

Sherry Hazel
American Institute of Certified Public Accountants

August 15, 2017

Re: Comments on Exposure Draft Proposed Audit Standards

Dear Sherry,

I am a practitioner with extensive experience performing audits of employee benefit plans. I formerly served as a member of the AICPA Expert Panel on Employee Benefit Plan Audits. I currently teach classes on employee benefit plan audits on behalf of the AICPA and have done so in more than twenty states over the past ten years, so I am very familiar with the issues that you are attempting to address in this proposed auditing standard.

Prior to responding to the specific nine issues that are mentioned in the Exposure Draft, I wish to express my overall comments on the proposed changes.

First, I wish to applaud you for changing the auditor's opinion on a limited scope audit from a disclaimer to an actual opinion. I personally believe that a significant amount of non-compliance that we have with the current standards is due to the fact that many practitioners do not take limited scope audits as seriously as they should simply because they know that they are disclaiming an opinion from the outset of the engagement.

Second, I believe that these changes have been pushed by representatives from the Department of Labor because they believe that these changes will encourage improved compliance with auditing standards. However, I believe that these changes will have the opposite effect on audit quality. Having taught classes all over this country and interacting with thousands of practitioners who perform these audits, I have concluded that much of the non-compliance with audit standards with respect to ERISA plans is due to two reasons, neither of which will be changed by the proposed SAS.

First, this is a very complex and specialized area of practice. Most practitioners that perform these audits perform five or fewer of these audits annually. Since they do not do a lot of work in this area, they cannot justify reading a 700 page audit guide, so they perform the audits by doing the procedures they think need to be done, rather than following the audit guide. They rely entirely on audit programs generated by PPC and similar vendors and do not consult the audit guide. Making this area of practice even more complex will not change the way they perform these audits.

Second, there is another user of these audits whose needs are not being considered, namely the plan sponsors who pay for these audits. Many of the plan sponsors are relatively small companies who cannot afford to pay large fees for these audits. As a result, many practitioners bill the clients according to what the sponsors can afford to pay, and then perform audit work that matches the fee. However, since the fees are low, they do not perform some the audit procedures that are required to be performed under the audit guide. Making these audits even more complex will not cause those employers to want to pay higher fees for these audits.

In response to the specific issues raised in the Exposure Draft, my comments are as follows:

Issue 1. I believe that the required procedures outlined in Paragraph 20 will achieve your objective of consistency in the work performed during a limited scope audit.

Issue 2. I believe that the Form and Content of the proposed language for the new opinion on Limited Scope Audits will improve transparency with respect to what is involved in a limited scope audit and management's responsibilities with respect to the certification. However, the opinion letter is quite long, and I believe that the final section titled "Report on Specific Plan Provisions Relating to the Financial Statements" and the related paragraph "Purpose of this Report," along with the section on specific findings are unnecessary.

Issue 3. I believe that the guidance in Paragraphs 31 and 34 is clear to provide auditors guidance as to when they need to modify their opinions for these matters.

Issue 4. Required Emphasis of Matter Paragraphs- I do not agree with the proposal to make these emphasis of matter paragraphs mandatory. Rather, I believe that these should be optional, and should be left to the discretion of the auditor. There are many circumstances when some of these types of transactions may not have a material impact on the financial reports, and in such circumstances, an emphasis of

matter paragraph may not be justified. For example, if a plan with \$750 million in plan assets had a merger in which a plan with \$ 250,000 in assets merged into the plan, the merger itself would not be material to the financials as a whole and would not justify an emphasis of matter paragraph.

Issue 5. I agree with the decision not to require disclosure of internal control deficiencies in the auditor's report. I believe that the current reporting requirements are satisfactory.

Issue 6. I disagree with both the concept of modifying the auditor's opinion to list the areas in which work was performed and the requirement to list specific findings. First, this is the only area of auditing in which the auditor's opinion would cover the specific audit areas to be tested. I think that it is entirely appropriate to describe the areas that are required to be tested in the audit guide or even in the SAS, but I do not think that it is appropriate to include it in the auditor's report. I think that including these specific topics in the auditor's opinion will add significant additional liability to the auditors that perform these audits, because it might create false expectations that the auditors are certifying that there are no issues in each of these areas. The audit is performed on a sampling basis, and it is possible for errors to have occurred in eligibility or vesting that go undetected during the audit. Years later, such issues might be discovered, and the client might be subject to significant tax issues as a result, and might feel justified in holding the auditor accountable for not have detected such findings. Further, there may be certain circumstances, such in the case of a frozen plan, where some of these specific areas might not even be relevant.

I do not believe that changing the language of the auditor's opinion will have any impact on the consistency or the quality of the audits performed.

I do not believe that any findings should be reported. Most of the findings that occur during these audits are immaterial to the financial statements as a whole and relate to small errors in the individual participant account balances. It is appropriate for the auditor to share such findings with the client, but totally inappropriate to include such findings in a document that will be posted on the Internet for the public to see. Such findings will likely create a roadmap for the IRS and Department of Labor to select plans for audit, and there will be significant pressure from the other users of these audits, the plan sponsors, not to include any such findings in the audit report, whether they are matters identified by the client or matters identified by the auditor.

I believe that the required procedures and the requirement to identify findings will result in a great deal of additional time required to perform the audits and will ultimately result in significant increases to the cost of performing these audits. Further, I do not believe that the plan sponsors will realize any benefit from these additional procedures and costs. Finally, I do not believe that requiring these additional procedures will enhance audit quality.

Issue 7. I believe that the guidance in paragraphs 36 to 48 is clear and appropriate with respect to the auditor's review of Form 5500.

Issue 8. I believe that the guidance proposing a new section 703 is appropriate, subject to my earlier comments.

Issue 9. I believe that the changes proposed are significant, and it will take a great deal of time to inform the auditing community about these changes. Therefore, I would recommend changing the implementation date to periods ending on or after December 15, 2019.

Sincerely,

Handwritten signature of Alan D Ross, CPA in cursive.

Alan D Ross, CPA