAB Question 1. Stakeholders provide the following rationales/questions:

- i. Section 191(e) did not provide enough specifics to help an Entity with making a solid judgement on what are their materiality impacts for identified misstatements. Essentially, the guidance to preparers has not improved since materiality is not a new concept and will be an auditor’s consideration for misstatements/omissions. OGA questions "what should a preparer use to make the materiality “Call” in absence of the auditor’s review, when trying to determine on their own if the misstatement is material"?
- ii. The proposed amendments provide more clarity on assessing materiality from a qualitative perspective.
- iii. The draft standard states that materiality should be assessed, but never really says who should assess materiality besides the words, “the reporting entity.” OGA understands that the auditors assess materiality through Generally Accepted Government Auditing Standards.

b. Do you have any suggestions that would enhance the section?

FASAB Exposure Draft: Questions for Respondents due 23 January 2019***Materiality***

Stakeholders provide the following suggestions:

- i. **Quantitative factors are not clearly defined and should be more specific. OGA suggests considering a percent of the “balance sheet” or “accounts receivables” amount as an initial review of the materiality. Then list a series of factors to determine possible impact of the misstatement or omission. Where are the “factors” for consideration and how will the misstatement or omission impact the “factors”.**
- ii. **Suggest that FASAB explicitly mention that materiality should be defined by the reporting entity’s management. Because FASAB does not provide thresholds for materiality, management has the right to apply materiality standards in accordance with this guidance, as it deems appropriate provided that the financial statement user would not be improperly influenced by an amount deemed immaterial by management.**

Q2. The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

Majority of the stakeholders agree with the placement within concepts and specifically in SFFAC 1 in response to FASAB Question 2.

Stakeholders provide the following rationales/questions:

1. **SFFAC 1 provides the concept and goals for financial reporting of an entity and provides guidance for communication of an Entity’s financial soundness to the public via the financial statements. Integrity, Trust and Transparency should be a key concept and goal of the Entity to the public to ensure the public is not purposely misled through the lack of disclosures of material misstatements and omissions.**

SFFAC 3 Management Discussion and Analysis should include this as discussion point by management based on the defined concepts of materiality.

2. **Including the additional information in SFFAC 1 makes the most sense since it directly impacts the objectives of federal financial reporting.**



Name *Mark Doehnert*

Comments on the exposure draft of a proposed Statement of Federal Financial Accounting Concepts, titled Materiality: Amending Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, and SFFAC 3, Management's Discussion and Analysis:

I generally favor the proposals, note that the concept of materiality applies to both financial monetary results/values and to performance and non-financial results, and offer these recommendations to further improve federal financial reporting and contribute to the federal financial reporting objectives:

Paragraph 191c states materiality should be evaluated in the context of the specific reporting entity and uses the term "line item," such as "a very large line item" and "a smaller line item." Appendix E: "Consolidated Glossary" is stated as being "a compilation of all terms presented in Statements of Federal Financial Accounting Standards." The term does appear in standards (e.g., in Statement of Federal Financial Accounting Standards 3: Accounting for Inventory and Related Property). However, the term "line item" does not seem to be in the Consolidated Glossary, yet it appears to be important for the concept of materiality. It can also be important for internal control and risk management, such as in the concept of "entity-level control." Therefore, recommend the term be added and defined/explained. And also how they differ from responsibility segments for which cost and financial data are collected. Examples would help in the definition. Note that there are definitions of the term online, such as <https://pakaccountants.com/what-is-line-item/> <http://www.businessdictionary.com/definition/line-item.html>, however there seems to be a need for a definition specific to the federal concepts and standards. The perceived costs to add the definition seem low, and the expected benefits significant.

As noted in Concepts 3, Page 7 FASAB Handbook, Version 17 (06/18), Figure 1: "Schematic Diagram of a Sample General Purpose Federal Financial Report," a report Required Supplementary Stewardship Information (RSSI), Required Supplementary Information (RSI), but also includes "performance information." The Board notes that the statement of program performance measures is not a basic financial statement, but nevertheless, it is an important component of the financial reports. Accountability Level 3 the Board notes is performance accountability—efficient operation (efficiency and economy). The Board also notes that accountability beyond probity (level 5) and process (level 4) requires performance measures. And Level 2 program accountability (establishment and achievement of goals (outcomes)) and Level 3 performance accountability (efficient operation (efficiency and economy)) would seem to also need measures. Finally, "Operating Performance" is one of the four objectives of federal financial reporting, and "Stewardship and "Systems and Control" are both closely related. Thus either omission of material performance information or a material misstatement of such information would seem to directly bear on materiality. Therefore, recommend the word "performance" or words "performance information" be added,¹ such as in paragraph 191a as shown in the following as underlined proposed new text:

191a. A reporting entity considers materiality in the application of accounting and reporting requirements. The Board intends that information presented in accordance with generally

¹ The perceived costs to add performance seem low, and the expected benefits significant. Congress even passed a law called the Government Performance and Results Act, so disclosing its performance seems fundamentally material.

accepted accounting principles (GAAP)^{15.1} will not contain misstatements, including omissions of information, considered material. Such omissions include information that is necessary for a user to understand the effect of particular material transactions, performance information, other events, and conditions on the entity's financial statements, RSI, or RSSI.

Given that "Effectiveness and efficiency of operations" is one of the three overall objectives of internal control² per GAO-14-704G "Federal Internal Control Standards," given that "Operating Performance" is one of the four objectives of federal financial reporting, and given that paragraph 191f already addresses the third objective of internal control (compliance with applicable laws and regulations), recommend that operating performance be added³ to that paragraph, such as shown in the underlined proposed addition below:

191f. In applying materiality concepts, the specific needs of a reasonable financial report user should be considered. In the federal government environment, such needs generally differ from those of the commercial entity financial report user. For example, due to the visibility and sensitivity of government programs, federal government financial report user needs extend to having the ability to assess the allocation and use of resources in the federal government. Operating performance is another. Further, compliance with laws, regulations, contracts, and grant agreements is also a significant consideration of the user.^{15.2}

Fax the comments to (202) 512-7366

² Operations - Effectiveness and efficiency of operations
• Reporting - Reliability of reporting for internal and external use
• Compliance - Compliance with applicable laws and regulations

³ The perceived costs to add performance seem low, and the expected benefits significant.

From: Miller Tim
Sent: Wednesday, February 13, 2019 8:33 AM
To: 'FASAB@updates.gao.gov' <FASAB@updates.gao.gov>
Subject: FW: Comment Deadlines Extended to 2/8/19

Materiality

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. *Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.* Ans. I am in agreement with the materiality section because materiality should be evaluated in the context of the specific reporting entity. Also, in regards to whether or not a misstatement has occurred, including omission of information, I agree using what would be expected that the judgment of a reasonable financial report user relying on the information would change or be influenced by the correction or inclusion of the information.

b. *Do you have any suggestions that would enhance the section?* No, I think the topic has been adequately and thoroughly covered.

