

July 27, 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

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

Dear Ms. Hazel:

The Accounting Principles and Assurance Services Committee (the “Committee”) of the California Society of Certified Public Accountants (“CalCPA”) respectfully submits its comments on the referenced proposal. The California Society of CPA’s (“CalCPA”) Accounting Principles and Assurance Services Committee (the “Committee”) is the senior technical committee of CalCPA. CalCPA has approximately 43,500 members. The Committee consists of 55 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

The Committee is pleased to have the opportunity to comment 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.

We appreciate the AICPA’s efforts undertaken to improve the quality of audits of financial statements of employee benefit plans (EBPs) subject to ERISA and recognize that this ED was developed with that objective. We also recognize that the proposed ED is an attempt to improve audit quality in response to ongoing concerns raised by the Department of Labor (DOL). However, we believe the ED fails to improve audit quality and contradicts sound extant professional standards.

It appears to us the Board is proposing to yield to demands of the DOL by introducing a fundamentally flawed audit standard. 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, we believe the appropriate solution to this problem is not contained

within the proposed ED. Rather, the Committee believes 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 also includes the limited-scope exception. ERISA does not call for auditing compliance with DOL and IRS regulations to provide absolute assurance that participant account balances are "deadly accurate".

If the DOL is not satisfied with existing laws and regulations governing employee benefit plans, we recommend that it make its case to the United States Congress. We do not believe that changing those laws and regulations is the AICPA's responsibility.

Ultimately, we believe that several aspects of the ED are fundamentally flawed. Accordingly, we have divided our response into two parts. In Part I, we focus on what we believe are the fundamental problems with the ED. In Part II, we address the specific "issues" enumerated in the ED. We recognize and apologize for certain redundancies caused by this approach.

We hope the Board will withdraw this proposal, or modify it substantially to address our concerns.

Part I – Fundamental Flaws

Background

The Committee believes that fundamental flaws within the ED arise in the following problematic areas of the proposed standard:

- Proposed standards regarding limited scope audits;
- The proposed reporting on specific plan provisions;
- Proposed auditor responsibilities regarding Form 5500; and
- The proposal's potential for adverse economic impact.

Each of these areas are discussed below.

Limited scope audits

Under the proposal (e.g., paras. 102, 104 and 106), despite the severely limited audit scope imposed by the client and as permitted by ERISA, auditors would be required to issue a clean opinion, based in part, on the custodian's certification (to which only limited procedures would be applied). We find the proposed report language to be professionally unsound, illogical to a financial statement user and potentially detrimental to our profession. The proposed requirements are also significantly inconsistent with sound, existing, audit reporting standards (i.e. clean opinions where scope is severely limited). 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 an inappropriate precedent.

We also believe that the proposed requirements conflict with relevant ethical standard. Specifically, the proposed reporting model for limited scope audits is, in our view, inconsistent with the longstanding "General Standards Rule" in the *Code of Professional Conduct*, which requires CPAs to "obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed" (ET1.300.001.01(d)). We are not aware of any proposal to modify this ethical requirement. While ERISA permits a limited-scope audit exception, it does not mitigate an auditor's responsibility to obtain sufficient appropriate audit evidence as the basis for issuing an opinion.

In some respects, the proposed report form appears to be modeled after the report form used for dividing responsibility between participating component audit firms that now resides in AU-C 600. However, a critical distinction under a group audit scenario is that the reporting auditor's reliance is placed on the work of other CPAs over whom the reporting auditor must take considerable responsibility. It does not permit reliance on a certification issued by non-auditors (in this case, the custodian of the plan's assets).

One might take the view that the custodian's certificate is sufficient, reliable audit evidence, akin to a third-party confirmation, but paragraph A45 of the ED firmly (and we agree, correctly), states that it is not. Given the significance of the investment information addressed in the certification, this acknowledgement should end the discussion about issuing a clean opinion.

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 lack of knowledge relating to the matters covered in paragraph 20, and the general nature of these 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.

