



August 9, 2017

Ms. Sherry Hazel
Audit and Attest Standards Team
AICPA
1211 Avenue of the Americas, 19th Floor
New York, NY 10036-8775

Re: April 20, 2017 ASB Exposure Draft (ED), *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

Dear Ms. Hazel:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC appreciates the effort the Auditing Standards Board (ASB) put forth to develop this proposed SAS. This is a major change that will establish specific auditing standards as it relates to employee benefit plans. Many of the procedures outlined in this ED are in line with those already in the AICPA's Audit and Accounting Guide for Employee Benefit Plans (the "AICPA Guide") that many auditors have been using for years to perform high quality audits.

However, TIC is strongly opposed to the proposed reporting requirement for findings from procedures, which will be attached to the Form 5500, regardless of disclosure in the opinion or in a separate deliverable. TIC believes that including specific findings in the audit report will confuse readers as to the conclusion on the financial statements and cause other unintended consequences.

To remedy this, the main change TIC recommends is to only require the findings to be communicated to either management or those charged with governance within the AU-C section 260 or 265 letter, as appropriate, depending on the nature of the findings and whether they rise to the level of being a significant deficiency or material weakness, and not within the opinion or in a deliverable that will be available to the general public.

TIC also believes that due to the nature of the proposed changes, there should be a delayed effective date in order to allow plan sponsors and auditors a sufficient amount of time to prepare for these changes.

TIC also has responses to each of the specific issues laid out by the ASB in the ED as noted in the next section where we have responded to the specific questions proposed in the ED as well as some additional suggestions in the “additional comments” section at the end of this letter.

SPECIFIC COMMENTS

Issue 1: Respondents are asked to provide their views on whether (i) the procedures and guidance will achieve the objectives of enhancing execution and consistency in these engagements and if not, why; and (ii) any procedures that should be required are missing and, if so, describe them.

TIC believes these procedures and guidance in the proposed SAS are consistent with what is currently included in the AICPA Guide and should enhance execution and consistency in these engagements. However, TIC strongly disagrees with paragraph 15 of the ED, where it indicates that “irrespective of the risks of material misstatement, the auditor should perform substantive procedures for the following.” TIC believes that using this language would extend the auditor’s responsibility beyond what would typically be required in an audit of financial statements, where the responsibility of the auditor is to ensure that those statements are free from material misstatement. TIC believes this also would have the unintended consequence of adding unnecessary costs to plan sponsors and participants.

TIC does not have any recommendations related to additional procedures that should be added to the ED.

Issue 2 - The Form and Content of the Auditor’s Report on ERISA Plan Financial Statements with the ERISA-permitted Audit Scope Limitation: Does the form and content of the proposed auditor’s report provide improved transparency with respect to reporting on an audit of ERISA plan financial statements when an ERISA-permitted audit scope limitation exists, and if not, how could it be revised? Does the form and content of the proposed auditor’s report improve the auditor’s understanding of his or her responsibilities in a limited scope audit resulting in improvements in audit quality, and if not, why? Does the form and content of the proposed auditor’s report better describe management’s responsibilities for the financial statements, and if not, why? Does the form and content of the proposed auditor’s report provide sufficient clarity to users with respect to the auditor’s responsibilities and matters reported, and if not, why?

TIC strongly disagrees with the proposed requirement to communicate findings in the auditor’s report, as alluded to in response to Issue 6 in the following as well as in our previous comments in the opening of this letter. TIC believes that including findings in the auditor’s report could confuse the results of the audit. TIC also believes that reporting findings in the report would open plan sponsors, plan administrators, and auditors to additional risk exposure and TIC does not believe that listing findings would enhance audit quality.

TIC also is not sure that adding a listing of all the procedures performed to the report would be appropriate. Although it may help a user of those financial statements to understand what the audit encompasses, TIC does not believe that including this information in the auditor's report will necessarily help to improve audit quality. TIC believes that audit reports should not be designed as a checklist for audit procedures performed, but rather for reporting on the overall results of the audit of the Plan financial statements.

