

August 17, 2017

Ms. Sherry Hazel
Auditing Standards Board

Via email: 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:

We are pleased to provide our comments on the above exposure draft. We commend the Auditing Standards Board for taking up this project. We believe that practitioners and the public will benefit from the proposed improvements to the auditor's report related to employee benefit plans. In particular the proposed standard may remove some of the confusion related to the permitted limited scope audits.

By way of background, Baker Tilly Virchow Krause, LLP, is a large nationally recognized accounting firm operating primarily in the Midwest and Northeast sections of the United States. We have approximately 300 partners and employ approximately 2,500 persons. Our practice is diverse, offering accounting and auditing services as well as tax and consulting services across a broad spectrum of industries and geographies. We are among the top ten firms in the United States providing audits of employee benefit plan financial statements.

Our comments will be in the form of responses to the questions:

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
 - The procedures and guidance proposed in paragraph 20(d) of the proposed SAS are much more in depth and descriptive as to the work that should be performed when a certification is obtained and the audit is a limited scope, we agree that the performance requirements would enhance the execution and consistency in engagements.
- Any procedures that should be required are missing, and if so, describe them
 - None noted, as additional procedures and guidance has been provided in the proposed SAS in respect to understanding investment valuation methodologies, classification and presentation in the fair value hierarchy table of investments in the financial statements.

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 financial statements when an ERISA-permitted audit scope limitation exists, and if not, how could it be revised;

- 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;
 - The revised language of the proposed SAS does provide increased transparency in respect to reporting on an audit of ERISA plan financial statements.
- 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;
 - An auditor’s understanding of his or her responsibilities should be formed in the understanding of our professional standards in the performance of an audit, the increased descriptive language in reporting will provide a better understanding to the user of the financial statements of the auditor’s responsibility.
- Better describe management’s responsibilities for the financial statements, and if not, why;
 - The description of management’s responsibilities of the proposed SAS has been enhanced which will certainly provide more clarity.
- Provide sufficient clarity to users with respect to the auditor’s responsibilities and matters reported, and if not, why
 - The revisions in reporting do provide more clarity to users of the financial statements in respect to auditor’s responsibilities.
 - In respect to matters to be reported as to “findings” as described in the proposed SAS, this reporting would be only seem to be valuable if definitive guidance was provided in respect to the reporting requirement.
 - For example, would this requirement be linked to:
 - the occurrence of a prohibited transaction within the plan
 - an operational deficiency that resulted in an error of a material adjustment to the financial statements of the plan
 - a requirement within our professional standards to issue an AU-C 265 letter for the plan year
 - Without additional guidance as the severity of the findings that would require reporting as directed in the proposed SAS, this change will result in significant diversity in practice due to a high level of auditor subjectivity and should not be considered.

Issue 3 – Modifications to the Opinion in the Independent Auditor’s Report

- Whether the guidance in paragraphs 31 and 34 of the proposed SAS (a) is clear with respect to the auditor’s responsibilities for addressing circumstances described previously, and (b) achieves the objective of providing transparent reporting to the users, and if not, suggested revisions
 - In respect to the reporting elements that require exclusion in accordance with paragraph 34 of the proposed SAS, this would be considered to be in accordance with professional standards and should be highlighted in the communication to provide for consistency in practice.
- 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
 - The illustrative opinions of the proposed SAS are clear and seem to provide enhanced transparency to users of the financial statements.

Issue 4- Required Emphasis-of-Matter Paragraphs

- Consider whether the situations identified are appropriate for requiring the inclusion of emphasis-of-matters paragraphs in the auditor's report
 - The situations identified in paragraph 116 of the proposed SAS seem to be reasonable in implementing an Emphasis-of-Matter paragraph in the opinion.
- Consider whether there are additional situations that should result in a required emphasis-of-matter paragraph
 - Additional situations that should be considered for this required reporting would be a Plan Termination as well as Plan Merger as identified in paragraph 116.

Issue 5 – Reporting Internal Control Deficiencies

- Whether the current reporting of internal control deficiencies to those charged with governance is sufficient; and/or
 - The current reporting of internal control deficiencies to those charged with governance is sufficient as required by AU-C section 265.
- There are other reporting considerations the ASB should evaluate
 - No other reporting considerations for the ASB to evaluate at this time.

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

With respect to the required procedures in paragraphs 15-16

- 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
 - These requirements seem very likely to enhance consistency and as a result quality of the audit work performed as they provide more specific direction and guidance.
- Does the proposed SAS provide appropriate guidance on achieving these requirements, including Which provisions of the plan instrument should be tested, and to what extent testing should be performed
 - In paragraphs 15 and 16 of the proposed SAS the audit areas addressed include planning, eligibility, benefit payments and claims paid, vesting, employer and employee contributions, identifying prohibited transactions, expenses, asset allocation to participant accounts, treatment of forfeitures, other activity of the plan including contributions, loans, transfers and other deductions and additions and non-discrimination testing, which seems to be inclusive of all major areas of testing in an employee benefit plan.
 - Although these paragraphs include plan activity such as transfers; mergers and terminations are not specifically identified in the proposed SAS nor are procedures required addressed for these types of circumstances. Relevant assertions relating to mergers and terminations may include completeness, accuracy, presentation and disclosure.
 - Another area that is not emphasized is earnings allocation testing on a participant level, although plan account and allocation activity is a topic covered in these paragraphs in the proposed SAS, this specific procedure should be performed even when providing a limited scope audit, as earnings allocation on a participant level is subject to specific fraud risk of revenue recognition. Relevant assertions relating to specific earnings allocation may include existence, completeness and accuracy.

- And finally, review and reconciliation of the plan participants' summaries to total plan activity and assets to meet the assertion of completeness is not specifically described in the procedures discussed in the proposed SAS. Relevant assertions relating to plan reconciliation may include completeness and accuracy.
- 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
 - See response provided above.

With respect to reporting on the findings from performing procedures related to the areas in paragraphs 119-124, whether there are opportunities to enhance the proposed requirements and guidance including whether:

- Including the list of individual areas tested is appropriate and if so whether there are other items that should also be included (why or why not)
 - See above in the response to Issue 6 of additional individual areas or procedures.
- 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
 - As the assessment of "clearly inconsequential" has not been defined in the proposed SAS, is highly subjective without specific guidance, and may cause significant diversity in reporting. AUC 320 discusses materiality that generally explain that "*judgments about materiality are made in light of surrounding circumstances and are affected by the size and nature of the misstatement, or a combination of both.*" Guidance relevant to findings that would mirror this language would be valuable to provide for less diversity and more consistency in reporting as noted in response #2 of this comment letter.
- The findings should also include any matters identified by management or the plan administrator?
 - Management and the plan administrator acting in their fiduciary roles should be reviewing plan operations for any abnormalities and or deficiencies and if applicable implementing resolutions and corrections to manage the plan for compliance. Disclosure of these findings may convey an inaccurate message to the user of the financial statements that may be contrary to the effective oversight.
- 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?
 - Reporting of findings does not seem to provide any benefit to the user of the financials, the plan sponsor or the auditor as the evaluation of operational deficiencies and/or plan violations is a highly subjective assessment. The assessment would depend greatly on the expertise and effectiveness of the auditor, and the level of fiduciary governance by those charged with governance.
- 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?
 - It seems the reporting of findings may result in an increased level of disclosure for highly qualified specialists auditing a plan and would result in diversity, inconsistency and inequity in respect to plan transparency.
- There are alternatives to reporting the findings in the auditor's report that would achieve the objectives related to enhancing audit quality?
 - Implementing more stringent reporting requirements in our existing communication to those charged with governance.
 - Reassessing and more clearly defining the requirement for communicating "significant deficiencies" (SD) and "material weaknesses" (MW) in an employee benefit plan audit.

- 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 reporting requirements may increase costs as to crafting language to be presented publically in a plan's financial statements. The procedures indicated in the proposed SAS are procedures auditors should be performing in accordance to professional standards, and therefore there would not be a significant change in audit procedures upon issuance of the proposed SAS.

Issue 7 – Required Procedures Relating to the Form 5500

- 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?
 - The procedures in paragraphs 36-48 would provide consistency and guidance in understanding the requirements of reconciliation of financial statements and Form 5500 filings.

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

- Whether 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
 - Management's responsibilities are more clearly defined in the proposed SAS.
- Whether the proposed amendments to the other AU-C sections are appropriate
 - Deemed appropriate.
- Whether there are other sections of AICPA Professional Standards that might need to reflect the provisions of this proposed SAS
 - None noted.

Issue 9 – Proposed Effective Date

- Whether the proposed effective date provides sufficient time for preparers, auditors and others to adopt the new standard and related conforming amendments
 - It seems the time period provided for the effective date of the adoption and application of the proposed SAS for preparers, auditors and others appears to be too short for full implementation of the proposed SAS, therefore a more reasonable proposal for the effective date would be for periods ending on or after December 15, 2019.

Thank you very much for this opportunity to provide comments on the proposed standard, which we believe will be most beneficial for the practitioners and the users of employee benefit plan financial statements.

Sincerely,

Baker Tilly Virchow Krause, LLP

Baker Tilly Virchow Krause, LL