Q2. The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer. Ans. Agree. It makes sense to having materiality levels in SFFAC 1 so the concepts are relevant and meaningful.

Other suggestions: it would be nice if the guidance included examples of how to calculate materiality, because when it is calculated at an agency the auditors will ask the agency to support the components of the calculation and sometimes it can feel arbitrary and there isn't always a 1:1 correlation, so having something from FASAB as an example to fall back on would be helpful

Tim Miller, Manager
Financial Systems Division
Bureau of Engraving and Printing
Wk 202-874-2219



FASAB Exposure Draft: Questions for Respondents due February 2019

Materiality

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input checked="" type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Response:

- *Partially (if only one choice No.)*

b. Please provide the rationale for your answer.

- This is a great opportunity to straighten a lot of confusion about materiality, directly for financial reporting purposes but also indirectly for asset management, operations and auditing. The other areas may focus on full framework of internal control as indicated in the GAO Green Book: effective and efficient operations reliable financial and non-financial reporting and compliance with laws and regulations... This is also a great opportunity to harmonize the GAO Yellow Book (attestations audits, performance audits), the GAO Green Book and 2 CFR PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS.

- The placement of the addition should apply to more than high level budgets and operational results that apply to those budgets. The reader and others may believe materiality is confined to the section "Relationship of Financial Reporting to Budgeting".

c. Do you have any suggestions that would enhance the section?

FASAB Exposure Draft: Questions for Respondents due February 2019

Materiality

- Address the multidimensional aspects of materiality in financial reporting, asset management, operations and auditing. These differ but usually have a lot in common, but they should be viewed and used independently. For example, a Government department for accounting purposes, may have a capitalization threshold of \$100,000 but an asset accountability threshold of \$10,000, or for material in inventory or plant maintenance functions much less. It is important that management have the authority and responsibility to manage the materiality concepts and related thresholds. Concurrently management must vigorously comply with and balance the requirement, of GAO Green Book and the GAO Yellow Book, including the protection of assets and minimizing administrative cost. The auditing function should not try to set materiality threshold for those being audited. That is management's responsibility. The auditor can, of course, assess certain issues of effectiveness, efficiency, reliability reporting and compliance with GAAP, laws, regulations, and compliance with internal policy. Materiality is contextual.
- The materiality section should cover how accounting and asset management relate. Organizations must have the freedom to approach these disciplines semi-independently. There is much commonality between the disciplines, but one should not impair the other with unworthwhile, useless or irrelevant work.
- Place the content in another section, other than 191a. Another concept on its own would be worthwhile, as how things are managed from bottom to top depending upon the concept of materiality. The use of materiality concepts impacts an organization at various levels and areas of responsibility, accountability, and mission. For financial accounting reporting purposes at the organization level, materiality thresholds can and should be high, as finite details may not be worthwhile and useful for the readers. Sometimes too much detail is harmful as the reader and the high-level decision maker can get lost in the details.
- There needs to be an expansion on the concept of qualitative materiality. Actively seek qualitatively material information that exposes waste, fraud and abuse and mismanagement. We suggest this can be done by requiring affirmations to compliance with the GAO Blue Book regarding internal controls.

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Materiality

The section should harmonize with the Cost Accounting Standards "9903.305 Materiality. An edited version:

In determining whether amounts of cost are material or immaterial, the following criteria shall be considered where appropriate; no one criterion is necessarily determinative:

- (a) The absolute dollar amount involved. The larger the dollar amount, the more likely that it will be material.
- (b) The amount of cost compared with the amount under consideration. The larger the proportion of the amount under consideration to overall cost, the more likely it is to be material.
- (c) The relationship between a cost item and a cost objective.
- (d) If the administrative process is used for internal control purposes, high value negative or positive risk management, a key performance indicator, or protection of high value assets, it is more likely to be material.
- (e) The cumulative impact of individually immaterial items. It is appropriate to consider whether such impacts:
 - (1) Tend to offset one another, or
 - (2) Tend to be in the same direction and hence to accumulate into a material amount.
- (f) The cost of administrative processing shall be considered if the actual administrative cost is excessive in relationship to the benefits from what may be duplicative controls. For example, if an accountability threshold for equipment is \$500 and the annual cost to maintain the accountability is \$450 and the marginal net loss for the lack of finite accountability averages \$10.00 because of other controls in place, the \$500 threshold is too low, and adjustments should be made. There may be other approaches to meet the same outcome with much less administrative cost. On the other hand, it would be reckless, for asset management and operational purposes to just manage items at the same level as the capitalization threshold.

SEC Staff Accounting Bulletin: No. 99 – Materiality provides excellent guidance on materiality.

ASTM E 2279 regarding the Guiding Principles of Property Asset Management combines portions of the Cost Accounting Standards and SEC requirements and defines: materiality, n— magnitude of an omission or misstatement of accounting data that misleads financial statement

FASAB Exposure Draft: Questions for Respondents due February 2019***Materiality***

readers or decision makers; materiality is judged both by relative amount and by the nature of the item.

Discussion—For example, even a small theft by the president of a company is material. If an item is material, it should be disclosed in the body of the financial statements or footnotes (Securities and Exchange Commission Staff Accounting Bulletin). In determining whether items or amounts of cost are material or immaterial, the following quantitative and qualitative criteria should be considered where appropriate but no one criterion is necessarily determinative: (1) the absolute dollar amount involved, (2) the relationship between a cost item/occurrence and a cost objective, (3) the criticality of an item in terms of importance or use, (4) the cumulative impact of individually immaterial items, and (5) the cost of administrative processing (Federal Acquisition Regulations).

- Q2.** The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

Disagree. The concept of materiality and the proper use of materiality should be its own high-level concept document and expansion of the concept and the accountability for disclosure of material information. Frequently, organizations do not want to provide material information. Transparency is good and drives prioritization, accountability and self-correction. Materiality having its own concept will improve performance. Understanding the concept of materiality, if approached correctly, is liberating. Concurrently, material information must be disclosed. Negative or embarrassing material information must be disclosed.

Other Comments:

There should be no expectation or excuse to indicate that some Government work deserves lower thresholds than commercial or non-government work. That may bias the use of thresholds. Government work needing lower thresholds may have been true in the past but not now in that most organizations use some form of the COSO Internal Control Framework. The internal control framework, if used properly, should drive for optimization of thresholds based upon facts, circumstances and valuations.

The concept of materiality includes quantitative and qualitative considerations.

Qualitative information may inform stakeholders just as much or more than quantitative information. Some examples:

The requirements for the self-disclosure of qualitatively material information should be further expanded upon including some common expectations. With single audits there may not be enough auditing to provide reasonable assurance for all stakeholders.

