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

By e-mail to: 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:

I no longer handle clients, but as one of the founding members of the AICPA Employee Benefit Plans Audit Quality Center Executive Committee, I have a long-term and continuing interest in our profession's standards relating to the audit of employee benefit plans.

I remain committed to the improvement of EBP audit quality, and I believe this ED was developed with the same objective. However, I while believe the ED may improve audit quality by elevating the guidance from the Guide to the SAS level, I also believe that the ED is fundamentally flawed and contradicts sound extant professional standards.

The Board is proposing to capitulate to demands of the DOL by introducing new auditor reports that I believe make little sense.

The DOL is on record that it believes auditors are ignoring their responsibility to perform sufficient audit procedures out of a belief that because the auditor's report in a limited-scope audit is a disclaimer of opinion no audit procedures are required. If true in certain circumstances, I believe the appropriate solution to this problem is not contained within the proposed ED. Rather, the solution to the DOL's concern involves improving EBP audit monitoring, educating auditors, modifying extant professional standards and preventing those unwilling to perform a proper audit from continuing to serve EBP clients.

The DOL is also on record as being in favor of eliminating the limited-scope exception in ERISA, believing in part, that EBP audits should require verification that participant account balances are "deadly accurate". The DOL's view may be understandable, but ERISA calls for auditing the plan **financial statements** under GAAS established by the AICPA. ERISA includes the limited-scope exception. ERISA does not call for auditing

compliance with DOL and IRS regulations to provide assurance that participant account balances are “deadly accurate.”

The DOL should make its case to the United States Congress to amend the existing laws and regulations governing employee benefit plans to accomplish its objectives and address its concerns. I do not believe it is the AICPA’s responsibility to address the DOL’s concerns by twisting our profession’s standards beyond recognition.

As stated above, I believe that several aspects of the ED are fundamentally flawed. Accordingly, I have divided my response into two parts. In Part I, I elaborate on what I believe are the fundamental problems with the ED. Part II, addresses the specific “issues” enumerated in the ED. There is some redundancy in this approach; my apologies.

Part I – Fundamental Flaws

Limited scope audits

Under the proposal, despite the severely limited audit scope imposed by the client as permitted by ERISA, auditors would be required to issue a clean opinion, with the bizarre language that the report is based in part on the custodian’s certification which the auditor was instructed not to audit, rather than a disclaimer. The proposed report language is professionally unsound and confusing to a financial statement user.

Our standards have been in place for decades, they make sense as is, and they apply without exception to all audit or other attestation services for all entities. Carving out this new approach for audits of EBP subject to ERISA establishes a bad precedent.

Proposed paragraph 20 requires an auditor, based principally on inquiry of management, to ascertain if an acceptable certification has been provided. In view of plan management’s possible ignorance relating to the matters covered in paragraph 20, and the general lack of reliability of management inquiries, such inquiries, although not burdensome to perform, have little value as audit evidence.

If the new standard were to require that auditors obtain a SOC-1 Type 2 report on the effectiveness of internal controls relevant to that which is covered by the certification, it would strengthen the audit process and provide additional evidence as to the reliability of the certification, perhaps sufficient for the certification to be viewed as sufficient, appropriate audit evidence, thus justifying a clean opinion without the added language about the certification. But this is a stretch, and the ED, correctly, I believe, states that the certification is not sufficient, appropriate audit evidence.

In short, the proposed clean opinion is not appropriate. Given the significance of what is covered by the certification and therefore not subjected to audit procedures, a qualified opinion is not appropriate. A disclaimer of opinion is the correct auditor report.

Reporting on Specific Plan Provisions

The ED proposes a new report on specific plan provisions, either in the primary audit report, or in a separate report, disclosing auditor findings from applying certain mandated procedures. The enumerated procedures require auditors to perform substantive testing

without regard to the risk of material misstatement of the financial statements, contrary to the basic underlying principles of modern, risk-based auditing.

