



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](mailto: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

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