



Advancing
Government
Accountability

2208 Mount Vernon Ave.
Alexandria, VA 22301-1314

PH 703.684.6931
TF 800.AGA.7211
FX 703.548.9367

www.agacgfm.org

August 27, 2002

Ms Gretchen Fischbach
Technical Manager
File Reference 1827
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms Fischbach:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the AICPA Auditing Standards Board's (Board's) Proposed Statement on Auditing Standards (SAS), *Auditing Fair Value Measurements and Disclosures*. This proposed SAS addresses auditing considerations relating to measurement, presentation, and disclosure for assets, liabilities, and specific components of equity presented or disclosed at fair value in the financial statements.

The FMSB, comprised of 21 members with accounting and auditing backgrounds in federal, state, and local government, academia, and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB generally supports the proposed guidance contained in the exposure draft. However, it believes the proposed guidance could be improved and further strengthened by considering the following comments:

Paragraph Reference

Comments

4

The guidance in this paragraph appears to establish accounting and financial reporting requirements, rather than generally accepted auditing standards. Because the Board may not have intended to establish such require-



ments, we suggest that the Board either include a reference to the applicable GAAP citation in Paragraph 4 or begin the paragraph with the phrase “In accordance with GAAP,…”

Paragraph Reference

Comments

- | | |
|----|--|
| 7 | The guidance should include a reference to the Governmental Accounting Standards Board (GASB). A definition and/or an example could be provided from GASBS 31, <i>Accounting and Financial Reporting for Certain Investments and for External Investment Pools</i> . |
| 10 | The guidance in Paragraph 10 may be redundant with the guidance contained in Paragraphs 4 and 8, on Pages 7 and 8, respectively. For example, Paragraph 4 already states that “...management needs to establish an accounting and financial reporting process for determining the fair value measurements...” and Paragraph 8 already states that “The existence of published price quotations in an active market ordinarily is the best evidence of fair value” and that “The measurement of fair value for other assets or liabilities may be more complex.” Because the ED is already 53 paragraphs and 18 pages in length, we suggest that the Board review the apparent redundancy within Paragraphs 4, 8, and 10, and perhaps eliminate Paragraph 10 in the final document. |
| 18 | The fifth sentence language “and GAAP may require it to do so” appears weak and uncertain. We suggest that the Board either indicate those situations in which GAAP requires management to document its plans and intentions, or delete this phrase in the final document. |

In addition, the last sentence should be amended to read, “In such cases, the auditor *should*...” This type of change should be made throughout the document to indicate that these basic steps and procedures are required rather than elective or

optional. Additional steps and procedures, depending on the circumstances, are a matter of professional judgment.

19 For the same reason as noted in the comment for Paragraph 18, the fourth sentence should read “the auditor should consider whether:”

23 The phrase “auditor obtains” in the last sentence should be amended to read “the auditor should obtain.” This change would indicate that the step is mandatory rather than optional.

Paragraph Reference

Comments

28 For the same reason as noted in the comment for Paragraph 18, the second sentence should read “However, the auditor also should consider....”

30 For the same reason as noted in the comment for Paragraph 18, the last sentence should be amended to read: Auditors should pay....”

32 For the same reason as noted in the comment for Paragraph 18, the last sentence should be amended to read “The auditor *should* evaluate the source and reliability of evidence supporting management’s assumptions, including consideration of the assumptions in light of historical information and *evaluate....*”

34 For the same reason as noted in the comment for Paragraph 18, the first sentence should be amended to read “The auditor should....”

35 For the same reason as noted in the comment for Paragraph 18, the last sentence should be amended to read “...the auditor should consider....”

37 The paragraph states that the assumptions for fair value measurements need to be realistic and

consistent with several specific factors. The first factor, a., is “The general economic environment and the entity’s economic circumstances.” Because the industry environment (e.g., utility industry) is also important to the entity, we suggest that the first factor in Paragraph 37 be expanded to read “The general economic environment, the economic environment of the specific industry, and the entity’s economic circumstances.”

For the same reason as noted in the comment for Paragraph 18, the last sentence should be amended to read “Where assumptions are reflective of management’s intent and ability to carry out specific courses of action, the auditor should consider....”

<u>Paragraph Reference</u>	<u>Comments</u>
38	For the same reason as noted in the comment for Paragraph 18, the first sentence should be amended to read “If management relies on historical financial information in the development of assumptions, the auditor should consider...”
40	For the same reason as noted in the comment for Paragraph 18, the second sentence should be amended to read “Specifically, the auditor should evaluate....”
42 & 43	The Section of the ED entitled “Testing the Entity’s Fair Value Measurements and Disclosures,” provides guidance to the practitioner in reviewing subsequent events. However, Paragraph 48, under the title “Subsequent Events,” also states that “The auditor should consider the effect of subsequent events on the fair value measurements and disclosures in the financial statements. The auditor considers SAS No. 1...when evaluating audit evidence relating to such events.” Consistent with

an earlier comment, these paragraphs also contain redundant information in an already lengthy document. Therefore, we suggest that the Board review the apparent redundancy within Paragraphs 42, 43, and 48, and perhaps merge Paragraphs 42 and 43 into Paragraph 48 in the final document.

52 For the same reason as noted in the comment for Paragraph 18, the next to last sentence should be amended to read “For example, the auditor should consider...” And the last sentence should be amended to read “The auditor should consider...”

53 The paragraph states that “This statement is effective for audits of financial statements for periods beginning on or after December 15, 2002.” Because the fiscal year of certain governments begin on October 1st, the guidance in this proposed Statement would not be effective for the audit of the government’s annual financial report, or audits of individual departments and agencies, until the fiscal year ending September 30, 2004. In the Summary Section of the ED, the Board expressed its belief that “...overall guidance on auditing considerations relating to fair value is needed to address the *current* and expected needs of practitioners” (emphasis added). Therefore, to respond more promptly to the current needs of practitioners, we recommend that the Board expand Paragraph 53 to include, as a second sentence, the statement that “Earlier application is encouraged.”

Additionally, if references or examples relevant to governmental entities are not included in the final document, a scope paragraph should indicate the applicability of this guidance to all entities—commercial, not-for-profit, and governmental.

Finally, the references to GAAP should indicate, perhaps in a footnote, whether it is intended to encompass all levels of the GAAP hierarchy as defined in SAS 69.

Again, the FMSB appreciates the opportunity to provide comments on this ED. Should you have any questions, or desire further details on FMSB's position, please contact me at (334) 242-9224 or Sharon.Russell@Examiners.state.al.us or Dianne McKay, its facilitator for this project, at (615) 741-9743 or dianne.mckay@state.tn.us.

Sincerely,

Sharon R. Russell, CPA, CGFM, Chair
AGA Financial Management Standards
Board

C: William J. Anderson, Jr., CGFM
AGA National President