

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

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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;

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- 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.