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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.