Issue 3 – Modifications to the Opinion in the Independent Auditor's Report: *Is the guidance in paragraphs 31 and 34 of the proposed SAS (a) clear with respect to the auditor's responsibilities for addressing the circumstances that may result in a modification to the limited scope auditor's report and (b) achieves the objective of providing transparent reporting to the users, and if not, suggested revisions? What are the respondent's views on the form and content of the example reports (nos. 5-7) illustrating guidance in paragraphs 31 and 34?*

The guidance in paragraphs 31 and 34 are clear with respect to the circumstances that may result in a modification of the auditor's report. TIC believes the reference to AU-C 705 appears to be appropriate, and TIC does not believe further elaboration specific to considerations of limitations on audits of employee benefit plans would be warranted in AU-C 705. An auditor must use judgment in determining whether a scope limitation exists in any audit report, and AU-C 705 outlines the considerations for an auditor to make to arrive at this conclusion. The example reports numbered 5-7 appear to provide a reasonable example of what may constitute a disclaimer outside of the ERISA-permitted scope limitation.

Issue 4 – Required Emphasis-of-Matter Paragraphs: *Consider whether the situations identified in paragraph 116 are appropriate for requiring the inclusion of emphasis-of-matters paragraphs in the auditor's report. Are there additional situations that should result in a required emphasis-of-matter paragraph?*

These emphasis-of-matter paragraphs are specific to Plan activities, but analogous to certain corporate financial statement activity (i.e. debt refinancing, business combinations, etc.) that are discussed in the notes to the financial statements but not included in the auditor's opinion. TIC feels that if we add an emphasis-of-matter paragraph to a new opinion that already appears to be laden with information, it would not add any additional information that would impact a reader. Having these as required disclosures would appear to be the more appropriate course of action. The only emphasis-of-matter paragraphs TIC may consider as appropriate to require are scenarios of plan merger, plan termination, or a PBGC/DOL order to terminate the plan, although these would likely already be addressed in the notes to the Plan financial statements. Defining a significant plan amendment, as noted in paragraph .116(a) is vague and likely would not result in many EOM paragraphs for this point.

Issue 5 – Reporting Internal Control Deficiencies: *Is the current reporting of internal control deficiencies to those charged with governance sufficient? Are there other reporting considerations to AU-C 265 the ASB should evaluate?*

TIC believes that the current reporting of internal control deficiencies to those charged with governance are sufficient and we would not propose adding any additional reporting considerations to this standard.

Issue 6 – Certain Requirements for Audits of ERISA Plan Financial Statements and Related Required Report on Specific Plan Provisions Relating to the Financial Statements:

- *Paragraphs 15-16*
 - *Will requirements in paragraphs 15-16 enhance the consistency and quality of the audit work performed related to matters that could have a direct effect on the financial statements, including related disclosures, and if not, why?*
 - *Does the proposed SAS provided appropriate guidance on achieving the requirements in paragraphs 15-16, including which provisions of the plan instrument should be tested, and to what extent testing should be performed?*
 - *What procedures related to other plan provisions or specific areas of the financial statements should be included in the required testing to enhance the usefulness of the proposed reporting of the findings?*
- *Paragraphs 119-124*
 - *Is including the list of individual areas to be tested in paragraphs 119-124 appropriate and, if so, whether there are other items that should be included (if not, why not)?*
 - *Is the requirement to exclude findings that are “clearly inconsequential” appropriate and, if so, is there guidance the ASB can consider to drive consistency in application in practice?*
 - *Should the findings also include any matters identified by management or the plan administrator? Currently, the only requirement is to include auditor findings.*
 - *Are the reporting illustrations included clear and result in sufficient information to the user of the report?*
 - *Are there unintended consequences from including the findings in the auditor’s report and, if so, what are those unintended consequences and how might they be mitigated?*
- *Will the required additional procedures and reporting of findings result in additional costs and, if so, views as to the extent of those costs and whether they outweigh the potential benefits of enhanced audit quality?*

Paragraphs 15-16:

TIC agrees with the majority of requirements in paragraphs 15-16 of the ED as TIC believes these procedures would enhance audit quality. However, TIC does not believe there should be a requirement in paragraph 15 to perform procedures “irrespective of risks of material misstatement.” An audit should be efficient and effective, and requiring work to be performed on an immaterial area (Plan expenses, for example), would increase costs of the audit with limited benefits.

TIC does not believe any additional procedures should be added to paragraphs 15-16 for plan provisions or specific areas of the financial statements.

Paragraphs 119-124:

TIC does not believe adding specific discussion of areas tested to the auditor’s report would improve audit quality as noted in our response to Issue 2. If the ASB insists on including information about the procedures performed, TIC believes perhaps the audit report should instead have a statement or paragraph that indicates the overall audit approach and that, although the investments were not specifically tested due to the fact that they were certified by a third party, there were additional detailed procedures the auditor performed on other compliance and financial components of the plan, such as compliance with the plan document and eligibility criteria.

Paragraph 122(b) indicates that a CPA firm can include a statement that the results of the auditor’s procedures is not to provide an opinion on compliance with such plan provisions. TIC feels that including a list of findings in the audit report makes it appear as if, perhaps, auditors are providing such an opinion, and auditors may be pressured to search for, and include more, findings in the report from a risk management perspective, where this would not result in greater audit quality.

TIC believes that the guidance provided as to determining what is “clearly inconsequential” presents a dilemma. TIC believes that consulting with management on what would be “clearly inconsequential” would possibly lead to a disagreement, where management would likely believe the only thing crossing that threshold is a significant plan matter requiring a Voluntary Correction Program (VCP) filing. Auditors may find themselves increasing sample sizes to isolate errors that have no potential to materially misstate the financial statements.

TIC believes that the definition of “more than clearly inconsequential” will be interpreted differently depending on whether you are looking at this term from a plan sponsor, plan administrator, or audit perspective. From an audit perspective, the ultimate goal would be to ensure the Plan financial statements are free from material misstatements.

As noted earlier, TIC believes the appropriate place to indicate any findings is in a communications letter under AU-C section 260 (or an AU-C section 265 letter if the issues rise to

the level of being a material weakness or significant deficiency in internal control) that indicates the number of errors identified. TIC believes that a management communications letter would better provide all of the context and information relevant for a user to understand any issues identified in the audit and to assist the plan sponsor and administrator to improve the operations of the plan.

TIC does not believe there should be a requirement to include findings identified by management in the report, similar to how we are not currently required to include adjustments identified by management in the audit communications letter. TIC does not believe including findings in the auditor's report does anything to improve the quality of the audit. TIC believes that including findings in the report will create confusion as to the auditor's conclusions. Furthermore, any material issues would normally have resulted in financial statement correction or a VCP communication, so any remaining findings that are more than clearly inconsequential are akin to passed audit adjustments. These uncorrected audit adjustments are reported to those charged with governance, not in the auditor's report, and we would expect benefit plan findings to be communicated in the same manner.

TIC believes users may interpret communication of these findings in a multitude of ways. For example, if you have one plan with no findings and another with several findings reported, would the conclusion related to the fairness of presentation of the financial statements be construed differently? Dependent upon the audit firm's interpretation of significance of these findings, one firm may not assess an item to be a finding while another firm would assess an item to be a finding. These various inconsistencies would likely have other unintended consequences.

As alluded in other parts of this letter, TIC believes there are myriad unintended consequences from including the findings in the auditor's report. Costs to complete plan audits will increase, risk of litigation for plan sponsors/administrators and auditors without any benefit will significantly increase, and potential contentious disagreements with clients on what should be communicated and what is "clearly inconsequential" are just a few examples of what will come out of this if passed as drafted. As such, TIC believes the primary way to mitigate these consequences is to include the findings in the communications to those charged with governance under either AU-C section 260 or 265 as a privately held company should not be required to communicate such matters to those that are not responsible for management or governance of the benefit plan.

Additional Costs:

TIC believes certain procedures proposed in this ED will result in additional costs, if there are procedures performed irrespective of risk of material misstatement. If the IRC compliance testing is still included in the standard audit opinion, TIC also believes additional costs would be incurred as additional substantive procedures may be added by auditors as a risk management procedure. Additionally, TIC believes the reporting of findings will cause incremental costs to the audit merely from a firm risk management perspective. Since these findings would be communicated to the DOL and the public, firms generally would be increasing testing (including

firms which are already completing quality audits), and likely erring on the side of conservatism in their communications. This would likely result in disagreements with management on what would be “clearly inconsequential” for inclusion in findings. Accordingly, TIC believes that the “irrespective of material misstatement” phrase should be removed from paragraph 15, and that the findings communications in paragraphs 119-124 be made part of communications under AU-C section 260 or 265, as applicable.

Issue 7 – Required Procedures Related to the Form 5500: Do the proposed procedures in paragraphs 36-48 of the proposed SAS achieve the objective of increased consistency with respect to identifying information in the Form 5500 that may be relevant to the audit of ERISA plan financial statements, and if not, why?

