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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.

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**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.