



July 28, 2017

Michael J. Santay, Chair, Auditing Standards Board
Darrel Schubert, Chair, Employee Benefit Plan Reporting Task Force
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036
sherry.hazel@aicpa-cima.com

Re: Proposed Statement on Auditing Standards (SAS), AU-C Section 703, "Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA"

Dear Messrs. Santay and Schubert:

The Employee Benefits Plan Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to comment on the proposed Statement on Auditing Standard, "Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA". The PICPA is a professional association of more than 22,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is composed of practitioners from international, regional, and small public accounting firms, as well as members serving in financial reporting, and third-party service organizations.

General Comments

The committee supports the Auditing Standards Board's (ASB) overall goal of improving employee benefit plan audit quality and ensuring that the work performed by plan auditors meets the expectations of the U.S. Department of Labor (DOL). However, as described in more detail below, the committee has concerns regarding several key aspects of the proposed standard, and believes that the proposed standard would significantly increase auditors' liability, drive up audit costs, and provide a disincentive to report findings, which ultimately could lead to lower audit quality. Further, the committee does not believe that auditors will be able to pass the additional costs along to clients, which further challenges audit quality and the ability to recruit and retain quality audit staff. Finally, the committee supports mandating additional continuing education requirements to ensure that employee benefit plan auditors are competent and properly qualified.

Specific Comments

1. Limited Scope Opinion – The committee does not support the revisions to the auditor’s limited scope opinion in Illustration 3—*An Auditor’s Report on Financial Statements for a Defined Contribution Retirement Plan Subject to ERISA when Management Imposes a Limitation on the Scope of the Audit as Permitted by ERISA*.

“In our opinion, based on our audit and based on our use of the certification of the investment information that 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 ABC 401(k) plan as of Dec. 31, 20X2 and 20X1, and the changes in net assets available for benefits for the year ended Dec. 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.”

Specifically, in light of the limited nature of the auditor’s procedures over investments, the committee does not support the use of the wording “the financial statements referred to above present fairly, in all material respects.” Instead, given the materiality of investments, the committee believes that a disclaimer is appropriate.

2. Management’s Responsibilities – The committee noted that the proposed section in the draft opinion under Management’s Responsibilities is lengthy and goes beyond the responsibilities included in the standard clarified audit opinions. The committee recommends moving these proposed responsibilities to a separate management assertion that management would sign and would be attached to the opinion.
3. Required Audit Procedures for Reporting on Specific Plan Provisions –
 - a. Para. .14-.16 – The proposal would require the auditor to perform testing of items “irrespective of the risks of material misstatement.” The committee does not support a requirement that doesn’t take into consideration the risk of material misstatement. The committee believes that this requirement would drive up plan costs due to the increased testing of immaterial items. In some cases, these procedures may not be relevant (e.g., certain procedures for frozen plans, vesting on a plan where all plan participants are currently and previously fully vested, plans that had no or immaterial benefit payments during the year, plans that experienced immaterial forfeitures, etc.).
 - b. The committee believes that the general nature of the required procedures included in the proposed standard will result in diversity in practice as practitioners will interpret the performance requirements differently. Accordingly, unless materiality, sample sizes, and specific procedures are explicitly defined,

auditors will continue to reach differing conclusions for tests of the same financial statement line item.

4. Reporting of “Findings” – Para. 18 – The proposed standard would require findings to be included in the audit report or on a different report. The committee notes that the financial statements are filed with Form 5500, and as such are a public document available on the DOL website.
 - a. The proposed standard does not include a clear definition of “finding” and “materiality” for reporting purposes.
 - b. The committee is concerned that users could misunderstand these findings as the context for these findings is not provided, potentially leading to an increase in legal liability for the plan or the inability of the plan to get insurance.
 - c. Disincentive to report findings – The committees believe that the proposed requirement to include the auditor’s findings in the auditor’s report could provide a disincentive for firms to report such items since such information would become public record. Since plans likely will not want any such auditor communications made public, this proposed requirement could potentially favor the selection of firms that are not industry experts (who may not understand plan compliance issues), firms that will determine such items to be immaterial for communication, or firms that take the position that the standards do not require them to find compliance matters. Therefore, rather than encourage audit quality, the committee is concerned that the proposed standard could instead encourage plans to hire less qualified audit firms.
 - d. Findings that are corrected prior to the report release date – It is not clear whether findings that have been addressed by the plan sponsor should be included in the report.
 - e. Auditor/client relationship – Implicit in the preceding comments is the underlying concern that clients will not be forthcoming with their auditor about any discovered or potential “issues.”

5. Additional Costs – The committee believes that additional costs will be unnecessarily burdensome, such that employers may consider terminating their plans – not a good result for the employees/plan participants. Additionally, in the event that auditors are unable to pass their costs along to the plans, audit quality may suffer as fee pressures may result in practitioners reducing their time spent on the engagement. The committee believes that this result is contrary to the overall objective of the proposed standard of improving audit quality.



6. **Effective Date** – The committee does not believe that the proposed effective date (for periods ending on or after Dec. 15, 2018) is reasonable given the magnitude of the proposed changes and the need for education and outreach to firms.

We appreciate your consideration of our comments. We are available to discuss any of these comments with you at your convenience.

Sincerely,

A handwritten signature in blue ink that reads 'Richard Fischer'. The signature is fluid and cursive, with the first letter 'R' being particularly large and stylized.

Richard Fischer, Chair, PICPA Employee Benefits Plan Committee