TIC agrees the proposed procedures in paragraphs 36-41 and paragraphs 43-48 would achieve increased consistency with respect to identifying information in the Form 5500 that may be relevant to the audit of ERISA plan financial statements. In particular, the guidance describing the appropriate response in the event of inconsistencies or misstatements is very helpful and should increase consistency in practice.

Paragraph 42 addresses the circumstance where a material inconsistency requires revision to Form 5500. TIC agrees that when management refuses to make the revision, the auditor should communicate that fact to those charged with governance. However, TIC does not agree that this circumstance should be included in the auditor’s report in an other-matter paragraph.

In the circumstance described in paragraph 42, the financial statements are fairly stated and would include a note disclosure reconciling the financial statement information to the information presented in Form 5500. The auditor’s report should relate only to the financial statements. Including a reference to an uncorrected misstatement on a government form when the financial statements are fairly stated can only serve to confuse the reader related to both the opinion on the financial statements and the scope of the audit.

Therefore, TIC suggests that sections a, b, and c of paragraph 42 be deleted and that paragraph 42 be limited to reporting this matter to those charged with governance.

Issue 8 – Proposed New Reporting Standard and Amendments to Other AU-C Sections: Does the proposed approach of creating a new reporting model for reporting on ERISA plan audits (AU-C 703) better describe management’s and the auditor’s responsibilities in these engagements? Are the proposed amendments to other AU-C sections appropriate? Are there other sections of the AICPA Professional Standards that might need to reflect the provisions of this proposed SAS?

TIC believes the creation of a new reporting model in the proposed SAS better describes management’s and the auditor’s responsibilities in these engagements, with the exception of the requirement to report detailed procedures performed and findings, which has been discussed at length earlier in this letter. If the SAS is utilized, auditors should have clear directive as to what procedures need to be performed. TIC believes the explicit nature of management’s

responsibilities in the reporting model is clearer than the current model for limited scope engagements, and the indication of what the audit entails also is much clearer than the current model for limited scope engagements.

The proposed amendments to other AU-C sections appear to be appropriate. TIC believes that the ASB captured all applicable AU-C sections which should have added references to AU-C 703 where AU-C 700 also was referenced.

Issue 9 – Proposed Effective Date: *Does the proposed effective date provide sufficient time for preparers, auditors, and others to adopt the new standard and related confirming amendments?*

The proposed effective date for this SAS is for plan audits for periods ending on or after December 31, 2018. TIC believes it will take time to educate clients as well as plan sponsors on the magnitude of these changes and how it will affect the audit. In addition, TIC believes that practice aids also will have to be developed to assist auditors in making these judgments. As such, TIC would recommend the ASB consider extending the effective date by one year to ensure auditors have the tools they need to perform high quality plan audits in the future.

ADDITIONAL COMMENTS

Paragraph 20(b) indicates auditors should evaluate management's assessment of whether the entity issuing the certification is a qualified institution under DOL rules and regulations. From TIC's experience with auditing these plans, many plan sponsors would not have background to make this assessment. TIC would request that some implementation guide, perhaps in the form of a Technical Practice Aid, be developed for plan sponsors in this assessment, since it should be a fairly consistent methodology, with specific examples included to assist plan sponsors in making this assessment. The examples could be focused on which entities may not be able to provide the certification.

TIC believes the proposed SAS does a good job of providing guidance on which provisions should be tested. TIC believes including Exhibit B for the nondiscrimination testing to determine whether compliance has been achieved helps provide additional guidance. However, TIC believes paragraph 16(a) may be misconstrued to indicate that auditors must perform substantive procedures to determine the compliance with IRC testing. Auditors are not, and should not be expected to be, experts in how to complete the IRC testing. Currently, plan administrators rely on the third-party administrator, who should be an expert in this area, to complete the testing. Paragraph .A35 indicates that inquiry and inspection is usually how this is tested, rather than using substantive testing. TIC would recommend some further language that indicates inquiry and inspection is a sufficient test on this area in order to clearly indicate the responsibility of the auditor is to confirm that the test was performed and that the plan passed, and not for the auditor to reperform or "audit" the compliance test. TIC also would recommend that the auditor's report not include reference to the IRC compliance tests as part of plan provisions; again, this insinuates the auditor did more than just obtain the IRC testing from the TPA to determine whether tests passed or did not pass.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive style with a large initial 'M' and 'W'.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees