

August 14, 2017

Ms. Sherry Hazel

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Via Email to [Sherry.Hazel@aicpa-cima.com](mailto:Sherry.Hazel@aicpa-cima.com)

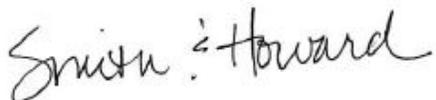
Re: Proposed Statement on Auditing Standards, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

Dear Ms. Hazel:

Smith & Howard PC appreciates the opportunity to comment on the Proposed Statement on Auditing Standards, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (the "Proposed SAS"). We support the Auditing Standard Board's objective to improve the communicative value and relevance of the auditor's report regarding Employee Benefit Plan ("EBP") audits. We also support the incorporation of specific EBP audit procedures into the Proposed SAS which were previously documented in the AICPA's *Employee Benefit Plans: Audit and Accounting Guide*. We do not believe, however, the proposed changes to the auditor's report or incorporation of specific EBP audit procedures into the Proposed SAS will generally improve the quality of EBP audits. We believe firms and auditors which did not previously perform high quality EBP audits will not necessarily begin to do so simply because audit procedures are more specifically defined within the audit standards and in the auditor's report; increase in audit quality will result from increased focus on inspections of EBP audits (both inspections by the Department of Labor and within the AICPA's peer review program) and from consequences to those firms and auditors which the inspection process shows are not performing high quality audits.

Please see the attached appendix for our responses to the specific Issues for Consideration included in the Proposed SAS.

Yours truly,



Smith & Howard

## **Appendix A**

### **Issues for Consideration**

#### **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
- any procedures that should be required are missing, and if so, describe them.

*We believe the audit procedures outlined in paragraph 20 of the Proposed SAS regarding information certified by a qualified institution as permitted by ERISA are complete and appropriate. While we believe inclusion of these procedures in the Proposed SAS is an appropriate step, as noted in our letter we do not believe that this will generally improve audit quality as firms and auditors performing EBP audits should have already been performing these procedures. If firms and auditors opted to not perform these procedures before we do not believe incorporation into the Proposed SAS will in and of itself change that behavior, therefore not achieving the objectives of enhancing execution and consistency in EBP engagements as intended.*

#### **Issue 2 – The Form and Content of the Auditor’s Report on ERISA Plan Financial Statements with 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;
- better describe management’s responsibilities for the financial statements, and if not, why;
- provide sufficient clarity to users with respect to the auditor’s responsibilities and matters reported, and if not, why.

*We believe the proposed auditor’s report, including the form and proposed content of the new form of opinion and the language of the scope limitation as permitted by ERISA (including the new Basis for Limitation section) is appropriate and provides sufficient clarity to users. However, as noted in our letter, we do not believe the changes to the auditor’s report will generally improve audit quality as firms and auditors performing EBP audits should have already understood their responsibilities in a limited scope audit. If firms and auditors opted to not perform appropriate procedures or otherwise fulfill their responsibilities in a limited scope audit we do not believe the proposed changes to the form and content of the auditor’s report will change that behavior.*

### **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.
- 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 the Proposed SAS is sufficiently clear and achieves the objective of providing transparent reporting to the users in regards to the issue referenced above. We noted no issues with the form and content of the example reports referenced above.*

### **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 believe situations identified are appropriate for requiring the inclusion of emphasis-of-matters paragraphs in the auditor’s report. We noted no additional situations that should result in a required emphasis-of-matter paragraph.*

### **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
- there are other reporting considerations the ASB should evaluate.

*We believe the current reporting of internal control deficiencies to those charged with governance is sufficient. We noted no other reporting considerations we believe the ASB should evaluate.*

## **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?
  - b. Does the proposed SAS provide appropriate guidance on achieving these requirements, including
    - i. which provisions of the plan instrument should be tested; and
    - ii. to what extent testing should be performed?
  - 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?
  
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).
  - 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?
  - 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.]
  - 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?
  - 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?
  - f. there are alternatives to reporting the findings in the auditor’s report that would achieve the objectives related to enhancing audit quality?
  
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?

