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August 17, 2017

Ms. Sherry Hazel
Auditing Standards Board
1211 Avenue of the Americas, 19th Floor
New York, NY 10036-8775

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

Dear Ms. Hazel,

We appreciate the opportunity to be included in your efforts to improve the quality of employee benefit plan (EBP) audits and applaud the task force for taking the initiative to prepare the above proposal. In the opening passages of the explanatory memorandum accompanying the proposed SAS, the stated goal is to **improve the quality of EBP audits**. With this goal in mind, we feel it important to share our thoughts on additional measures to consider before the proposed SAS is passed in current form. Beginning on page 3, we have directly addressed the nine issues for consideration outlined in the proposal.

Our experience:

By way of background, Dufek & Company, LLC, is a specialty CPA firm whose sole business is auditing employee benefit plans. We operate from two offices servicing the greater Chicagoland area and southeastern Wisconsin.

It is common when we obtain new clients that we serve as successor auditor; we follow CPA firms ranging from very large national firms to smaller local firms or even sole proprietors. As the successor auditor, we see a great divergence in procedures and overall quality of work when we review prior auditor files. With few exceptions, we generally see quality work that complies with auditing standards when reviewing files from national and larger regional firms. Our reviews at smaller firms are hit or miss.

Many smaller firms take this service area very seriously and conduct quality audits with procedures that rival those of larger organizations. However, we commonly review files prepared by firms who perform few EBP audits and make no effort to follow existing standards. Our experience will not surprise anyone that is active in the industry, and we do not believe the non-conforming CPA firms we encounter are anomalies. This bears the question - *how serious is the profession's attempt at improving audit quality if we continue to allow these "dabblers" to continue conducting EBP audits?*

After reading the proposed SAS in detail, we see little change with the exception of wording in the audit report. To this, we pose a second question - *is it realistic to expect that a reiteration of existing standards (and updating the audit report) will have the desired outcome of modifying the behavior of firms that willingly take on engagements that they don't have the skill set to perform?*

By the DOL figures (below), presented at the May 2017 AICPA EBP audit conference in Nashville, almost half of the CPA firms conducting audits of EBP's perform 1-2 audits each year. Another 20% of firms perform less than five audits annually.

# audits performed	CPA firms	%
1 - 2	3,003	48%
3 - 5	1,295	21%
6 - 24	1,466	23%
25 -99	431	7%
Over 100	99	2%
Total	**6,294**	**100%**

Again, some of these firms perform high quality work. Others have repeatedly demonstrated a blatant disregard for professional standards and need to be removed from the equation for any meaningful improvement in audit quality to be recognized.

If firms that knowingly ignore existing standards continue participating in the EBP audit arena, we fear that passage of the proposed SAS in its current form will ultimately harm audit quality. This is because, the proposed SAS requires that audit findings be disclosed in a document posted on the internet. It is predictable that some Plan Sponsors will not appreciate the "public shaming" and may be motivated to hire firms whose audits result in no findings. The result will be a "musical chairs" exercise with frequent changes in plan auditors. Audit firms, whose procedures unearth findings, will suffer attrition. CPA firms dabbling in the practice area, whose audit plan (or lack thereof) almost guarantees they will have no findings, will continue to issue clean reports and will pick up clients. Over time, ***the very firms conducting grossly deficient audits will ultimately gain market share.***

Registration

An obvious, and likely unpopular, fix to the elephant in the room (the "dabblers"), is to initiate a registration system where an audit firm needs to be registered to perform EBP audits. Any partner signing EBP audit reports could be assigned a specific registration number that would be required to be published on the audit report. The IRS/DOL can add this registration number as a field to Schedule H of Form 5500 allowing for two benefits. First, the Form 5500 could not be filed unless a qualified firm had audited the plan. Second, the new data field would allow easy sorting to "drill down" for additional oversight on the firms/partners who perform engagements that do not comply with existing standards. In one stroke, the "dabblers" would either get serious or would exit the service area.

Continuing professional education (CPE)

It is hard to have a serious discussion about audit quality while maintaining the current guidance that EBP audit professionals are being adequately trained by completing 8 hours of EBP specific CPE in a three-year window.

Conclusion:

In conclusion, we support the AICPA and the task force for initiating the movement to improve the quality of EBP audits. By implementing a registration system, and making common sense changes to the level of CPE needed to register as an EBP auditor, a workable base would be created where the existing proposal could yield meaningful change. Until the industry addresses the obvious bleeding, any other solutions will be band-aid fixes at best.

Dufek & Company input on the issues for consideration presented in the proposed SAS

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

  Paragraph 20 of the proposed SAS does not appear to reflect significant changes from existing standards. Accordingly, if done without implementing additional measures (as outlined on pages 1 and 2 of this response), we do not believe there will be meaningful change in enhancing execution and consistency in EBP audits.

- Respondents are asked to provide their views on whether any procedures that should be required are missing, and if so, describe them.

  We believe that existing standards, and those in the proposed SAS, cover the procedures necessary to perform a quality audit.

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 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;

  We believe the new report is a welcome change and that the limited scope audit report will be more meaningful to Plan Sponsors than the current disclaimer language.