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Materiality

Some examples of material information that should have been self-disclosed and explained but was not:

- See GAO Study **CONTRACTOR BUSINESS SYSTEMS**
<https://www.gao.gov/assets/700/696801.pdf>

Table 4: Deficiencies Identified Between Fiscal Years 2015 and 2017 for Completed DOD Contractor Business System Reviews

Agency	Business system	Reviews completed	Reviews where significant deficiencies were found	Percentage of reviews where significant deficiencies were found
Defense Contract Audit Agency	Accounting	3	0	0%
	Estimating	9	7	78%
	Material Management and Accounting	12	9	75%
Defense Contract Management Agency	Purchasing	330	260	79%
	Property Management	2,934	26	1%
	Earned Value Management	891	9	1%

Source: GAO analysis of data from Defense Contract Management Agency functional offices and Defense Contract Audit Agency | GAO-19-212

Only two DoD contractor business systems provide reasonable assurance of compliance to Government regulations. Considering the large amount of money and resources going through the DoD business systems, the lack of assessments should be a concern to stakeholders. This chart provides significant key performance indicators (KPIs).

- There is a large multi-state public utility corporation --- publicly tradéd, that receives Government grant funds. This utility is focusing on growth in a state that is slow growth. One state utility has a rate base per customer over twice as much as a sister company Both operating essentially under the same type of location, laws and regulations. What is the top priority spending to expand the rate base or spending occurs only when verifiably necessary? Are there internal control deficiencies, and unreasonable and imprudent cost?
- Same corporation in its 10-K management claims it has adopted the COSO Internal Control Framework (GAO Green Book), which includes compliance with laws and regulations. Upon a basic review of some fundamentals, it was discovered that this corporation was using the wrong testing pressure for testing plastic pipes. The construction code standard, for low pressure lines, is 3 pounds per square inch, Federal Department of Transportation regulations requires not more than 50 pounds per square inch and this utility's internal policy required 90 pounds per square inch (essentially this is destructive testing of assets and dangerous to employees). This practice appears to have been in place at least since 1970. 1970 was when the Federal regulation that applies to gas utilities requiring not more than 50 pounds per square inch was published.

What does this indicate for the internal controls, including safety of employees, quality assurance functions and operations of this publicly traded corporation? What does it indicate of the six state utility commissions and others that this was not caught and corrected long ago? This is qualitatively material information for each responsible organization. Material weakness and significant deficiencies should be self-disclosed as well as corrective actions.

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Materiality

- “People do not do what you expect but what you inspect.” (Lou Gerstner) There must be sufficient internal and external audits. The lack of internal and external audits is qualitatively material information. Required self-disclosures prompts self-correction and self-improvement.

The public and other stakeholders need to know for example:

- Performance against high level Key Performance Indicators is qualitatively material information. If the organization does not use Key Performance Indicators that is material information.
- The organization’s maturity level in the use of the GAO Green Book, levels 1-5 in accomplishing objectives in the areas of: 1) Effective and efficient operations; 2) Reliable reporting; 3) Compliance with laws and regulations...

TABLE 1 Five Maturity Levels

Description		Definition	Descriptive Terms
1.0	Basic	Processes that are chaotic, undocumented, and inconsistent, typically the starting point of a process.	Start of process, processes having basic framework, duties are assigned, and task performers are identified.
2.0	Structured	Processes that have been defined and are understandable, documented, and capable of being repeated.	Defined, documented, capable of being repeated, understandable, implemented.
3.0	Consistent	Processes that are prescribed and consistently performed at the organizational level with consistent results.	Established and prescribed, consistently performed, consistent results obtained.
4.0	Managed	Processes that are systematic, have process performance established, and are predictable.	Systematic, calculated, regulated, metrics applied, objectives established, continuous improvement.
5.0	Optimizing	Processes that are embedded within an organization and are supported through all levels of management.	Habitual, perpetual, inherent quality, recurrent, culturally embedded, supported throughout all levels of the organization.

FASAB Exposure Draft: Questions for Respondents due February 2019***Materiality***

From (ASTM E2452)

See Appendix A1 for further criteria of the maturity levels.

- Use of International Management Systems Standards (Office of Management and Budget (OMB) Circular A-119, "Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities," <https://www.federalregister.gov/documents/2016/01/27/2016-01606/revision-of-omb-circular-no-a-119-federal-participation-in-the-development-and-use-of-voluntary>

Please provide answers to the following for your organization. Has your organization adopted the following international consensus standards?

- ISO 9000 Quality Management Y/N, Certification Y/N
 - ISO 55000 Asset Management Y/N, Certification Y/N
 - ISO 31000 Risk Management Y/N
 - Other Consensus Standards used, certified or intending to use within the next year.
- Maturity level of the system for recognition, policy promulgation and implementation of applicable legal and regulatory requirements.
 - Maturity level of the ethics, compliance and whistleblower system. Are all submissions recorded, independently investigated and appropriate actions taken? Is the system used to improve performance of the organization?
-
- Maturity level of the Corrective Action Request system to improve or correct the integrity or quality of operations and activities?
 - List three of the most significant positive and negative recognitions occurrences, or awards or penalties within the last year.

Appendix A Maturity Levels

Attribute	Level 1 -- Basic	Level 2 -- Managed
	Processes are generally ad hoc and chaotic; success primarily depends on heroics	Projects of the organization ensure requirements are managed and processes are planned, performed, measured, and controlled
Performance	Not Performed, or ad-hoc; cannot repeat successes	Partially performed; successes repeatable
Threshold	Negligence averted; processes only implemented to avert negative outcomes	Standards, process descriptions, and procedures may be quite different in each specific instance of the process
Environment	Unstable; frequently exceed budget and schedule	Some tracking of cost and schedule; visibility of major milestones
Benefits	Not aware of the benefits	Very high-level framework provides a consistent reference in executing the organization's objectives
Who	Individual heroics	Multifunctional responsibility
When	Typically, not performed, or erratic	Performed inconsistently or late
Process	No consistent process; ad hoc responses to problems	Formal process; standard processes understood and improved over time
Expertise	Limited or no expertise with certification	Some knowledge and skills and limited certification
Tools	No tools applied	Basic tools applied inconsistently
Comments	The work is generally not very reliable, but it may suit the needs at the time. There is not much understanding of the importance of the work. The work is probably inconsistent with others doing like work. Without the heroics or hero, failure is likely. There is very limited assurance. There may be high self-confidence. They are likely to be a laggard in adopting of innovations. No self-assessment or third-party assessments.	Outcome is better than level one and are performed more effectively and efficiently, more reliable and more compliant. Limited assurance. They are generally a late adopter of innovations.