This new report is ill conceived and should be dropped from the standard.

The mandatory procedures, of unspecified scope, afford no ability to conclude as to compliance (appropriately), and no assurance as to the financial statements being free of material misstatement, which is the sole objective of a financial statement audit. These procedures are all about the accuracy of the participant accounts. It's fine to include these procedures in the standard, but no report is justified. In most cases, the scope of these procedures is reduced by virtue of reliance on SOC 1 Type 2 reports. Notwithstanding its language, the proposed report will lead users to erroneous conclusions.

The likelihood of a material misstatement requiring adjustment to the plan's financial statements as a result of noncompliance is extremely remote even in the case of the most egregious violation of plan provisions, or even ERISA or DOL requirements. Yes, there would possibly be expanded disclosures, but it is highly unlikely the DOL/IRS would assess a penalty against plan assets, or revoke the tax qualification status of a plan (as suggested in paras. A13 and A39 of the ED) as that would adversely affect participants, the very people the plan exists to benefit, and the DOL exists to protect. Instead, it is far more likely that a penalty would be assessed against the responsible employer/ sponsor or other administrator or a custodian of plan assets.

On the other hand, there is some risk that if an employer fails to make a mandated matching contribution, or that improper plan distributions represent an unrecorded receivable (unlikely to be material or collectable). Therefore, such risks justify performing eligibility and transaction tests. Nevertheless, these risks, and the procedures performed to address the risks, do not justify, and are insufficient to support, the separate report on specific plan provisions

The proposed report is essentially a report on compliance. The proposed report does not require expressing an opinion on compliance. It resembles, in some ways, an agreed-upon procedures report. But the ED neither prescribes a scope, nor requires the reporting of the actual scope of such procedures. The scope of testing is left to the auditor's discretion (contrary to what is required in an agreed-upon procedures engagement), and is and left to the imagination of users, e.g. regulators, peer reviewers, plaintiffs. In fact, a desire to preempt second guessing by users may cause many auditors to over audit defensively.

In addition, the ED would require auditors to apply judgment in deciding which findings are "inconsequential" (which is undefined) and, therefore, not reportable. Auditors exercise professional judgment in determining which findings necessitate inclusion in required auditor's communications. Such communications to management and/or those charged with governance are sufficient. These communications should not be part of an auditor's report on financial statements.

Because the DOL has no statutory authority to require compliance testing and reporting, auditors have never been required by law or regulation to be engaged to do so in

connection with an EBP audit. I believe the DOL's lack of authority to require compliance reporting is likely the primary reason it is pressuring the auditing profession to require it. The profession should not yield to such pressure by requiring its members to perform procedures and issue reports that are inconsistent with its otherwise applicable standards and that are not required by law or regulation.

While audits should include appropriate audit procedures to test for compliance, it is inappropriate to separately report on these compliance tests and enumerate findings from these procedures in plan audit reports that accompany Form 5500 for another reason, i.e. as part of the Form 5500 filing, they become public record. These findings belong in extant AU-C 260 and AU-C 265 communications.

If the DOL wants a compliance audit and report it should ask Congress to amend ERISA.

If the DOL wants to know the contents of any AU-C 260 and AU-C 265 communications, it should request such communications from management.

Proposed Auditor Responsibilities Regarding Form 5500

The ED allows, as do current standards, auditors to issue an audit report prior to the availability of Form 5500, while retaining responsibilities with respect to the 5500 after the audit report date. This allows for the possibility that an auditor might have to modify an issued audit report based on the contents of the Form 5500. The standard should preclude the issuance of an audit report before the Form 5500 is made available to the auditor, and require that the terms of the engagement so provide.

