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August 16, 2017

Michael Santay, Chair, Auditing Standards Board
Darrel Schubert, Chair, Employee Benefit Plan Reporting Task Force
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036

Transmitted via email to sherry.hazel@aicpa-cima.com

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

Dear Michael and Darrel:

Thank you for offering us the opportunity to provide feedback on the proposed SAS noted above. Our understanding is that the proposed SAS was developed in response to requests made by the Department of Labor (DOL) to revisit the auditor reporting model for ERISA plan audits. Our firm has provided plan auditing services for over 25 years, and currently audits approximately 70 single employer plans including defined benefit, defined contribution (401(k), 403(b), and ESOP), and health and welfare plans. We are writing on behalf of our firm and our clients to give you feedback and suggestions regarding certain aspects of the proposed SAS. Our comments are based on the "Issues for Consideration" noted in the Explanatory Memorandum attached to the Exposure Draft.

Issue 1 –
We do not believe that the procedures will enhance execution. The proposed SAS gives examples of procedures that may help the auditor evaluate whether the financial statement disclosures for the ERISA plan are appropriate, including making inquiries of management regarding how investments are leveled in the fair value hierarchy table. In many cases, plan management relies on third parties to make this assessment.

Issues 2 and 3 –
We believe that the proposed content provides decreased clarity to users with respect to the auditor's responsibilities, in the following ways:

1. The proposed content makes clear that the auditor "did not assess the risks of material misstatement" nor "consider internal control" but omits information that the auditor performed no procedures to obtain reasonable assurance about whether the investment information is free from material misstatement.
2. The proposed content tells the user that "In our opinion, based on our audit and based on our use of the certification of the investment information..., the financial statements present fairly, in all material respects... "
    a. The certification does not provide sufficient appropriate audit evidence on its own, and therefore, the auditors opining on the financial statements as a whole, without explaining the effect of the scope limitation, could be misleading to the user.
    b. The possible impact on the financial statements of undetected misstatements in the area of investment information that was unaudited could be both material and pervasive. Therefore, we believe that the disclaimer of opinion remains the appropriate modification to the auditor's report in the circumstances of an ERISA – permitted scope limitation.

Issue 6 –
Overall, we believe that the objective of improving consistency and audit quality may be partially met by codifying required procedures into the final SAS. Those of us who are performing quality audits are already performing these procedures.

However, we are troubled by the requirement to report findings resulting from performing these procedures in the auditor's report. We find small operational errors in a majority of the plans that we audit. Since the information in the auditor's report is publicly available, we believe that including these findings in the report could have several negative consequences:

1. It may cause clients who have administrative errors to become less likely to disclose them to auditors when asked.
2. It would put the auditor in an awkward position with their clients, as clients would become more likely to push back against disclosure of findings because of their insignificant impact on the financial statements as a whole. Many findings are clearly immaterial for financial statement purposes, but must be corrected due to their impact on participant accounts. We believe that the disclosure requirement would lead to much more time spent in "negotiations" with the client regarding the ultimate report issued. It will likely increase audit hours and involve legal counsel, leading to increased cost to the plan participants and/or sponsor.
3. The threat of disclosing audit findings publicly may be the "last straw" for some of our clients who are already troubled by the level of regulation governing their plans. In addition, disclosure of findings could lead to exposure to litigation. These threats may be an incentive for sponsors to terminate their plans and thus eliminate benefits to employees.
4. Users (especially participants) will have difficulty determining whether/how the findings impact the plan's financial position and participant recordkeeping. The sample reporting includes no details regarding whether the errors are isolated or numerous, how large the sample size is, and whether or not the errors were corrected. A report of findings without this context could lead to unnecessary anxiety and even hesitance for participants to continue their participation in the plan.
5. Plan sponsors may even seek auditors who are less experienced in order to lessen the chance of audit findings. This could actually have the effect of decreasing audit quality in the long run.

Therefore, our recommendation would be to eliminate the requirement to include findings in the auditor's report from the final SAS. We are already communicating findings to those charged with governance to our plan audit clients and requiring evidence of corrections as part of our consideration of tax qualification issues, as we believe is already required.

If the requirement to include findings in the auditor's report remains in the final SAS, we would encourage language that requires context and consideration of materiality. Alternately, conclusive language that materiality may not be considered with regard to administrative errors could be included so that auditors do not have to "go to the mat" with their clients. We appreciate your consideration of our comments. Please contact one of us if you have any questions.

Sincerely,

Carla A Grant

Carla A. Grant, CPA
Shareholder

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