April 15, 2020

Via Electronic Mail

Director of Research and Technical Activities
Project No. 3-34
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116


Dear Mr. Bean:

The Office of the Washington State Auditor appreciates the opportunity to give input on the GASB’s proposed concept statement (Project No. 3-34). In our constitutional role as the auditor of public accounts for the State of Washington, our Office performs the financial audit of the State of Washington and annually performs or reviews over 800 financial audits of the State’s agencies and all types of local governments, along with their component units. We appreciate the Board’s approach of improving the concept statement first before considering a larger project to re-examine note disclosures and, in general, agree with the exposure draft.

Comments on Paragraph 7
We are concerned that that the description of notes being used in “assessing accountability” is overly broad. We would recommend that the term “financial accountability” be used both here and elsewhere in the Concept statements.

Comments on Paragraph 8
We strongly agree with the clarifications regarding the responsibility of users. Governments are accountable to governing bodies and citizens, who often do not have a reasonable understanding of governmental financial reporting. However, it would be impracticable – and in many respects, actually contrary to the needs of knowledgeable users – for financial reporting not to presume reasonable knowledge and diligence.

We noted the Board’s rationale for this difference in concept between general purpose financial statements and note disclosures in paragraphs B9-B10. However, we would encourage the Board to consider whether paragraph 63 of Concept Statement 1 should be similarly modified, rather than leaving this as a difference. We believe this should be a general expectation of users, and making it so would be more conceptually consistent, accurate, and realistic.
Comments on Paragraphs 9 and 10
We are concerned that the additional criteria in 9.d. for other finance-related information associated with the accountability of the government may lead to excessive disclosures or possible confusion regarding what should be disclosed. The Board acknowledged that stakeholders have concerns regarding this, as disclosed in B7. We believe that 9.d. is vague and that the Board could either remove this criteria or further define what the other types of finance-related information should be disclosed in addition to information described in criteria a, b and c.

We agree and appreciate the criteria listed in paragraph 10 regarding the types of information that is not appropriate for notes to financial statements.

Comments on Paragraph 11 and 14
We appreciate the additional clarification and focus on evidence of use. However, we are concerned that the characteristics remain overly inclusive. Users tend to utilize whatever information is available to them, even if such information is not actually essential to their decision-making. We would suggest the Board consider incorporating the following additional characteristics:

1. That the information item would be properly used. That is, an item should not be considered essential if it is ambiguous or susceptible to misunderstanding. This may be evidenced by users coming to inconsistent or are inconsistently using or misusing an information.
2. That information has a significant or substantial effect on a user’s analysis or decisions. That is, an item should not be considered essential if it would be merely interesting to users but not important enough to change their decisions. This may be evidenced by users indicating the frequency of information having a high degree of importance to decision making or changing decisions.
3. That the information is not readily available from other public sources and therefore needs to be included in note disclosures. That is, an item should not be considered essential if a responsible user would already know or look up the information on their own.

Given the Board’s rationale in B20, these characteristics could be incorporated into the evaluation of expected benefits and perceived costs in paragraph 14 rather than the characteristics of essentiality in paragraph 11.

Comments on Paragraph 12
We agree that each individual information item disclosed should be essential. However, it would be helpful to clarify that an item may be utilized either individually or in combination with other items in making decisions or assessing accountability.

Thank you for the opportunity to provide our comments. Any inquiries may be directed to me at (564) 999-0794.

Sincerely,

Mark Rapozo, CPA
Assistant Director of Local Audit