Part II – Response to Specified Issues

Issue 1 – Required Procedures When an ERISA-Permitted Audit Scope Limitation is Imposed

Paragraph 20 of the proposed SAS requires audit procedures to be performed relating to the information certified by the qualified institution as permitted by ERISA. In particular, paragraph .20(d) of the proposed SAS requires the auditor to evaluate whether the form and content of the ERISA plan financial statement disclosures related to the information prepared and certified by a qualified institution are in accordance with the applicable financial reporting framework.

The objectives of the proposed procedures are to improve the execution and consistency in audit procedures related to limited scope audits as current practice varies resulting in inconsistent audit quality. The proposed SAS also provides examples of ways the auditor can evaluate the financial statement presentation and disclosures relating to the certified information, such as obtaining an understanding of management's selection and application of accounting principles which would include concluding on the appropriateness of selected investment valuation methodologies, and determining whether relevant fair value disclosures are in accordance with the financial reporting framework.

Respondents are asked to provide their views on whether-

(1) the procedures and guidance will achieve the objectives of enhancing execution and consistency in these engagements and if not, why; and

The standard is not realistic. Management of the vast majority of these plans is not adequately informed as to “the appropriateness of selected investment valuation methodologies”, and why should they be? ERISA allows the acceptance of the certification if it comes from an authorized source. Let’s be consistent here. Either we, as a profession, continue to accept, as we have for almost 45 years, ERISA’s permission to accept a properly sourced, properly formatted and properly signed certification, enabling a limited-scope audit resulting in a disclaimer of opinion, or the DOL should get Congress to change ERISA if they want an auditor’s report other than a disclaimer.

As a result of coming up with the confusing and illogical language of the new report, see response to (2) immediately below, the ASB feels compelled to now impose some new requirements as regards the certification to provide some comfort as a basis for relying on the certification, even though ERISA says we can just accept the certification and not do any further audit procedures on the assets covered by the certification.

(2) any procedures that should be required are missing, and if so, describe them

As noted by the ASB in paragraph A45 of the ED, the certification is not sufficient audit evidence. The proposed procedures relating to the certification do not amount to auditing the information covered by the certification.

The DOL, as noted in paragraph A4, does not establish GAAP. Nor does the DOL establish GAAS. ERISA allows auditors to “accept” the certification and not audit the assets covered by the certification. Importantly, the absence of performing sufficient audit procedures on that data historically has been the basis for our disclaimer of opinion on the financial statements. In this regard, I believe that AU-C 705.10 appropriately establishes the requisite guidance for our profession.

In any case, and accepting that the ASB is committed to this new course of action, I think the following new report language is confusing, and I believe financial statement users will too:

In our opinion, based on our audit ***and based on our use of the certification of the investment information which we were instructed not to audit***, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of XYZ 401(k) plan as

It is inappropriate to base an unqualified opinion, in part, on a certification of investment information, that practitioners are instructed not to audit. This is particularly problematic considering the related investment information comprises the majority of the statement of assets available for benefits. The proposed language subordinates our professional standards to the wishes of non-standards setters.

These concerns aside, if the ASB changes its opinion and concludes that the certification constitutes sufficient appropriate audit evidence, the ASB should (1) change A45, and (2) reword the report to state:

In our opinion, based on our audit ~~and based on our use of the certification of the investment information which we were instructed not to audit~~, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of XYZ 401(k) plan as

In other words, make a firm decision about whether the certification is sufficient appropriate audit evidence, and then be consistent with extant standards in the implementation of the decision. This Solomon-like splitting the baby approach, manifested in the combination of paragraphs 104 and 106, is not, in my view, in our profession's best interests.