Reporting on Specific Plan Provisions

The ED proposes a new requirement (para. 121) to report on specific plan provisions, either in the primary audit report or in a separate report, disclosing auditor findings from applying certain mandated procedures (paras. 15-17 and A15). These provisions require auditors to perform substantive testing without regard to the risk of material misstatement of the financial statements. We believe this is contrary to the basic underlying principles of modern, risk-based auditing.

In short, we believe this new report, including the proposed mandated procedures, is inappropriate and should be eliminated from the standard. The mandatory procedures, of unspecified scope, could add considerable time to many EBP ERISA audits, and present other problems discussed below. Furthermore, such procedures would afford no conclusion as to compliance (appropriately), and little, if any, assurance as to the financial statements being free of material misstatement, which is the sole objective of a financial statement audit.

We believe the probability of a material misstatement requiring adjustment to the plan's financial statements as a result of noncompliance would be extremely remote even in the case of the most egregious violation of plan provisions, or even ERISA or DOL requirements.

We question the likelihood that the DOL/IRS would assess a penalty against plan assets or revoke the tax qualification status of a plan (as suggested in paragraphs 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, we believe it 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), such risks justify performing eligibility and transaction tests. Nevertheless, in our view, 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. While it does not require expressing an opinion on compliance, it resembles, in some ways, an agreed-upon procedures report. However, the ED neither prescribes nor requires the reporting of the 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 subject to second guessing by any third-party, e.g. regulators, peer reviewers,

plaintiffs. In fact, a desire to preempt such second guessing 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 reporting requirements.

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. We 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 Committee questions why the profession should yield to such pressure by requiring its members to perform procedures and issue reports that are inconsistent with its otherwise applicable standards and are not required by law or regulation.

The Committee believes that 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 making them public record. The Committee believes findings belong in extant AU-C 260 and AU-C 265 communications.

Proposed Auditor Responsibilities Regarding Form 5500

The ED (paras. 37 and A69) allows 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. We believe 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.

Potential for Adverse Economic Impact of the Proposal

We believe the proposed requirement for reporting on specific plan provisions will result in significant additional work compared to current practice thus adding considerable costs to many EBP audits subject to ERISA. Those additional costs, if not borne by employer/sponsors, would necessarily reduce plan assets and, thus, have the unfavorable result of being borne by plan participants. We see as another possible unintended consequence that some small business employers will discontinue their EBP rather than absorb such additional costs.

Part II – Response to Specified Issues (Our Responses Appear in Blue)

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

We believe the proposed standard is unrealistic. The Committee believes that in several instances, management of these plans are understandably, not adequately informed as to “the appropriateness of selected investment valuation methodologies”. 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 as noted above, if the DOL is unsatisfied with existing laws and regulations governing employee benefit plans, we recommend that it make its case to the United States Congress.

As a result of coming up with the confusing and illogical language of the new report (*i.e.*, see response to (2) immediately below), it appears that 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. This is inconsistent with ERISA, which permits the acceptance of the certification without doing any 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. We believe 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, we 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 course of action, we find the following new report language to be confusing and 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 [...]”

The Committee believes it 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 balance sheet. We believe that doing so subordinates our professional standards to the wishes of non-standards setters.

In other words, we believe the ASB should make a firm decision about whether the certification is sufficient appropriate audit evidence, and then be consistent with extent standards in the implementation of that decision. This Solomon-like splitting the baby approach, manifested in the combination of paragraphs 104 and 106, is not, in our 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 our response to Issue 1, the new report language is confusing in that it is inherently self-contradictory. While the language may accommodate the DOL, we believe it is inconsistent with extant professional standards and inappropriate. We are assuming the DOL was okay with this language, but their view should not be dispositive.

