September 30, 2017

Sherry Hazel
AICPA Auditing Standards Board
1211 Avenue of the Americas
New York, NY 10036-8775
Via e-mail: shazel@aicpa.org

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

Dear Ms. Hazel:

MBAF is pleased to provide its comments on the aforementioned proposal. MBAF is ranked nationally as a Top 40 accounting and advisory firm with over 10 offices in the United States and in India. More than 500 highly qualified principals and employees serve domestic and international clients across a broad range of industries and practices from our offices across the country. MBAF has the following overall comments and comments related to the questions numbered below:

Overall

We are overall supportive of codifying various performance requirements and expanded reporting that clarifies expectations regarding employee benefit plan audits. We believe employee benefit plans are unique given their operations and the extent of oversight by the DOL. Thus, an auditing standard specific to employee benefit plans is appropriate and will be beneficial to practitioners in terms of providing appropriate guidance. We are supportive of emphasizing a high-quality audit. However, we have concerns with overly-prescriptive requirements which may distract auditors from risk areas and cause them to instead focus on compliance-oriented items. Such focus also can help perpetuate an expectation gap between users and the auditor and provide the users a false sense of assurance.

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

Respondents are asked to provide their views on whether:

- **the procedures and guidance will achieve the objectives of enhancing execution and consistency in these engagements and if not, why; and**

  We believe the procedures and guidance will achieve the objectives of enhancing execution and consistency in these engagements.
- **any procedures that should be required are missing, and if so, describe them.**

  We do not believe any procedures are missing. We do understand the need to prescribe certain requirements to help ensure a high-quality audit. However, we believe that the auditor’s exercise of professional judgement and the assessment of risk should drive further procedures, as needed.

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

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 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, and if not, how could it be revised:

- **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;**

  We believe that the form and proposed content of the new form of opinion will improve the auditor's understanding of his or her responsibilities.
- **better describe management's responsibilities for the financial statements, and if not, why;**

  We believe that the form and proposed content of the new form of opinion will better describe management's responsibilities. We believe the more detailed breakout of responsibilities will help management fully understand their responsibilities.
- **provide sufficient clarity to users with respect to the auditor's responsibilities and matters reported, and if not, why.**

  We believe that the form and proposed content of the new form of opinion will provide improved clarity to users.

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

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

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

  We believe that the guidance in paragraphs 31 and 34 of the proposed SAS is clear with respect to the auditor's responsibilities and provides more transparent reporting to the users. We believe that the separate section for limited scope audits is appropriate. We also believe having a separate section will be beneficial particularly in those situations where there are circumstances, other than the standard DOL limited scope, which may necessitate a disclaimer. The non-DOL disclaimer will be more appropriately emphasized both to the user and the auditor performing the audit. Also, a separate section will help further reinforce on the auditor as to what a DOL limited scope exception does, and does not, cover and help improve auditor performance.
- **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.**

  We believe that the form and content of the example reports are acceptable.

Issue 4—Required Emphasis-of-Matter Paragraphs

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. Respondents are also asked to consider whether there are additional situations that should result in a required emphasis-of-matter paragraph.

We do not agree with the required emphasis-of-matter ("EOM") paragraphs. EOM paragraphs should be left to auditor judgement. We believe that being overly prescriptive can force the auditor to spend time complying with what could possibly be immaterial disclosures, and can take time away from executing a high-quality audit.

Issue 5—Reporting Internal Control Deficiencies

Respondents are asked to provide feedback on whether:

- **the current reporting of internal control deficiencies to those charged with governance is sufficient; and/or**

  We believe that the current method of reporting is sufficient.
- **there are other reporting considerations the ASB should evaluate.**

  We believe that reporting to those charged with governance is sufficient, however potentially the timing of the reporting could be considered. If the communications with management and those charged with governance were completed prior to issuance it would reinforce robust communication with management and those charged with governance and also reinforce the responsibilities of management and those charged with governance.

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

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 the audit work performed relating to matters that could have a direct effect on the financial statements, including related disclosures, and if not, why?**

      We believe that the required testing will enhance consistency of the audit procedures performed by a number of auditors. We do note that many of these procedures are likely already tested in a risk based audit. Our concern, however, is when an area is not material, the auditor may be forced to dedicate time and attention away from riskier areas. The concern is also that such a requirement could reinforce a "checklist approach" that would erode professional skepticism and audit quality.

b. **Does the proposed SAS provide appropriate guidance on achieving these requirements, including:**
   i. **which provisions of the plan instrument should be tested; and**
   We believe that the proposed SAS is clear on which provisions should be tested.
   ii. **to what extent testing should be performed?**
   We believe that the proposed SAS is less clear on what extent of testing should be performed. The proposed SAS indicates that the risk assessment can reduce testing but not eliminate it (which is consistent with extant) but with new required procedures the reduction could be difficult to quantify. For example, if an area is clearly inconsequential (potentially disposition of forfeitures) what is the extent of procedures the auditor is to perform? Should auditors still have to pick a sample? We are concerned that with no guidance and this inherent contradiction that the required procedures raise, that the DOL, peer reviewer, or other body, might find the audit deficient.