Issue 2 - The Form and Content of the Auditor's Report on ERISA Plan Financial Statements with the ERISA-permitted Audit Scope Limitation

As noted in the Background discussion, the DOL had requested the ASB to explore different reporting models in these circumstances, expressing a concern that the wording of the current limited scope auditor's report, and resulting disclaimer of opinion typically issued, may be a contributing factor to audit quality deficiencies because of potential confusion regarding the auditor's responsibilities in performing these engagements. The proposed SAS is intended to provide more transparency into the audit procedures that are required by requiring a new form and content of the auditor's report when the ERISA-permitted audit scope limitation is imposed by management and there are no other limitations on the scope of the audit and no identified material misstatements of the ERISA plan financial statements. Should either of the latter conditions exist (scope limitation or material misstatement) the auditor would be precluded from using the format of the new proposed report and would apply the requirements in AU-C section 705, Modifications to the Opinion in the Independent Auditor's Report (AICPA, Professional Standards).

This new form of opinion includes a statement that in the auditor's opinion, based on the audit and based on the use of the certification of the investment information

which the auditor was instructed not to audit, the financial statements are fairly stated in all material respects in accordance with the applicable financial reporting framework.

Respondents are asked to provide feedback on whether the form and content of the proposed auditor's report, including the form and proposed content of the new opinion-

- (1) provides improved transparency with respect to reporting on an audit of ERISA plan financial statements when an ERISA-permitted scope limitation exists, if not how could it be revised;

No. As noted in my response to Issue 1, the new report language is confusing in that it is inherently self-contradictory. While the language may accommodate the DOL, it is inconsistent with extant professional standards and inappropriate. I assume the DOL was okay with this language, but their view should not be dispositive.

If the certification is not sufficient appropriate audit evidence, we cannot use it as the basis for our audit report. The fact that we were instructed not to audit the accounts covered by the certification, as permitted by ERISA, is not a basis for a clean opinion. The unavoidable fact is that we did not audit what are probably substantially all the assets available, and we must disclaim an opinion on the financial statements.

- (2) will improve the auditor's understanding of his or her responsibilities in a limited scope audit resulting in potential improvements in audit quality and if not, why;

Maybe, but even if "yes", I don't believe this pedantic approach is how professionals should be treated. Yes, the DOL inspection results demonstrate that many CPAs don't perform properly on these engagements. Issuing this new SAS is a good step to help remedy this problem, but the convoluted reporting does not have to be part of the new standard.

- (3) better describes management's responsibilities for the financial statements, and if not why;

Yes, but describing management's responsibilities is largely self-serving boilerplate.

- (4) provides sufficient clarity to users with respect to the auditor's responsibilities and matters reported, and if not, why.

No. As discussed above, the proposed report language would be confusing to users. The issuance of a clean opinion may also result in the misinterpretation of the level of assurance really provided by the audit.

Issue 3 – Modifications to the Opinion in the Independent Auditor's Report

The proposed SAS addresses the interaction of the new proposed reporting model for audits of ERISA plans when the ERISA-permitted audit scope limitation is imposed, with existing requirements in AU-C section 705. Specifically, the proposed SAS indicates that AU-C section 705 does not apply unless there is another limitation on the scope of the audit other than the ERISA-permitted audit scope limitation or there is a material misstatement of the ERISA plan financial statements. For example, an auditor engaged to perform an audit of an ERISA plan with an ERISA-permitted audit scope limitation may determine that there is insufficient evidence to conclude on assertions relevant to benefit payments. In this circumstance, the auditor's report with the ERISA-permitted audit scope limitation in the proposed SAS would not be suitable. Instead, the auditor would consider the requirements and guidance for modified opinions set forth in AU-C section 705, including the modification for the scope limitation with respect to the certified information.

Respondents are asked for their views about the proposed interaction of AU-C section 705 and AU-C section 703 when the ERISA-permitted audit scope limitation is imposed by management including:

- (1) whether the guidance in paragraphs .31 and .34 of the proposed SAS (i) is clear with respect to the auditor's responsibilities for addressing the circumstances described above, and (ii) achieves the objective of providing transparent reporting to the users, and if not, suggested revisions.

This guidance is fine in the context of making an exception to AU-C 705.10, however, as noted above, I do not believe this is appropriate.