We submit that if the certification is not sufficient appropriate audit evidence, we cannot use it as the basis for a clean audit report. Stated differently, 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 the substantial majority of 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;

We believe that the ED may improve the auditor's understanding of his or her responsibilities, however we don't believe the pedantic approach conveyed through the ED is how professionals should be treated. We recognize the DOL inspection results demonstrate that many CPAs don't perform properly on these engagements. We further recognize that this new SAS is a good step to help remedy this problem. However, we believe the convoluted report proposed does not have to be part of the new standard.

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

While the Committee recognizes that the proposed report better describes management's responsibilities for the financial statements, we believe the description 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, we believe the proposed report language would be confusing to users. The issuance of a clean opinion may also result in the misinterpretation of the assurance provided by the auditor.

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.

We believe this guidance to be fine in the context of making an exception to AU-C 705.10, however, as noted above, we 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.

We 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. The Committee does not understand why then that limitation is 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, the Committee questions how can it be a reason for disclaiming an opinion in Illustration 7. While we disagree with the proposal, as a practical matter, we believe 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.

We believe the following with respect to each of the requests for information:

- Regarding (a): We are not sure that 116(a) is necessary. 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): The Committee has 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, we believe the current reporting of internal control deficiencies is sufficient.

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

The Committee does not believe there are other reporting considerations that require evaluation by the ASB.

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?

We believe 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.

We believe the reason for these compliance procedures is to determine that participant accounts are correct. We further believe that 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.

While we recognize that certain compliance deficiencies result in disclosures and possibly adjustment to the financial statements, we believe it is inappropriate to list in paragraphs A13 and A39, plan disqualification as a possible consequence. While possible, we suspect that 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 are 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

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

- ii. To what extent testing should be performed?

We do not believe that the proposed SAS provides sufficient guidance regarding the extent of testing that should be performed. Paragraph A15 quotes the standards about 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. We don't see anything 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?

We believe that what has been listed is fine. However in listing these items, the Committee is concerned that auditors may conclude that there are no other items that should be tested, in some circumstances. We

recommend that the wording be more provisional (*i.e.*, paragraph 15 might contain words like “should usually”, “ordinarily performs”, and “should consider other tests”, etc.). While we understand that paragraph A14 addresses this, it might be better to include such language 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, we do not believe the proposed new report is appropriate. In the relevant circumstances, auditors are not engaged to report on compliance. Moreover, the extent of the testing is likely to be insufficient for a reader to come to any meaningful conclusion. This leads us 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. Our 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. The Committee believes that 123(d)(ii) is a level of detail that is excessive 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?

The Committee wishes to clarify that this is not a requirement; it is guidance in A135. More important, we believe 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. The Committee questions whether this will lead to auditor’s consulting with those charged with governance to determine what is “significant” or “material”.

- 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. The Committee believes this information, if requested by the DOL, should be provided by management. Our report should be limited to 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”. We do not believe this provides meaningful information and may raise further questions, including:

- (1) How big is the population?
- (2) How many were tested?
- (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

The Committee believes that the unintended consequences 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?

The Committee believes that 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?

The Committee believes that there will be additional costs in connection with applying the proposed procedures and reporting. In addition, the Committee is concerned that we may become exposed to legal claims and related costs arising from the reporting of plan compliance absent any requirement to do so.

¹

Accordingly, as noted above, we believe this new report is unnecessary. 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. We recommend that the DOL seek access to AU-C 260 and AU-C 265 communications from the plan sponsors directly.

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?

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, the Committee believes this is sufficient time.

Other Comments

- We find the statement made in the first sentence of A134 interesting (see also paragraph A145). The Committee recognizes that by introducing the requirement for the new report, the statement is true. However, auditors have practiced for decades without this report. Accordingly, the Committee questions the appropriateness of the following language: “[t]he 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.” Consider clarifying the first words of this sentence by including the following type of language: “with the issuance of SAS 13X”.
- We believe A139 – A140 should be deleted. 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 two paragraphs could apply. The DOL can request the letters, and management’s response directly from management.
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We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any question or require additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Matthew J. Lombardi". The signature is written in a cursive style with a prominent flourish at the end.

Matthew J. Lombardi
Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants