

September 23, 2022

Director of Research and Technical Activities  
Project No. 3-41  
director@gasb.org

RE: Certain Risk Disclosures

Dear GASB:

The views expressed herein are written on behalf of the Professional Standards Committee of the Texas Society of CPAs. The Professional Standards Committee (PSC) has been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our comments below on the above-referenced exposure draft.

Selected questions from the online response form with responses

Question:

Which of the proposals in the Exposure Draft do you agree with? Why?

Response:

The PSC is in general agreement with the proposed changes to the disclosure regulations, with some concerns that are further described below. For the most part, we do believe that the proposed requirements were clear and concise. The illustrations of the four examples of constraints will be helpful, particularly to smaller firms.

Question

Which of the proposals in the Exposure Draft do you disagree with? Why?

Response:

The PSC does not disagree with any of the proposals in the Exposure Draft, but we do have some concerns. We think that the example on p.8 of an event associated with a constraint more than likely not to occur within 12 months is ambiguous. The application of the proposal may be inconsistent as not all firms will use the same length of time in their determination of a constraint.

Question:

Do you believe that the information resulting from the proposed disclosure requirements in the Exposure Draft would be utilized by users in their analyses for decision making or assessing accountability?

Response:

The PSC believes that the information resulting from the proposed disclosure requirements will be utilized for decision making and accountability assessments. Some entities have already been providing this information to constituents outside of the audit report.



Question:

Do you believe that the proposed provisions in the Exposure Draft would be operable and auditable? If not, why?

Response:

In general, the PSC thinks that the proposed provisions are operable. However, as with all new disclosure requirements, there is concern about adding to the already lengthy requirements. Also, for entities not previously required to include the additional information, there may be an increased cost for compliance with the proposed requirements. Completeness might be an issue for smaller entities without the adequate skill set to compile the additional information required in the proposed provisions.

Question:

Do you agree or disagree with the scope and applicability of the Exposure Draft proposals (paragraph 3)? Why?

Response:

In general, the PSC agrees with the scope and applicability of the proposals.

Question:

Do you agree or disagree with the proposal to include risks related to certain concentrations and the description of that risk (paragraph 4)? Why?

Response:

The PSC has no issue with the proposal to include risks related to certain concentrations.

Question:

Do you agree or disagree with the proposal to include risks related to certain constraints common in the governmental environment and the description of that risk (paragraph 5)? Why?

Response:

The PSC agrees with the proposal to include certain risks related to certain constraints common in the governmental environment.

Question:

Do you agree or disagree with the proposed disclosure criterion that an event associated with the concentration or constraint has occurred or is more likely than not (more than 50 percent likely) to begin to occur within 12 months of the financial statement date or shortly thereafter (paragraph 6b)? Why?

Response:

The PSC has a concern that the proposed disclosure criterion concerning a concentration or constraint may not be consistently applied. Since most financial statements are issued within six months, they may already be issued before an event can be identified.

Question:

Do you agree or disagree with the proposed disclosure criterion that it is at least reasonably possible (more likely than remote) that the effect of the event will be felt within three years of the financial statement date (paragraph 6c)? Why?

Response:

The PSC is reluctant to agree with a disclosure criterion that requires prediction of effects of an event that is reasonably possible to occur within three years. While the event may be reasonably possible to predict, the subsequent effects are dependent on future events and a future environment that may not be predictable.

Question:

Do you agree or disagree with the proposed disclosure criterion that the event will have a substantial effect on the government's ability (1) to continue to provide services at the level provided in the current reporting period or (2) to meet its obligations as they come due (paragraph 6c)? Why?

Response:

Generally, the PSC agrees with the proposed disclosure concerning the substantial effect on a government's ability to continue to provide services or meet its obligations. However, without criterion for "substantial effect," the entity will have to rely on historical data that may not be a true indicator of the effect of the event.

Question:

Do you agree or disagree with the proposed disclosure requirement to provide a description of the concentration or constraint and associated event (paragraphs 7a and 7b)? Why?

Response:

The PSC has no issue with the proposed disclosure requirement to provide a description of the concentration or constraint and associated event.

Question:

Do you agree or disagree with the proposed disclosure requirement to provide a description of mitigation actions taken (paragraph 7c)? Why?

Response:

The PSC agrees with the logic of the proposed disclosure requirement concerning the description of mitigation actions.

Question:

Do you agree or disagree with the proposal that the disclosures generally should be provided for the primary government, unless the risk is specific to a reporting unit, in which case the information be provided for that reporting unit (paragraph 8)? Why?

Response:

The PSC supports the proposal that disclosures should be provided for the primary government unless the risk concerns a specific unit.

Question:

Do you agree or disagree with the proposed effective date of fiscal years beginning after June 15, 2023, and all reporting periods thereafter (paragraph 9)? Why?

Response:

The PSC thinks that the proposed effective date provides adequate time for implementation.

We appreciate the opportunity to provide input on this Exposure Draft.

Sincerely,

A handwritten signature in cursive script, reading "John R. Womack III".

J. Ramsey Womack III, CPA  
Chair, Professional Standards Committee  
Texas Society of Certified Public Accountants