- (2) the form and content of the example reports (nos. 5-7) illustrating qualified and disclaimers of opinion regarding the application of the guidance in paragraphs ,31 and .34.

I take exception to Illustration 7. This ED is based on making an exception to AU-C 705.10 when the only scope limitation is the ERISA permitted limitation. Why then is that limitation listed as one of the reasons for the disclaimer in Illustration 7? As proposed, the limitation would not preclude the auditor from issuing a clean opinion in Illustration 3, accordingly, how can it be a reason for disclaiming an opinion in Illustration 7? This inconsistency needs to be eliminated.

Issue 4 - Required Emphasis-of-Matter Paragraphs

Paragraph 116 of the proposed SAS requires the auditor to include an emphasis-of-matter paragraph in the auditor's report when certain situations exist and are disclosed in the notes to the financial statements under U.S. generally accepted accounting principles. The required emphasis-of-matter paragraphs are intended to highlight certain situations that, when they occur, are considered fundamental to the users' understanding of the financial statements.

(a) Respondents are asked to consider whether the situations identified are appropriate for requiring the inclusion of emphasis-of-matters paragraphs in the auditor's report. (b) Respondents are also asked to consider whether there are additional situations that should result in a required emphasis-of-matter paragraph.

- Regarding (a): I am not sure 116(a) is needed. The presentation and disclosure matters devolving from the plan amendments must have been handled properly. Consider rephrasing paragraph 116(a) to require an emphasis of matter paragraph when "There are plan amendments that have a significant effect on the financial statements, including net assets that are disclosed in the notes to the ERISA plan financial statements in accordance with the applicable financial reporting framework."
- Regarding (b): no additional comments.

Issue 5 - Reporting Internal Control Deficiencies

As noted in the Background discussion, the ASB concluded that the proposed SAS should not include a requirement to disclose, in a separate section of the auditor's report, a description of any significant deficiencies or material weaknesses in internal control identified as part of the audit engagement and that it is sufficient for the auditor to communicate those matters to those charged with governance as required by AU-C section 265.

Respondents are asked to provide feedback on whether

- (1) The current reporting of internal control deficiencies to those charged with governance is sufficient; and/or

Yes, the current reporting of internal control deficiencies is sufficient.

- (2) there are other reporting considerations the ASB should evaluate.

No.

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 of the proposed SAS require the auditor to perform audit procedures on certain provisions relating to ERISA plan financial statements that are the basis for a new reporting element. The new requirements are focused on plan instrument provisions based on information provided by the DOL, along with other feedback, that could have a direct effect on the financial statements. As described in the background information, the auditor would be required to perform audit procedures with respect to the specified plan provision irrespective of the assessed risks of material misstatement.

Respondents are asked to provide feedback about the required procedures discussed in paragraphs .15–.16, and the reporting of findings discussed in paragraphs .119 - .124 of the proposed SAS, including views regarding the following:

- (1) With respect to the required procedures in paragraphs .15-.16-

- a. Will these requirements enhance the consistency and quality of audit procedures relating to matters that could have a direct effect on the financial statements, including related disclosures, and if not, why?

The requirements will generally enhance the consistency and quality of audit procedures relating to matters that could have a direct effect on the financial statements, including related disclosures.

Testing compliance with DOL / IRS rules and regulations is properly a part of every ERISA audit. However, this is not because of the possible direct effect on the financial statements. The ED recognizes this by stating that these procedures are required regardless of the risk of material misstatement in the financial statements.

The real reason for these compliance procedures is to determine that participant accounts are correct. Considering the limited scope option permitted by ERISA, a possible beneficial engagement would be a compliance audit focused on the propriety of the participant account activity. However, until ERISA is changed, this is a moot point.

Yes, certain compliance deficiencies result in disclosures and possibly adjustment to the financial statements, however, it is inappropriate to list in paragraphs A13 and A39, plan disqualification as a possible consequence. While possible, neither the DOL nor the IRS wants to penalize plan participants for plan sponsors' failures. In other words, the risk of a material misstatement of the financial statements as the result of a compliance deficiency is minute.