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?**
We believe that the administration of loans in accordance with plan provisions should also be included in the required testing. Although loan balances are often certified, the certification often only addresses the valuation and existence assertions and thus in current practice loans may not be tested for compliance with plan provisions.

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:**
   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).**
   We agree with including the individual areas tested would help limit the expectation gap between users and auditors.

   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?**
   We have concerns regarding the exclusion of inconsequential findings. Although likely appropriate, how can we exclude inconsequential findings when we are required to test immaterial items? These requirements appear inconsistent.

   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.]**
   We agree that including findings noted by management could be appropriate. However, we believe that matters identified by management and corrected prior to year-end should be excluded due to potential unintended consequences (see comments at "e" below).

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?**
We believe that the reporting illustrations include sufficient information.

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?**
We believe that issues identified by management, but corrected through strengthened controls, that are included in the report on findings may give the appearance of problems within the Plan when none exist.

f. **There are alternatives to reporting the findings in the auditor's report that would achieve the objectives related to enhancing audit quality?**
We believe the proposed structure of the report will be potentially confusing and misleading to users and will potentially create a disproportionate amount of attention by auditors to the compliance reporting at the expense of the risks of material misstatement. To alleviate user confusion and enhance user understanding and perspective, we propose the following:

- Including the areas tested under the required procedures in paragraphs 15 – 16 as a part of the auditor's responsibility section of the report instead of as a separate report section. We believe including the testing of specific plan provisions in the auditor's responsibility section of the report will strengthen the user's understanding of the procedures performed in the context of the overall audit. Also, when the user reads the whole auditor's responsibility section together, by including the areas subject to the required procedures in the same manner as the auditor's consideration of internal control, the user will have a more cohesive understanding and perspective of what the audit entailed.

- Excluding the findings from the report entirely. We propose the findings be reported to management and those charged with governance in a manner similar to the current reporting on internal control deficiencies in AU-C 265. Including the findings in the auditor's report may diminish the value of the overall audit report by calling unnecessary attention to the compliance items and distracting and the reader from the overall audit and the concept of reasonable assurance. See Addendum A for an example of the proposed change.

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?**
The additional procedures are likely to incur additional costs for auditors. Such costs may be difficult for auditors to pass down to plan sponsors. However, these costs may be perceived by auditors as worthwhile if an audit passes DOL inspection that otherwise may not have.

Issue 7—Required Procedures Relating to the Form 5500

> 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?

We agree that the procedures appear appropriate.

Respectfully submitted,

Morrison, Brown, Argiz & Farra

The following Firm personnel coordinated this response:
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Addendum A
Illustration 1 (added text is underlined)
Modified Auditor's Responsibility Paragraph

Auditor's Responsibility (Including Responsibility for the Certified Investment Information)

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

<u>As part of obtaining reasonable assurance about whether ABC 401(k) Plan's financial statements are free from material misstatement, we are required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions. We performed procedures relating to participant eligibility, benefit payments, participant vesting provisions, employer and employee contributions, disclosure of prohibited transactions, Internal Revenue Code compliance tests, participant asset allocations, use of forfeitures, and recording of account activity for the year ended December 31, 20X2 as required by generally accepted auditing standards for audits of employee benefit plans subject to the Employee Retirement Income Security Act of 1974 as set forth in AU-C section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA. However, these procedures were not performed for the purpose of providing an opinion on compliance with those provisions and, accordingly, we do not express such an opinion.</u>

With respect to the certified investment information that management instructed us not to audit, we did not assess the risks of material misstatement nor did we consider internal control over the certified investment information. Our procedures were limited to the following:

a) obtaining and reading the certification;
b) evaluating management's assessment of whether the entity issuing the certification is a qualified institution under the Employee Retirement Income Security Act of 1974;
c) comparing the certified investment information with the related information presented and disclosed in the financial statements;
d) evaluating whether the form and content of the certified investment information presented and disclosed in the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Other than with respect to the certified investment information, our audit procedures were not limited for other amounts and disclosures in the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion with the ERISA-permitted audit scope limitation on the financial statements.