*We believe the inclusion of the Report on Specific Plan Provisions Relating to the Financial Statements (the “Report on Findings”) should not be included within the Independent Auditor’s Report. We do not believe inclusion in the auditor’s report will improve audit quality; as we have noted throughout, firms and auditors that have not performed sufficient and/or appropriate EBP audit procedures will not necessarily change that behavior due to the changes to the auditor’s report – specifically in this instance the addition of the Report on Findings. We believe the reporting of findings will result in additional costs which outweigh the enhancements to audit quality (which, as noted, we believe will be negligible).*

*Assuming the Proposed SAS becomes effective with the Report on Findings included as currently proposed, we believe there needs to be large-scale global communication of this change directly to Plan Sponsors and Plan Administrators similar to the mass mailing the Department of Labor sent directly to Plan Sponsors and Plan Administrators in 2015 with results of their audit quality study. While individual firms and auditors will potentially communicate this to their clients, if there is not a large-scale global communication direct from an authoritative entity we believe many Plan Sponsors will not be adequately prepared for the implementation of the Report on Findings and the publication of their Plan’s audit findings.*

*Assuming the Proposed SAS becomes effective with the Report on Findings included, we believe the following matters need additional clarification within the Proposed SAS:*

- “Clearly inconsequential” needs to be specifically defined either with a bright-line definition or with implementation examples that approach a bright-line definition. As currently written the Proposed SAS provides no meaningful guidance what should or should not be considered “clearly inconsequential” which will lead to confusion and disagreement between the auditor and the Plan Sponsor and will result in significant diversity in practice in what is and is not scoped into the application of “clearly inconsequential”.*
- What is to be considered a finding that is to be documented in the Report on Findings needs to be specifically defined either with a bright-line definition or with implementation examples that approach a bright-line definition. For example, if audit procedures based on sampling revealed one instance of deferrals not being appropriately withheld from a bonus payment but further investigation required by the auditor and performed by management determined all deferrals were not being appropriately withheld from all bonus payments, what is the specific finding to be reported:
  - Only report one instance of a finding (i.e., only report the exception noted in the sampled selection)*
  - Report the global issue (all deferrals were not appropriately withheld from all bonus payments)*
  - Use vague language that does not specify the extent of the issue (e.g., “we noted instances where deferrals were not appropriately withheld from bonus payments”)**

- *While we believe the correct issue to report is that deferrals were not appropriately withheld on all bonus payments in this scenario, we believe that without additional guidance included in the Proposed SAS there will be confusion and disagreement between the auditor and the Plan Sponsor and will result in significant diversity in practice regarding the reporting of findings.*

*Note that while we do not believe the Report on Findings is needed or appropriate to be included in the auditor's report, we believe the audit procedures outlined in paragraph 15 – 16 of the Proposed SAS are complete and appropriate. While we believe inclusion of these procedures in the Proposed SAS is an appropriate step, as noted in our letter we do not believe that this will generally improve audit quality as firms and auditors performing EBP audits should have already been performing these procedures. If firms and auditors opted to not perform these procedures before we do not believe incorporation into the Proposed SAS will in and of itself change that behavior.*

*Additionally, we noted that paragraph 123(d)ii of the Proposed SAS includes an example list of procedures performed by the auditor to be specifically listed in the Report on Findings. We noted this example list did not include testing procedures over loan provisions. If the ASB's intent is to use the Report on Findings to increase audit quality by guiding auditors to perform all required testing, we believe testing procedures over loan provisions should be included in this example list as a significant portion of plans include loan provisions.*

#### **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 believe the audit procedures outlined in paragraphs 36 – 48 of the Proposed SAS regarding identifying information in the Form 5500 are complete and appropriate. While we believe inclusion of these procedures in the Proposed SAS is an appropriate step, as noted in our letter we do not believe that this will generally improve audit quality as firms and auditors performing EBP audits should have already been performing these procedures. If firms and auditors opted to not perform these procedures before we do not believe incorporation into the Proposed SAS will in and of itself change that behavior.*

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

Respondents are asked whether

- a. 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;
- b. the proposed amendments to the other AU-C sections are appropriate; and

c. whether there are other sections of AICPA Professional Standards that might need to reflect the provisions of this proposed SAS.

*We believe the 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. We believe the proposed amendments to the other AU-C sections appear appropriate. We noted no other sections of the AICPA Professional Standards that would need to reflect the provisions of this proposed SAS.*

### **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.

*We believe the proposed effective date for the Proposed SAS provides sufficient time for preparers, auditors, and others to adopt the new standard and related conforming amendments.*