

# 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.