- b. Does the proposed SAS provide appropriate guidance on achieving these requirements including
- i. Which provisions of the plan instrument should be tested; and

The proposed SAS provides appropriate guidance regarding which provisions of the plan instrument should be tested.

- ii. To what extent testing should be performed?

The proposed SAS provides no guidance regarding the extent of testing that should be performed. Paragraph A15 quotes the standards about the risk assessment reducing, but not eliminating these procedures, However the SAS does not provide any practical guidance about the extent of testing. Also, many of these items will be addressed in the plan's SOC reports. There is nothing in the ED

about how that should be considered in determining the extent of testing.

- c. 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?

What's been listed is fine, but by listing these items, auditors may conclude that there are no other items that should be tested. I recommend that the wording be more provisional (i.e. paragraph 15 should contain words like "should usually", "ordinarily performs", and "should consider other tests", etc.). A14 addresses this, but it might be better to include this in the requirements rather than in the guidance.

The inherent problems with putting an audit program into the standards are (1) that it might be too much in certain circumstances, and too little in others, and (2) that it reduces auditor thinking about what should be done in the circumstances, i.e. it's just easier to follow the provided list.

- (2) With respect to reporting on the findings resulting from performing procedures related to the areas in paragraphs 119-124, whether there are opportunities to enhance the proposed requirements and guidance including whether:

As noted above, I believe the proposed new report is inappropriate. Auditors are not engaged to report on compliance. As expressed above, if the DOL wants this type of report it should request from Congress changes to ERISA. Moreover, the extent of the testing is likely to be insufficient to support a meaningful conclusion. This leads me to conclude that the only purposes of this report are to prod the auditor to more compliance testing, and to make it easier for the DOL to identify possible audit deficiencies. My responses to the questions below should be read in the context of the views expressed in the preceding sentences.

- a. Including the list of individual areas tested is appropriate and if so whether there are other items that should also be included (if not, why not).

No. 123(d)(ii) is a level of detail that is overkill and facilitates second-guessing.

- b. The requirement to exclude findings that are "clearly inconsequential" is appropriate, and if so is there guidance the ASB can consider to drive consistency in application in practice?

First, this is not a requirement; it is guidance in A135. But, more important, this determination should be based on the auditor's professional judgement, However, paragraph A136 states that the auditor may reach agreement with those charged with governance as to what is clearly inconsequential.

Should we also be consulting with those charged with governance to determine what is “significant”, “material”? This is a slippery slope. All of these determinations are based on the auditor’s professional judgment.

- c. The findings should also include any matters identified by management or the plan administrator? [Note: As currently drafted, the proposed SAS requires the auditor to include findings that were noted as part of the auditor’s work performed in relation to paragraphs 15–16.]

No. This information, if requested by the DOL, should be provided by management. Our report is for our audit findings.

- d. The reporting illustrations included in the Exhibits to the proposed SAS specific to reporting the findings are clear and result in sufficient information to the user of the report?

No. For example, Illustration 3 includes the following reported finding: “We noted instances when vesting was not calculated in accordance with the plan document, which resulted in the plan not paying appropriate benefits”. I do not believe this provides meaningful information and may raise further questions, including: (1) How big is the population?, (2) How many were tested?, and (3) How many instances of non-compliance?

- e. There may be unintended consequences from including the findings in the auditor’s report, and if so, what those unintended consequences may be and how might they be mitigated?¹

They are best mitigated by eliminating the requirement for this report.

- f. there are alternatives to reporting the findings in the auditor’s report that would achieve the objectives related to enhancing audit quality?

Reporting findings does not enhance audit quality. Audit quality is enhanced by properly modifying the nature, timing and extend of audit procedures based on findings throughout the audit.

- (3) Whether the required additional procedures and reporting of findings will 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?

