

June 19, 2017

Ms. Sherry Hazel  
Audit and Attest Standards Team  
American Institute of Certified Public Accountants (AICPA)

By e-mail to: [sherry.hazel@aicpa-cima.com](mailto:sherry.hazel@aicpa-cima.com)

Re: Proposed Statement on Auditing Standards, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

Dear Ms. Hazel:

This is to supplement our earlier letter dated June 1, 2017, on the Exposure Draft Proposed Statement on Auditing Standards (the ED or the proposal) entitled *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, issued by the AICPA's Auditing Standards Board (ASB or the Board) on April 20, 2017.

On page 3 of our earlier letter, we refer to the reporting alternative that seems to be afforded by AU-C secs. 705.10-.13 for issuing a qualified opinion when the subject matter is material but not pervasive. Since a report modification would never be considered if the subject matter is not material, the issue is whether only a lack of pervasiveness would support the qualification reporting alternative for limited scope EBP audits, an alternative we believe would likely satisfy the DOL's objection to the traditional disclaimer format and be a compromise that is more palatable to auditors than a highly objectionable unmodified opinion, as proposed in the ED. Unfortunately, however, we find that there is an overreaching definition of "pervasive" in the Auditing Standards Codification glossary that effectively renders pervasiveness irrelevant, eliminates it as a separate reporting consideration and, therefore, removes the reporting option of a qualified opinion that is implied by AU-C secs. 705.10-.13, leaving only a disclaimer available as a reporting choice in all cases.

The troublesome glossary definition of "pervasive" describes effects on the financial statements that are "not confined to specific elements, accounts, or items" (which condition we believe is consistent with general English usage), but it also includes, alternatively, those effects that "if so confined, represent or could represent a substantial proportion of the financial statements," or "with regard to disclosures, are "fundamental to users' understanding of the financial statements." We view the latter two alternative conditions as substantially the same as material. Accordingly, we firmly believe it is essential that these extraneous conditions be deleted from the glossary definition of "pervasive" to keep it pure and distinctly different from "material," thus, bringing the term "pervasive," in line with common understanding and enabling the use of these two terms as separate considerations for alternative reporting of scope limitations (as appears to be intended by the language currently in AU-C secs. 705.10-.13). We further believe AU-C secs. 705.10-.13 should be amended to clarify the availability of two reporting alternatives, which is now rather obscure.

Given that the foregoing change in definition is made, we recommend that the final version of any EBP audit reporting standard emphasize preferability for the qualification reporting option whenever

warranted for limited scope EBP audits. To further mitigate the expressed concerns of the DOL, the new standard should also state clearly that if and when the reporting auditor considers a disclaimer more appropriate, it will not relieve the auditor from applying sufficient audit procedures in all areas of the audit not related to its subject matter.

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Once again, we are aware and acknowledge that our comments on the ED will become part of the public record of the AICPA and will be made available on the AICPA's website until a final standard is issued.

Any questions about our firm's views may be addressed to the undersigned at [hlevy@pbtck.com](mailto:hlevy@pbtck.com) or 702/279-5389.

Very truly yours,

Piercy Bowler Taylor & Kern  
Certified Public Accountants

A handwritten signature in black ink, appearing to read "Howard B. Levy". The signature is fluid and cursive, with a long horizontal stroke at the end.

Howard B. Levy, CPA, Principal  
and Director, Technical Services

cc: Charles E. Landes, AICPA Vice President, Professional Standards  
Michael J. Santay, Chair, AICPA Auditing Standards Board  
Darrel Schubert, Chair, AICPA Employee Benefit Plan Reporting Task Force  
James G. Haubrock, Chair, AICPA Employee Benefit Plan Audit Quality Center Executive Committee  
Ian A. MacKay, AICPA Director of Federal Regulatory Affairs  
Dena Herbolich, Audit Chair, AICPA's 2017 Employee Benefit Plans Conference