- 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 don't feel that, by itself, modifying the audit report to list procedures performed will change auditor understanding of their responsibilities and result in meaningful improvements in audit quality. We believe there are more systemic issues in the profession (see pages 1 and 2 of response) that need to be addressed simultaneously.

- better describe management's responsibilities for the financial statements, and if not, why;

  We believe the proposed revisions to the audit report better describe management's responsibilities.

- provide sufficient clarity to users with respect to the auditor's responsibilities and matters reported, and if not, why.

  We believe the proposed audit report will be more meaningful to the end users and outlines the audit process more effectively than the current disclaimer report.

Issue 3—Modifications to the Opinion in the Independent Auditor's Report

- Respondents are asked for their views about 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.

  In our experience, it is very uncommon that scope limitations (other than the DOL limited scope audit exception) come into play with EBP audits. Accordingly, we have no view to share.

- Respondents are asked for their views about 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 have no opinion as to the guidance in illustrated financial statement examples 5-7.

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 agree that the situations outlined in paragraph 116 of the proposed SAS are appropriate for requiring the inclusion of emphasis-of-matters paragraphs in the auditor's report.

  One possible addition to the required emphasis-of-matter paragraphs would be when there has been an intent to terminate the Plan. The liquidation basis of accounting discussion could be combined in this 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

  We firmly believe that the existing reporting of internal control deficiencies to those charged with governance is sufficient. In our experience, Sponsors take action on the deficiencies we report and they are usually remedied by our next audit.

- there are other reporting considerations the ASB should evaluate.

  We have no other reporting considerations to offer.

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

- With respect to paragraphs 15-16 of the proposed SAS, 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?

  The proposed procedures in paragraphs 15-16 of the proposed SAS do not appear to reflect significant changes from existing standards. Accordingly, it is hard to envision the proposed standard effecting meaningful change to audit quality without addressing other issues (such as those outlined on pages 1 and 2 of this response).

- 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:

  The proposed SAS reinforces existing guidance (which we believe is adequate) for testing provisions of the Plan instrument and the extent to which the procedures need to be performed.

- 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?

  The existing standards (reiterated in the proposed SAS) are sufficient to conduct a quality audit. We have no other procedures to add.

- 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).

     It is appropriate to include the list of individual areas tested. It may be prudent to spell out "definition of compensation compliance" as this is a common area of failure.

  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?

     Excluding findings that are "clearly inconsequential" needs to be further defined. Consistency will not be achieved with this language without further clarification and guidance.

  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.]

     The findings ***should not*** *include matters identified by management. We see no benefit to disclosing management findings and this will likely result in management being less forthcoming with what they are doing to monitor the operational activities of the Plan - for fear that they could be adding additional "findings" to the report.*

Issue 6— (cont.)

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?

The reporting illustrations in the Exhibits to the proposed SAS are clear and would result in sufficient information to the users of the financial statements.

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?

We strongly believe there will be unintended consequences from including the findings in the auditor's report. You can't expect Plan Sponsors to continue engaging diligent firms that issue reports with findings when avenues exist to migrate to other firms where it is a near certainty that there will be no findings.

Firms will not have findings when they don't understand how to audit to "find the findings".

This fact can readily be mitigated by creating a level playing field where only CPA firms registered to audit EBPS are allowed to audit plans (outlined in detail on pages 1 and 2 of our response).

When ALL firms auditing plans can be expected to uncover similar findings (and report them), there would be no incentive for Plan Sponsors to go "opinion shopping". At this time, adding the findings to the report adds value – not before.

f) There are alternatives to reporting the findings in the auditor's report that would achieve the objectives related to enhancing audit quality?

In our opinion, reporting of findings and enhancing audit quality don't have a significant correlation.

- Whether the required additional procedures and reporting of findings will result in additional costs?

  We believe the proposed SAS will increase audit costs for report preparation as Plan Sponsors will "push back" on the language describing audit findings as it will be posted on the internet. Firms that don't "find the findings" will not incur these hours; possibly creating an even bigger gap in audit pricing between complying and non-complying firms.

- Views as to the extent of those costs and whether they outweigh the potential benefits of enhanced audit quality?

  Our opinion is that overall cost of the audit and the quality of the audit being performed do not have a tight correlation.

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?

  The proposed procedures in paragraphs 36-48 of the proposed SAS do not appear to reflect any changes from existing standards and would likely not have any impact on the desired objectives.

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

- Respondents are asked 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;

  We believe the proposed approach will better describe both management's and the auditors responsibilities for the engagement.

- Respondents are asked whether the proposed amendments to the other AU-C sections are appropriate; and

  When combined with the suggestions we have outlined on pages 1 and 2 of this response, we believe the proposed amendments are appropriate.

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

  We are not aware of any other sections of AICPA Professional Standards that would be impacted by the passage of this standard.

Issue 9—Proposed Effective Date

- 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.

  The proposed effective date allows sufficient time for all involved to adopt the new standard.

Again, thank you to the task force for allowing our firm to participate in this process. To discuss any aspect of our comment letter, please contact Scott Dufek at 312.848.7616.

Sincerely,

Dufek & Company, LLC

Dufek & Company, LLC