Yes, there will be additional costs. This new report is an unnecessary sop to the DOL made necessary by the DOL’s failure to obtain Congressional remedies. Our existing reporting framework requires us to bring to the attention of management and/or those charged with governance situations

where this testing of so called “specific plan provisions” reveals non-compliance in need of attention. The DOL should get the AU-C 260 and AU-C 265 communications from the plan sponsors.

I am not an attorney, but I think there may be legal issues for us if we gratuitously start reporting about plan compliance absent any requirement to do so.

Issue 7 – Required Procedures Relating to the Form 5500

The DOL’s audit quality study identified that the auditors are inconsistent in the procedures performed with regard to the Form 5500 as well as consideration of the reconciliation between the Form 5500 and the financial statements that is an ERISA requirement. In response, the ASB concluded that the procedures in paragraphs 36–48 would improve consistency as the auditors’ report on the financial statements that accompany the Form 5500 filing. The proposed procedures are based on AU-C section 720 *Other Information*, however the Form 5500 is not deemed to be an annual report as defined in AU-C section 720.

Respondents are asked for their views about whether the proposed procedures in paragraphs 36–48 of the proposed SAS would 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?

Increased consistency? Sure. But I think an opportunity is being missed.

A good chunk of 36-48 deals with what happens when the auditor releases the report without having read the 5500 and then when reading the 5500 discovers a problem. Why get into this situation? In the engagement letter, management agrees to have the 5500 available to the auditor in time for the auditor to perform the necessary procedures and resolve any issues prior to the filing date. Why not require that the 5500 be available and reviewed before the report can be released?

Issue 8 – Proposed New Reporting Standard and Amendments to Other AU-C Sections

The proposed SAS would create a separate, stand-alone reporting section (intended as AU-C section 703) within the Audit Conclusions and Reporting section of the AU-Cs that would include new requirements for reporting on ERISA plan financial statements including a new opinion when an ERISA-permitted audit scope limitation is imposed by management. The proposed SAS therefore repeats much of the requirements and guidance currently in AU-C section 700. In addition, Appendix A and B to the proposed SAS include amendments to various other AU-C sections to properly scope the proposed SAS including amendments to reference both AU-C section 700 and AU-C section 703 in other areas of GAAS as appropriate.

Respondents are asked whether

- (1) the proposed approach of creating a new reporting model for reporting on ERISA plan audits (AU-C section 703) will better describe management's and the auditor's responsibilities in these engagements;

No. The current reporting model is not broken.

- (2) the proposed amendments to the other AU-C sections are appropriate; and

Yes.

- (3) whether there are other sections of the AICPA *Professional Standards* that would need to be amended for this proposed SAS.

No.

Issue 9 –Proposed Effective Date

The proposed effective date for the proposed SAS is for ERISA plan audits of financial statements for periods ending on or after December 15, 2018. Respondents are asked whether the proposed effective date provides sufficient time for preparers, auditors, and others to adopt the new standard and related conforming amendments.

Yes, this is sufficient time.

Other Comments

- I find the statement made in the first sentence of A134 interesting. Of course, by introducing the requirement for the new report, the statement is obviously true. But, we practiced for some 45 years without this report. Is it really true that “The Report on Specific Plan Provisions Relating to the Financial Statements is an integral part of an audit of ERISA plan financial statements in accordance with GAAS”? Perhaps we could at least add as the first words of this sentence “with the issuance of SAS 13X”?

This same issue impacts A145.

- I believe A139 – A140 should be deleted. Of course, these paragraphs would not be necessary if the requirement for this report were dropped, but this is what you get when you take what should be communications between management and auditor and put them in a public report. As noted above, any communications about non-compliance belong in the AU-C 260 and AU-C 265 letters, to which the guidance in these 2 paragraphs could apply. The DOL can request the letters and management’s response directly from management.

Yours truly,

Howard Sibelman CPA