Appendix A Maturity Levels

Attribute	Level 3 -- Defined	Level 4 -- Quantitative and Predictive
Level Description	Processes are understood at the organizational level; standard organizational processes, standards, tools, and methods exist that are tailored for use on the projects	Sub processes are selected that significantly contribute to overall process performance and they are controlled using quantitative techniques; quantitative objectives for quality and process performance are established; special causes of variation are detected and corrected as appropriate
Performance	Formally performed	Acknowledged contributor
Threshold	Processes are qualitatively predictable, but not quantitatively controlled	Metrics and goals around these metrics have been communicated throughout the organization
Environment	Budgeted for and Consistently applied across the organization	Predictability: management can identify ways to adjust and adapt without loss of quality; budget a priority
Benefits	Organization has the necessary competence and capabilities to meet basic mission and audit requirements	Organization has laid the baseline to quantitatively and qualitative assess its performance against mission and has a vision for improvement.
Who	Functional specialists	Organization has identified and trained cross functional or core team to interface with and maintain the property management system
When	Performed consistently and on time	Ongoing activity
Process	Formal process; standard processes understood and improved over time	Formal process drives performance
Expertise	Metrics and goals around these metrics have been communicated throughout the organization	Knowledgeable and experienced professional staff with appropriate certifications
Tools	Standard tools available and applied periodically	Standard tools applied consistently
Comments	Better internal controls than Level 2 and more assurance of meeting objectives. They are equally likely to be early adopter of innovations and a late adaptor of innovations.	Better internal controls than Level 3 and more assurance of meeting objectives. More likely to be an innovator or early adopter than a late adaptor of innovations.

Appendix A Maturity Levels

Attribute	Level 5 -- Optimizing
Level Description	The organization focuses on continually improving process performance through both incremental and technological improvements
Performance	Culturally embedded
Threshold	Processes are concerned with addressing common causes of process variation and changing the process
Environment	Agile and innovative, based on continuous improvement; budget incorporated into planning
Benefits	Benefits fundamentally important to success; assets meet mission requirements, and budget resources are appropriate for mission needs
Who	Extended team including external specialists
When	Seamless part of business processes
Process	Continuously improving processes
Expertise	Empowered senior level expertise and staff certified at highest levels
Tools	Use of advanced tools and methods
Comments	Outcome is better than Level 4 and are performed more effectively and efficiently, more reliable and more compliant. Achieves reasonable assurance by third party validation. Much more likely to be an innovator or early adopter than a late adopter or a laggard. Recognizes additional paths to improvement.

FASAB Exposure Draft: Questions for Respondents due January 23, 2019

Materiality

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm		
Federal Entity (user)	X	
Federal Entity (preparer)	X	
Federal Entity (auditor)		
Federal Entity (other)		If other, please specify: _____
Association/Industry Organization		
Nonprofit organization/Foundation		
Other		If other, please specify: _____
Individual		

Please provide your name.

Name: General Services Administration, OCFO

Please identify your organization, if applicable.

Organization: Office of Financial Management

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

GSA Responses: We agree with the language proposed for the materiality section, however due to the very general, high-level perspective, it lacks sufficient detail to support reporting entities making determinations based on materiality factors. Particularly we believe further guidance is needed regarding the quantitative perspective of materiality, to promote consistency in application and reduce the risk of conflicting interpretations of the guidance, such as amongst management, financial preparers and auditors. The proposed general and limited nature of the guidance leaves materiality determinations more subject to challenge or dispute based on differing perspectives and professional judgement of individuals. Please see the suggested enhancements below.

b. Do you have any suggestions that would enhance the section?

GSA Responses: We recommend the FASAB consider guidance such as the Government Accountability Office's (GAO's) Financial Audit Manual (FAM), specifically Section 230 for additional levels of detail that would be appropriate to guide financial statements preparers. The FAM Section 230 parts .10, .11 and .12

FASAB Exposure Draft: Questions for Respondents due January 23, 2019***Materiality***

provide auditors with general guidance for setting quantitative measures such as materiality benchmarks, materiality factors (such as 3% of the benchmark), performance materiality (1/3 of the materiality factor) and tolerable misstatements, used in developing audit plans and making assessments to form conclusions on the accuracy of financial information being audited. It is made clear in the FAM guidance, that even the general guidelines are subject to adjustment for auditors' professional judgment regarding the specific situation, accounts, and entity at hand. It would seem reasonable that if auditors are to rely on guidance such as the FAM to audit financial reporting, that the FASAB would have comparable guidance for financial preparers to use when applying FASAB Standards. Especially as the FASAB's materiality guidance is expected to be issued as an element of accounting concepts, the inclusion of greater quantitative guidelines does not have the same prescriptive nature as is often associated with accounting standards.

If the Board chooses not to develop more detailed guidance, such as is included in the FAM's Section 230, we recommend the Board include discussions of such FAM guidance or other AICPA Statements on Auditing Standards (SAS), to identify if they are, or are not, appropriate for preparers to apply those or similar quantitative constructs in making decisions on matters of materiality for financial reporting.

- Q2.** The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

GSA Responses: We agree with the placements of materiality guidance within concepts and specifically SFFAC 1. We believe the nature of the guidance is primarily to provide framework for entities in implementing and applying the accounting standards. The nature of this guidance, with much leeway for entities to consider alternative perspectives, the focus of the guidance becomes more conceptual rather than prescriptive, befitting its placement in a concepts statement.

FASAB Exposure Draft: Questions for Respondents due January 23, 2019

Materiality

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input checked="" type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

b. Do you have any suggestions that would enhance the section?

A1.a. Treasury does not have any objection to the Exposure Draft guidance regarding the Materiality amended sections with respect to the *Statement of Federal Financial Accounting Concepts (SFFAC) No. 1, Objectives of Federal Financial Reporting, and SFFAC No. 3, Management's Discussion and Analysis.*

A1.b. Treasury has no suggestions at this time that would enhance the Materiality interpretation guidance as proposed.

Q2. The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting.* Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

FASAB Exposure Draft: Questions for Respondents due January 23, 2019***Materiality***

A2. Treasury does not have any objection for the placement of materiality concepts in the SFFAC No. 1. We believe such placement to present the concept is appropriate for the concepts discussed with regards to the SFFAC 1 as a whole.



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer and
Assistant Secretary for Administration
Washington, D.C. 20230

MAR 05 2019

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Washington, DC

Dear Ms. Payne:

The Department of Commerce has reviewed the Exposure Draft –*Materiality: Amending Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, and SFFAC 3, Management's Discussion and Analysis*, dated October 15, 2018.

Please find enclosed answers to the questions that were asked of respondents. If you have any questions, please contact me at (202) 482-1207 or galston@doc.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Gordon T. Alston", with a long horizontal flourish extending to the right.

Gordon T. Alston
Director of Financial Reporting and Policy,
Internal Controls, and Travel

Enclosure

FASAB Exposure Draft: Questions for Respondents due March 11, 2019

Materiality

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select “individual.”

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

The Department agrees with the proposed materiality section. The additional information provides clarification to the concept of materiality and how it should be applied in the federal financial reporting environment.

b. Do you have any suggestions that would enhance the section?

The Department does not readily have any suggestions.

Q2. The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

The Department agrees with the placement within concepts, and more specifically, within SFFAC 1. The concepts document appears to be the best place for guidance on

FASAB Exposure Draft: Questions for Respondents due March 11, 2019

Materiality

materiality because it is applied based on individual unique circumstances found by federal entities.

From: Simpson, Cynthia - OCFO [mailto:Simpson.Cynthia@dol.gov]
Sent: Monday, March 11, 2019 1:19 PM
To: FASAB
Cc: Wu, Grace Q; DiGiantommaso, Jennifer M. - OCFO; Wyse, Tesfaye T - OCFO; Maurer, Jennifer - OCFO; Simpson, Cynthia - OCFO; Sacchetti, Dylan M - OCFO
Subject: US DOL/OCFO/DFR Comments on FASAB Exposure Draft, "Materiality--Amending SFFAC 1 . . . and SFFAC 3 . . ."

Below please find comments from the U.S. Department of Labor (DOL), Office of the Chief Financial Officer (OCFO), Division of Financial Reporting (DFR) on the exposure draft (ED) of proposed Statement of Federal Financial Accounting Concepts (SFFAC), "Materiality: Amending SFFAC 1, Objectives of Federal Financial Reporting, and SFFAC 3, Management's Discussion and Analysis (October 15, 2018)," Comments were requested by March 11, 2019. DOL/OCFO/DFR is a Federal entity preparer.

We appreciate the opportunity to provide comments. If there are any questions, please contact:
 Cynthia Simpson, simpson.cynthia@dol.gov or
 Jennifer DiGiantommaso, DiGiantommaso.Jen@dol.gov

Regards,

Cynthia D. Simpson
 U.S. Department of Labor
 Office of the Chief Financial Officer
 Division of Financial Reporting

=====

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

DOL/OCFO/DFR Response: Please refer to our responses to question 1.b below.

b. Do you have any suggestions that would enhance the section?

DOL/OCFO/DFR Response:

[1] Page 4, paragraph 191b. The word used is "can" in:

" . . . it can be reasonably expected . . . "

Page 4, paragraph 191d. The word used is "can" in:

" . . . if it can be reasonably expected . . . "

whereas in the same paragraphs, the word "may" is used. We suggest that "could" or "would" be used instead of "can."

Also, we suggest that "reasonably" be moved so that the sentences read "reasonably be expected."

[2] Page 4, paragraph 191b. We suggest that the "due" in "due diligence" be removed because of the legal/contractual connotations associated with the term "due diligence" versus "diligence," which does not have that connotation.

[3] Pages 4 and 5, paragraphs 191b, 191c, 191d, and 191e. Paragraphs 191b and 191d use "judgment" to refer to the judgment of the user, whereas in paragraphs 191c and paragraph 191e, "judgment" seems to refer to the judgment of the preparer. Please be specific as to whether paragraphs 191c and 191e are referring to the user's judgment or the preparer's judgment.

Q2. The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

DOL/OCFO/DFR Response: Agree with the placement.

[1] However, placement of information is not covered in the SFFAC. The SFFAC does not mention whether the placement of the information could be a misstatement, especially for qualitative information or information in narrative form (e.g., in one note disclosure instead of another note disclosure; in RSI/RSSI instead of basic information; in MD&A/front matter instead of RSI/back matter). Assuming that GAAP does not otherwise specify the placement of the information, does misstatement include where the information (the placement) is reported in GPFFR?

Comments on Other Aspects of this Proposal

Your memorandum mentioned that we were welcome to comment on any aspect of this proposal. Below please find comments on other aspects of this proposal.

[i] Page 1, Response to the question, "How would this proposal improve Federal Financial Reporting and contribute to meeting the Federal Financial Reporting objectives?"

In consideration of the question's response:

"A reporting entity considers materiality in the application of specific requirements to information contained in its general purpose federal financial reports."

please make it clear that this SFFAC applies to General Purpose Federal Financial Reports. "Financial statements" may be prepared for internal management purposes and for interim periods; they may exclude certain required annual accruals and adjustments; and they may exclude certain financial statements and disclosures which would otherwise be required under GAAP (e.g., exclusions could be: note disclosures that are an integral part of the financial statements; certain statements, such as the Statement of Budgetary Resources which are not required to be submitted as part of third quarter interim statements per OMB Circular A-136; and RSI/RSSI). However, GPFFR would include the financial statements and disclosures required by GAAP. Therefore, if the SFFAC refers to "financial statements," it should be clear that these are GPFFR.

[ii] Page 7, paragraph A7. The excerpt for paragraph 6.03 from the GAO Yellow Book is missing the footnote 41 for AU-C section 320, Materiality in Planning and Performing an Audit (AICPA, Professional Standards). Please include footnote 41 because AU-C section 320 provides for concepts about materiality and the excerpt of paragraph 6.03 would be incomplete without footnote 41. The footnote 41 provides a reference that the reader may use for additional information on the topic of materiality.

[iii] Page 7, footnote 1. The correct page numbers as printed in the GAO Yellow Book are pages 109—110 at:

<https://www.gao.gov/assets/700/693136.pdf>

[iv] Pages 7--8, paragraph A12. For the sentence, "Existing literature already provides detailed guidance on materiality considerations."

Please provide a list of examples of the existing literature that already provides the detailed guidance on materiality considerations. The guidance should be "detailed" and not of a general nature, such as the guidance that is found in OMB Circular A-136. A list with examples would provide references that the reader may use for additional information on the topic of materiality. If there is no list of examples, then omit the sentence.

FASAB Exposure Draft: Questions for Respondents due January 23, 2019

Materiality

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input type="checkbox"/>	
Federal Entity (auditor)	<input checked="" type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

Agree. Factors noted in Appendix A affected this conclusion. Both quantitative and qualitative considerations are typically entity specific. Existing guidance on the application of materiality to consider both individually and in the aggregate as well as qualitative factors to consider already exists within AU-C 320 *Materiality in Planning and Performing an Audit* and the Governmental Accountability Office Financial Audit Manual §230 at the entity level. Therefore, no changes to audit approach are required.

We also agree with the proposed amendment to SFFAC 3 footnote 10 as a clarification point.

b. Do you have any suggestions that would enhance the section?

If a change in the concept of materiality would enhance a reasonable financial report users' reliability, make a case of what specific changes to the concept would look like. As presented, the effect may be increased ambiguity and additional audit effort merely to demonstrate compliance.

FASAB Exposure Draft: Questions for Respondents due January 23, 2019***Materiality***

Paragraph 191c comment. Don't believe we need the last sentence, suggest omitting or clarifying. *"For example, an amount that is not quantitatively material with respect to a very large line item may be material with respect to a smaller line item."*

- Q2.** The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

Agree. Seems reasonable to include in SFFAC 1 and existing literature already requires an auditor to consider non-quantitative elements in the audit approach to materiality.

FASAB Exposure Draft: Questions for Respondents due January 23, 2019

Materiality

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input checked="" type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

DHS Response: The Department agrees. The proposed section considers the evaluation of materiality in the context of the specific reporting entity by using both quantitative and qualitative factors that provide users with enhanced clarity of the material and meaningful financial information.

b. Do you have any suggestions that would enhance the section?

DHS Response: The Department has no further comment.

Q2. The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

DHS Response: The Department agrees. Materiality concepts are fundamental part of the objectives of federal financial reporting which provide the framework for all standards. Therefore, it is appropriate to place it in SFFAC 1.

FASAB Exposure Draft: Questions for Respondents due January 23, 2019

Materiality

FASAB Exposure Draft: Questions for Respondents due January 23, 2019

Materiality

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: <input type="text"/>
Individual	<input type="checkbox"/>	

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization:

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

DOI Response: DOI bureaus generally agree that the materiality concepts would provide a broader flexibility in exercising materiality judgment. The concepts are consistent with the current guidance and practices but provide context in which materiality is determined.

However, one DOI bureau noted that the definition of "materiality" is not apparent in the proposed section, although 191b describes what is considered "material". In addition, the bureau questions why in 191f there is a reference to commercial entity financial report users. Also Paragraph A4 states, "...adds important elements such as a discussion of users..." This discussion does not seem to be included in the materiality section. Paragraph A6 generally references the users identified in SFFAC 1; however, is Appendix A a part of the materiality section?

b. Do you have any suggestions that would enhance the section?

DOI Response: Please clarify if or what the differences are between a "reasonable financial report user" as used in Paragraph 191b. , a "reasonable user" as used in Paragraph 191d and a "user" in Paragraph 191a. If terms are interchangeable, please note so.

FASAB Exposure Draft: Questions for Respondents due January 23, 2019***Materiality***

In Paragraph A11, it is unclear to what “other sectors” is referencing. Is “sectors” the correct word or is it “sections” or something else entirely?

- Q2.** The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

DOI Response: DOI agrees with placing the materiality section in SFFAC 1 because it would provide an overarching concept that provides consistency across accounting standards without overriding existing guidance on materiality.

FASAB Exposure Draft: Questions for Respondents due January 23, 2019

Materiality

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	<input type="checkbox"/>	
Federal Entity (user)	<input type="checkbox"/>	
Federal Entity (preparer)	<input type="checkbox"/>	
Federal Entity (auditor)	<input type="checkbox"/>	
Federal Entity (other)	<input checked="" type="checkbox"/>	If other, please specify: Department of Housing and Urban Development
Association/Industry Organization	<input type="checkbox"/>	
Nonprofit organization/Foundation	<input type="checkbox"/>	
Other	<input type="checkbox"/>	If other, please specify: _____
Individual	<input type="checkbox"/>	

Please provide your name.

Name: N/A

Please identify your organization, if applicable.

Organization: Department of Housing and Urban Development

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

HUD generally agrees with the proposed materiality section. HUD OCFO's Office of Accounting believes that financial reporting information (data) provided should be presented in a more simplified manner which would help the user to better understand exactly what area(s) of the financial data is affected and the level of difference made by the changes. Specifically, Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item or group of line items within an entity. Therefore, misstatements of relatively small amounts could have a material effect on the financial statements.

HUD OCFO also points out that heightened clarity is always better, particularly regarding the subject of materiality which has proved to be neither "black and white" nor straight forward. Materiality is subject to professional judgment and other financial variables that may vary from agency to agency. OCFO Accounting believes this proposed section will be beneficial because it will help auditors and accountants utilize a baseline framework to determine when materiality exists while examining financial reports. If the outlined requirements listed in FASAB standards and concepts are followed, it will maintain a level of objectivity and remove the need for

FASAB Exposure Draft: Questions for Respondents due January 23, 2019***Materiality***

subjective interpretations of regulatory guidance. It will also reduce agency Point of Contacts' inclination to omit information and will help them to make better judgement.

FHA substantiates its agreement with the Board by noting that the proposed materiality section does not include substantive changes to the underlying concepts. Instead, by clarifying and providing better guidance, it adds important elements such as a discussion of users, a clearer concept of misstatement, and specific federal reporting entity considerations.

While GNMA generally agrees, it does note that the materiality section is overly broad and could be clearer regarding the difference between management's materiality and auditor's materiality assessment, providing suggestions on when these should be used, and what qualitative and quantitative factors would be used to determine both amounts from account, statement, and disclosure viewpoints. This would provide for a more consistent government-wide approach. GNMA also notes that when management deems something "immaterial," the burden of proof is on management to demonstrate and disclose what was considered in developing its materiality.

b. Do you have any suggestions that would enhance the section?

HUD generally had no suggestions. GNMA did provide the suggestion that FASAB specifically state that the auditor (GAAS) materiality guidance is not applicable to management. Further, more defined guidance or interpretations should be provided to allow for government-wide consistency, specifically when applying for purposes of researching, testing, recording and disclosure of amounts. This suggested enhancement should include guidance as to when materiality would be calculated, and what factors would be used to determine both qualitative and quantitative amounts from account, statement, and disclosure viewpoints. The Board should also consider including disclosure requirements indicating what management should be disclosing, including what Board determined to be material and why, to inform users as to what the magnitude of "acceptable omission" is for the financial statements.

- Q2.** The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

HUD agrees with the placement of the materiality section within concepts (SFFAC 1). This placement will help maintain consistency in presentation which may help limit the user/readers' varied interpretations of the concept. Materiality is more conceptual and lends itself to more flexibility and judgment than a standard, which is generally more definitive, concrete, or specific. Additionally, this would:

- provide broader flexibility in the exercise of materiality judgments;

FASAB Exposure Draft: Questions for Respondents due January 23, 2019***Materiality***

- be consistent with other accounting standards setters' positions;
- provide consistency across the standards since it would be guidance for the Board to consider;
- not override existing guidance on materiality and would be classified as other literature in the GAAP hierarchy.



Department of Energy
Washington, DC 20585

March 29, 2019

MEMORANDUM FOR THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD (FASAB)

FROM Karin Dasuki **KARIN DASUKI**
Deputy Director, Office of Finance and Accounting
Department of Energy

Digitally signed by KARIN DASUKI
Date: 2019.03.29 09:24:42 -04'00'

SUBJECT Department of Energy Responses to FASAB Exposure Draft:
Materiality: Amending Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, and SFFAC 3, Management's Discussion and Analysis.

The Department of Energy (DOE) appreciates the opportunity to respond to questions in the FASAB's Exposure Draft: *Materiality: Amending Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, and SFFAC 3, Management's Discussion and Analysis.*

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

DOE Response: The Department agrees with the proposed materiality section. The text does not include substantive changes to underlying concepts, and it adds elements including a discussion of users, a clearer concept of misstatement, and specific federal environment considerations.

b. Do you have any suggestions that would enhance the section?

DOE Response: The Department does not have suggestions for changes to the section.

Q2. The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, Objectives of Federal Financial Reporting. Refer to paragraph A14. Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

DOE Response: The Department agrees with the proposed amendments to SFFAC 1 and SFFAC 3 regarding materiality since placement of the materiality guidance in SFFACs would not override existing guidance on materiality and would be classified as other literature in the GAAP hierarchy.

For questions concerning the Department's responses, please contact William Truitt, Director, Financial Policy Division, Office of Finance and Accounting, at (202) 586-1065.



Federal Accounting Standards Advisory Board

MATERIALITY:

AMENDING STATEMENT OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS
(SFFAC) 1, *OBJECTIVES OF FEDERAL FINANCIAL REPORTING*, AND SFFAC
3, *MANAGEMENT'S DISCUSSION AND ANALYSIS*

Statement of Federal Financial Accounting Concepts

Exposure Draft

Written comments are requested by January 23, 2019

October 15, 2018

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. 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 is available from FASAB or its website:

- [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: Federal Accounting Standards Advisory Board, exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters](#), and other items of interest are posted on FASAB’s website at: www.fasab.gov.

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Contact us

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



Federal Accounting Standards Advisory Board

October 15, 2018

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

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Concepts, titled *Materiality: Amending Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, and SFFAC 3, Management's Discussion and Analysis*, are requested. Specific questions for your consideration appear on page three, but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by January 23, 2019.

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. Therefore, please provide your comments in electronic form by email to fasab@fasab.gov. If you are unable to email your responses, we encourage you to fax the 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 1155
Washington, D.C. 20548

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at 202.512.7350 to determine if your comments were received.

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Notice of the date and location of any public hearing on this document will be published in the Federal Register and in FASAB's newsletter.

Sincerely,

D. Scott Showalter
Chair

STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

Statements of Federal Financial Accounting Concepts (SFFACs) set forth objectives and fundamentals on which financial accounting and reporting standards are based. The objectives identify the goals and purposes of financial reporting and the fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties.

Concepts statements guide the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives. Also, knowledge of the objectives and concepts the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards to understand better the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting.

The conceptual framework addresses many of the fundamentals needed to support standards setting. FASAB developed the core of its conceptual framework in the early 1990s. At that time, financial management legislation and administrative directives focused on component entity reporting. Hence, FASAB's second concepts statement, *Entity and Display*, focused on the basis for defining a reporting entity and the display of component entity financial statements. Other concepts statements address financial reporting objectives, qualitative characteristics of information, the intended audience for the consolidated financial report of the U.S. Government (CFR), elements of accrual basis statements and their measurement attributes, communication methods, and managerial cost accounting.

Through its ongoing conceptual framework project, FASAB has reviewed its early concepts statements and is establishing new statements as needed. The *FASAB Handbook of Accounting Standards and Other Pronouncements, As Amended (FASAB Handbook)* provides a full discussion of FASAB's SFFACs. The *FASAB Handbook* discusses the difference between SFFACs and GAAP and can be accessed at <http://www.fasab.gov/accounting-standards>.

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The Federal Accounting Standards Advisory Board proposes concepts regarding the application of materiality in the federal financial reporting environment. This concepts statement would

- provide materiality concepts,
- specify the scope of materiality, and
- list factors to consider when applying materiality.

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

A reporting entity considers materiality in the application of specific requirements to information contained in its general purpose federal financial reports. This proposed materiality section would clarify the materiality guidance. It would define the users, scope, and factors to consider when applying materiality in the federal environment. It would help federal financial report preparers apply the materiality concepts to provide important information in federal financial reports.

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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 below. 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 the 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 in regard to 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
441 G Street, NW
Suite 1155
Washington, D.C. 20548

All responses are requested by January 23, 2019.

Q1. The Board proposes materiality concepts providing a discussion of users, scope, and factors to consider in the federal government environment. Refer to paragraph 1.

a. Do you agree or disagree with the proposed materiality section? Please provide the rationale for your answer.

b. Do you have any suggestions that would enhance the section?

Q2. The Board proposes placing the materiality concepts in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*. Refer to paragraph A14.

Do you agree or disagree with the placement within concepts and specifically in SFFAC 1? Please provide the rationale for your answer.

PROPOSED CONCEPTS

AMENDMENTS TO SFFAC 1, *OBJECTIVES OF FEDERAL FINANCIAL REPORTING*

1. This paragraph amends Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, by inserting a header titled *Materiality* immediately after paragraph 191 along with text that reads as follows:

Materiality

- 191a. A reporting entity considers materiality in the application of accounting and reporting requirements. The Board intends that information presented in accordance with generally accepted accounting principles (GAAP)^{15.1} will not contain misstatements, including omissions of information, considered material. Such omissions include information that is necessary for a user to understand the effect of particular material transactions, other events, and conditions on the entity's financial statements, RSI, or RSSI.

FN15.1 Such information would include financial statements and notes to the financial statements, required supplementary information, and required supplementary stewardship information.

- 191b. A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it can be reasonably expected that the judgment of a reasonable financial report user relying on the information would change or be influenced by the correction or inclusion of the information. A reasonable financial report user has knowledge of the reporting entity's activities and is willing to study the information with due diligence.
- 191c. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item or group of line items within an entity. Therefore, misstatements of relatively small amounts could have a material effect on the financial statements. For example, an amount that is not quantitatively material with respect to a very large line item may be material with respect to a smaller line item.
- 191d. Misstatements should be considered individually and, in the aggregate, and materiality determinations regarding such misstatements should include both qualitative and quantitative considerations. Information that is not considered material from a quantitative standpoint may be considered qualitatively material if it can be reasonably expected to change or influence the judgment of a reasonable user. Qualitative considerations include the public accountability of the reporting entity; applicable legal and regulatory requirements; the visibility and sensitivity of

government programs, activities, and functions; as well as other factors that may affect a reasonable user's judgments about the information.

- 191e. The Board establishes materiality concepts and related factors to consider in making judgments. Due to the factors discussed in paragraphs 191c and 191d, the Board does not provide specific qualitative or quantitative thresholds for materiality.
- 191f. In applying materiality concepts, the specific needs of a reasonable financial report user should be considered. In the federal government environment, such needs generally differ from those of the commercial entity financial report user. For example, due to the visibility and sensitivity of government programs, federal government financial report user needs extend to having the ability to assess the allocation and use of resources in the federal government. Further, compliance with laws, regulations, contracts, and grant agreements is also a significant consideration of the user.^{15.2}

FN 15.2 Information requiring protection from unauthorized disclosure is referred to as "classified national security information." The application of financial accounting standards needs to support the legal requirements to protect classified national security information.

