

ANDERS Comment Letter – September 29, 2017

AICPA Exposure Draft Proposed Statement on Auditing Standards: Forming an Opinion and Reporting on Financials Statements of Employee Benefit Plans Subject to ERISA. Issued April 20, 2017; Comments Due September 29, 2017.

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

Question: Will the procedures and guidance achieve the objectives of enhancing execution and consistency in these engagements? If not, why?

- Anders' Response: Regarding paragraph 20 of the proposed standard, we agree that the procedures and guidance achieve the objectives of enhancing execution and consistency in these engagements.

Question: Are there any procedures that should be required that are missing? If so, describe them.

- Anders' Response: Paragraphs 15 and 16 of the proposed audit standards do not include procedures for participant loan activity.

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

Question: Will the form and content of the proposed auditor's report, including the form and proposed content of the new form of opinion, provide improved transparency with respect to reporting on an audit of ERISA plan financial statements when an ERISA-permitted audit scope limitation exists? If not, how could it be revised?

- Anders' Response: We do not feel the form and content of the proposed auditor's report will provide improved transparency with respect to reporting on an audit of ERISA plan financial statements when an ERISA-permitted audit scope limitation exists. The proposal purports to expand reporting beyond that of a financial audit. We strongly suggest that any additional reporting beyond that of the core financial statement audit be removed.

Question: Will it improve the auditor's understanding of his or her responsibilities in a limited scope audit resulting in potential improvements in audit quality? If not, why?

- Anders' Response: While the auditor's responsibilities are more clearly described and more consistent with business entity audits, we do not feel that the proposed form and content changes will result in improvements in audit quality. Quality practitioners are already performing many of these procedures. Research has shown that most problems in EBP audit quality are the result of practitioners who "dabble" in the field, and/or fail to maintain their continuing education in this specific area of practice. Unfortunately, the proposed changes are unlikely to solve this problem.

Question: Will it better describe management's responsibilities for the financial statements? If not, why?

- Anders' Response: We agree that management's responsibilities are better described in the proposed language.

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Question: Will it provide sufficient clarity to users with respect to the auditor’s responsibilities and matters reported. If not, why?

- Anders’ Response: We have concerns about the clarity to users. While the proposed format of the report more closely follows that of business entity audits, there is some potential for confusion about the auditor’s level of assurance. For example, the heading “Auditor’s Responsibility Including Responsibility for the Certified Investment Information” may cause the user to conclude that the auditor has active responsibility for this information. Furthermore, there is no indication that the auditor did not perform procedures on investment information.

Issue 3—Modifications to the Opinion in the Independent Auditor’s Report

Question: In relation to the proposed interaction of AU-C section 705 and the proposed SAS is the guidance in paragraphs 31 and 34 of the proposed SAS clear with respect to the auditor’s responsibilities for addressing the circumstances described? Does it achieve the objective of providing transparent reporting to the users? If not, suggest revisions.

- Anders’ Response: Yes, we feel the guidance within paragraphs 31 and 34 is clear in stating the responsibilities of the auditor, and achieves the stated objective.

Question: In relation to the proposed interaction of AU-C section 705 and the proposed SAS what are your views about 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.

- Anders’ Response: We feel there is a significant threat of confusion and misunderstanding here. The guidance seems to be conflicting – the ERISA-permitted scope limitation does not necessarily warrant a disclaimer of opinion, however, the examples include this limitation as a basis for disclaimer. Furthermore, if a second management imposed scope limitation exists, it may confuse the reader as to that limitation’s relationship to the auditor’s disclaimer.

Issue 4—Required Emphasis-of-Matter Paragraphs

Question: Are the situations identified 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?

- Anders’ Response: No. We feel that the situations identified in paragraph 116 of the proposal are not appropriate for requiring the inclusion of emphasis-of-matters paragraphs in the auditor’s report and we are concerned that the guidance does not clearly allow for auditor judgement in other areas. We strongly recommend that the proposal be modified to allow for more auditor’s professional judgement. Furthermore, as discussed in Issue 6, we feel that if reporting of these types of matters is to be required, a separate report (similar to reports submitted in Uniform Guidance engagements) would be much more appropriate than EOM paragraphs.

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Issue 5—Reporting Internal Control Deficiencies

Question: Is the current reporting of internal control deficiencies to those charged with governance sufficient? Are there are other reporting considerations the ASB should evaluate?

- Anders' Response: We believe the current reporting of internal control deficiencies to those charged with governance is sufficient, as required by AU-C Section 265.

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

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

- Anders Response: We feel that the required procedures in paragraphs 15-16 may slightly enhance the consistency of the audit work performed, but would not impact overall audit quality. As previously stated in Issue 2, most of the procedures in the proposal are already being performed by quality practitioners.

Question: Does the proposed SAS provide appropriate guidance on achieving these requirements, including which provisions of the plan instrument should be tested; and to what extent testing should be performed?

- Anders Response: While the specific plan provisions of the plan instrument are well defined, we feel the proposal is lacking sufficient clarity on the extent of testing that should be performed. Paragraph A.16 states "some relevant testing is expected to be performed for each of the matters in paragraphs 15 and 16." We would expect some degree of auditor judgement and fully support allowing auditor judgement in the proposal. However, given that these procedures are truly done to support a compliance report, we are concerned about consistency in practice. Overall, we do not feel that this type of testing and reporting will increase audit quality for the reasons previously mentioned.

Question: 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?

- Anders' Response: The proposal does not address the testing and/or reporting of corrective actions taken by management. We believe this information is useful to the readers of these financial statements.

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With respect to reporting on the findings resulting from performing procedures related to the areas in paragraph 119-124:

Question: Is the list of individual areas tested appropriate, and if so are there other items that should also be included (if not, why not)?

- Anders' Response: We agree that the individual areas required to be tested are appropriate. With respect to reporting findings, we feel a separate schedule of finding would be more easily understood than the current proposal's reporting construct. However, we also have serious concerns regarding the reporting of findings in general.

We would recommend a reporting model similar to the current reporting requirements for Single Audits under the Uniform Guidance.

Question: 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?

- Anders' Response: We believe it is appropriate to exclude findings that are "clearly inconsequential". Furthermore, the proposal should include more specific guidance for applying materiality to compliance versus financial reporting.

Question: Should the findings also include any matters identified by management or the plan administrator?

- Anders' Response: We strongly oppose the inclusion of matters identified by management or the plan administration. We would be very concerned about the consistency in practice here. Management would be severely incentivized to withhold information from auditors if compliance findings identified by management were included in the report. Furthermore, if matters identified by management or the plan administrator that are not required to be tested by the auditor were subject to inclusion, this would certainly further drive inconsistency in practice.

Question: Are the reporting illustrations included in the Exhibits to the proposed SAS specific to reporting the findings clear and result in sufficient information to the user of the report?

- Anders' Response: We are strongly opposed to the inclusion of findings in the auditor's report. We believe that the usefulness of the "Report on Specific Plan Provisions Relating to the Financial Statements" is unclear; the severity of findings is not addressed in the report. In practice, we feel there may be significant contradiction with existing Department of Labor rules and requirements.

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Question: What unintended consequences might there be from including the findings in the auditor's report, and how might they be mitigated?

- Anders' Response: As previously stated, we strongly oppose the inclusion of findings in the auditor's report and we have several concerns about unintended consequences. Because the severity of findings is not addressed, relatively simple compliance matters may warrant unnecessary criticism from plan participants. Additional communication and administration will be necessary to address participants' concerns, and this will certainly drive costs of operating the plan higher. Management will be incentivized to withhold information from auditors, or even shop for auditors with more open-minded interpretation of the standards. This will drive further inconsistency in practice, and lower audit quality. We are very concerned that misinterpretation of findings may lead to litigation among and between the various service providers to a plan (auditors, attorneys, TPAs, actuaries, custodians, sponsors, etc.)

Question: Are there alternatives to reporting the findings in the auditor's report that would achieve the objectives related to enhancing audit quality?

- Anders' Response: We do not believe that audit quality will be enhanced by the required reporting of findings. Current audit standards provide appropriate guidance to report material noncompliance and corrections which may impact plan qualification or net assets. We also believe that reporting audit procedures and resultant findings to those charged with governance would be more meaningful and useful to encourage transparency and corrective actions. Rather than including the results of audit procedures performed related to the specific plan provisions in an audit report, the fact that findings were reported to management and those charged with governance could be reported via the auditor information included on the Form 5500.

Question: With respect to reporting on the findings resulting from performing procedures related to the areas in paragraphs 119–124, are there opportunities to enhance the proposed requirements and guidance, including 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?

- Ander's Response: We have significant concerns regarding the estimated additional costs of the additional procedures and reporting of findings. Our initial estimate is an increase of at least 25% of the current audit fees. Many of these costs may be passed onto plan participants without providing any incremental benefit to them. Additional costs absorbed by smaller plan sponsors may encourage them to terminate the plans.

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Issue 7—Required Procedures Relating to the Form 5500

Question: Will 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?

- Anders' Response: We generally agree that the proposed procedures of the proposed SAS will 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.

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

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

- Anders' Response: While we agree that managements' and auditors' responsibilities are clearer in the proposed reporting model, as previously discussed, we have significant concerns about the proposal overall and we do not support it as currently drafted.

Question: Are the proposed amendments to the other AU-C sections appropriate?

- Anders' Response: While we agree that the proposed amendment to the other AU-C sections are appropriate, as previously discussed, we have significant concerns about the proposal overall and we do not support it as currently drafted.

Question: Are there are other sections of AICPA Professional Standards that might need to reflect the provisions of this proposed SAS?

- Anders' Response: We did not identify any other sections of professional standards that might need to reflect provisions of the proposal.

Issue 9—Proposed Effective Date

Question: Does the proposed effective date provide sufficient time for preparers, auditors, and others to adopt the new standard and related conforming amendments?

- Anders' Response: We believe additional time is necessary. We suggest at least 1 full year from the time the final standard it issued.