- 191g. To emphasize that materiality should be considered in applying all FASAB standards, the Board will place the following notice at the end of each Statement:

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial.^{FN}

FN Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *How Accounting Supports Federal Financial Reporting* for a detailed discussion of the materiality concepts.

AMENDMENT TO SFFAC 3, *MANAGEMENT'S DISCUSSION AND ANALYSIS*

2. This paragraph amends SFFAC 3, *Management's Discussion and Analysis*, footnote 10 at paragraph 26. Footnote 10 is amended as follows:

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

APPENDIX A: BASIS FOR CONCLUSIONS

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

PROJECT HISTORY

- A1. The Board added a disclosures project to its agenda in October 2017 with the objective of improving the relevance, clarity, consistency, and comparability of disclosures among federal entities. FASAB formed a task force to conduct related research. FASAB also conducted a survey on disclosures in which a majority of respondents indicated that materiality-based judgment can assist in eliminating redundancy and unnecessary disclosure by providing only relevant information.
- A2. Currently, materiality is discussed in three Statements: SFFAC 3, *Management's Discussion and Analysis*; Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*; and SFFAS 3, *Accounting for Inventory and Related Property*. The clarity, detail, and organization of the guidance, however, could be improved. As such, the Board agreed to update the materiality guidance to assist preparers in making materiality judgments and improving disclosures.
- A3. In February 2018, staff presented a draft materiality section to the disclosures task force. The task force includes federal financial report preparers, auditors, and consultants. Task force members agreed that this proposed materiality section is not significantly different from their understanding of the application of materiality in practice, but it would help in applying materiality concepts in the federal environment as a result of its improved clarity, detail, and organization.

PROPOSED MATERIALITY SECTION

- A4. The proposed materiality section does not include substantive changes to underlying concepts. Rather, to provide better guidance, it adds important elements, such as a discussion of users, a clearer concept of misstatement, and specific federal environment considerations.
- A5. In developing the proposed section, several sources were considered, including the materiality discussion in the current *FASAB Handbook*, other accounting standards boards' publications, relevant audit standards, and Securities and Exchange Commission (SEC) guidance.
- A6. Federal financial report users have different needs compared to users of commercial entity financial reports. The users identified in SFFAC 1 (citizens, Congress, federal executives, and federal program managers) are the users FASAB considered in developing the proposed materiality section.

A7. FASAB considered guidance from the Government Accountability Office's 2018 *Government Auditing Standards* for the materiality section's federal environment related discussion.¹ This guidance, commonly referred to as the *Yellow Book*, states the following:

6.03 Standards used in conjunction with GAGAS require the auditors to apply the concept of materiality appropriately in planning and performing the audit. Additional considerations may apply to GAGAS engagements that concern government entities or entities that receive government awards. For example, for engagements conducted in accordance with GAGAS, auditors may find it appropriate to use lower materiality levels than those used in non-GAGAS audits because of the public accountability of government entities and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programs.

A8. Misstatements are often easier to assess using quantitative considerations. However, they should be assessed using qualitative considerations as well. Therefore, this proposed section clarifies that materiality should be assessed using both quantitative and qualitative considerations.

A9. The SEC Staff Accounting Bulletin Topic 1.M states, "Even though a misstatement of an individual amount may not cause the financial statements taken as a whole to be materially misstated, it may nonetheless, when aggregated with other misstatements, render the financial statements taken as a whole to be materially misleading."² The Board has a similar view. Misstatements should be considered individually and in the aggregate.

A10. Standards do not require perfection; instead, the standards allow for misstatements as long as they are not material. The Board believes that financial reporting should emphasize disclosing material information, not immaterial or irrelevant information.

A11. The proposed concepts define materiality in terms of the likelihood that a reasonable user's judgment would be affected by the misstatement. SFFAS 1, *Accounting for Selected Assets and Liabilities*, states that materiality depends on whether "omitting or misstating information about the item makes it probable that the judgment of a reasonable person"³ would be affected. In SFFAS 1, "probable" was recognized as being "subject to broad interpretation" and did not mean "more likely than not."⁴ In SFFAS 5, *Accounting for Liabilities of The Federal Government*, "probable" was defined as "more likely than not."⁵ The Board does not believe "more likely than not" is appropriate in assessing materiality because it would be a lower degree of likelihood compared to the general meaning of "probable" in other sectors and SFFAS 1. Using "probable" in the materiality concepts could lead to unreasonable expectations regarding precision. The Board believes "reasonably expected" is more consistent with current practice and is appropriate in the federal government environment.

A12. The Board does not provide specific quantitative or qualitative considerations in the proposed section. Both quantitative and qualitative considerations are typically entity specific. Existing literature already provides detailed guidance on materiality

¹ GAO, *Government Auditing Standards 2018 Revision*, GAO-18-568G (Washington, D.C.: Jul 17, 2018), 117-118.

² The SEC 'Codification of Staff Accounting Bulletins, Topic 1: Financial Statements'; available online at <https://www.sec.gov/interps/account/sabcodet1.htm#M>; last accessed September 7, 2018.

³ SFFAS 1, par. 13.

⁴ SFFAS 1, par. 127 and 128.

⁵ SFFAS 5, par. 19, footnote 9.

considerations. Materiality considerations could vary depending on whether the reporting entity is a sub-component, component, or the government-wide reporting entity. Consequently, the materiality considerations may differ as financial information is consolidated from sub-component to component to government-wide reporting entities.

- A13. In certain situations, an entity may have a quantitatively significant balance or activity that would lead to a high quantitative entity-wide materiality amount. If used to assess materiality for the entity's other balances or activities, such materiality amounts could allow misstatements that would affect reasonable financial report users' judgments regarding the rest of the entity's activities. In such cases, qualitative factors could lead to a separate materiality consideration.
- A14. Note disclosures task force members held different views regarding the placement of the proposed materiality concepts since they could be placed in an SFFAC or an SFFAS. The task force discussed advantages and disadvantages of placement during the meetings. The Board agreed that this proposed section should be placed in a concepts statement after considering the following factors:
- This would provide broader flexibility in the exercise of materiality judgments.
 - This would be consistent with other accounting standards setters' positions.
 - This would provide consistency across the standards since it would be guidance for the Board to consider.
 - This would not override existing guidance on materiality.
 - This would be classified as other literature in the GAAP hierarchy.

APPENDIX B: ABBREVIATIONS

FASAB	Federal Accounting Standards Advisory Board
FN	Footnote
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
SEC	Securities and Exchange Commission
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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