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Mr. Michael J. Santay,
Chair, Auditing Standards Board
Mr. Darrel Schubert,
Chair, Employee Benefit Plan Reporting Task Force
c/o AICPA 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*

Plante & Moran, PLLC appreciates the opportunity to comment on the proposed Statement on Auditing Standards (SAS), *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. As auditors of over 1,200 Employee Benefit Plan (EBP) financial statements annually who report on over $175 billion of investments, we support the AICPA Auditing Standards Board's (Board or ASB) efforts to improve the communicative value and relevance of the auditor's report, as well as its goal to improve the quality of EBP audits. We believe the proposal has heightened awareness and started much needed discussion around the importance of EBP audits and the quality of those audits.

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 generally agree the procedures and guidance will help to enhance execution and consistency in limited scope engagements; however, we believe some clarifications will help to better achieve the objectives:

- Paragraph 20c indicates that the certified investment information should be compared to the related information included in the ERISA plan financial statements and related disclosures. In our experience, the certification of investment information includes detail of investments, period-end value, and investment income. However, the certification does not cover other investment information required to be disclosed, such as classification of the type of investment (mutual fund, common collective trust fund, etc.), leveling of the investments, and investment valuation methodology. We believe this has led to confusion for auditors, preparers, and users of the financial statements about what exactly is certified and it has created diversity in practice as to the nature and extent of procedures performed on the uncertified investment information included in financial statement disclosures.

  We believe clarification about auditors' responsibilities related to uncertified investment information included in financial statement disclosures is necessary. We also believe clarification is needed about how this uncertified information affects the auditor's report.

We understand that Paragraph A46 of the proposed SAS indicates that if investment information in the financial statements, disclosures and schedules cannot be agreed to or derived from the certified information, appropriate audit procedures need to be performed. However, we feel further clarification and guidance about this issue is warranted to improve execution and consistency.

- Paragraph 20d says "evaluate whether the form and content of the ERISA plan financial statement disclosures related to the information prepared and certified by a qualified institution are in accordance with the applicable financial reporting framework." We've found that the certified information sometimes requires adjustment by management in order to be in accordance with the applicable financial reporting framework. For example, investment assets valued at off year end dates, or investments recorded at cost by the certifying entity when the financial framework requires fair value. We believe there is currently diversity in practice as to whether these adjusted values are included as certified in the limited scope audit opinion and as to the extent of audit procedures performed related to these investments. We recommend further guidance be provided specifically related to the auditor's responsibility with respect to these adjustments and how this information should be reported in the auditor's opinion.
- We recommend consideration be given to using "presentation and disclosure" rather than "form and content" when describing the procedures to be performed related to certified information to provide more clarity.

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;*
- *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 form and content of the proposed auditor's report provides improved transparency with respect to reporting when an ERISA-permitted audit scope limitation exists. However, we believe the transparency and clarity can be further improved with the following modifications.

- Given the pervasiveness of the unaudited certified information throughout the financial statements, disclosures and schedules, the opening paragraph should say, "were engaged to perform" an audit rather than "We performed an audit".
- In the *Basis of Limitation on the Scope of the Audit* paragraph, we recommend the following changes to add clarity regarding the information certified:
    - Paragraph 1 - Include "related income" in the sentence describing information that is prepared and certified and include it in the definition of "Investment information" which is used throughout the opinion.

- Paragraph 2 – In place of the term "investment information", we suggest clarifying that the qualifying institution holds the "assets held for investment" and the related "transactions".
- Paragraph 2 - To have absolute clarity and transparency about the amounts not audited as a result of the limitation imposed, consideration should be given to adding a requirement to report the description and amount of the certified investment information not subject to audit procedures.

- In the *Auditor's Opinion With the ERISA-Permitted Audit Scope Limitation on the Financial Statements* section instead of "our use of the certification of the investment information", we suggest the following changes to better describe the procedures performed:
  - In our opinion, based on our audit procedures, which were subject to the limitation on the scope of the audit imposed by management, as permitted by Employee Retirement Income Security Act of 1974, and based on ~~our use of~~ the limited procedures we performed related to ~~certification of the~~ certified investment information ~~that we were instructed not to audit~~, the financial statements referred to above present fairly…
- We also believe the opinion paragraph should be clear that the auditor did not audit the certified investment information.
- In the *Other Matter Relating to the Supplemental Schedules Required by ERISA* section, we suggest the following changes to more clearly reference the limitation of scope in the 1st and 4th paragraphs:
  - The information has been subjected to the auditing procedures applied in the audits of the financial statements, subject to the limitation on the scope of the audit imposed by management as permitted by ERISA, ~~and the use of the certification of the investment information, that we were instructed not to audit,~~ and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves,…
  - In our opinion, based on our audit, subject to the limitation on the scope of the audit imposed by management as permitted by ERISA, and ~~based on~~ the ~~our use of~~ limited procedures we performed related to the ~~certification of the~~ certified investment information ~~that we were instructed not to audit~~, the information in the accompanying schedules…

In the *Auditor's Responsibility (Including Responsibility for the Certified Investment Information)* section we recommend the following be considered:

- Paragraph 1 - Clarify in the opening sentence that an auditor's responsibilities are subject to the limitation on the scope of the audit imposed by management, as permitted by Employee Retirement Income Security Act of 1974.
- Paragraph 3 - Clarify that the auditor did not perform any procedures on internal controls or risk assessment with respect to certified information, and did not perform any procedures on the completeness and accuracy of certified investment information.

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.*

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- *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 found the guidance in paragraphs 31 to 34 of the proposed SAS to be clear with respect to the auditor's responsibilities for addressing the circumstances described previously. In addition, we found the form and content examples in Illustrations 5 through 7 to be well defined and clear.

While Illustration 7 was useful to provide guidance on how to handle a limited scope audit report (including management's responsibilities and the basis for opinion paragraphs) when there is a disclaimer of opinion in addition to the limitation on scope, we identified the following for the Board's consideration:

- In the first paragraph of the *Basis for Disclaimer of Opinion* in Illustration 7 it says, "plan has not maintained sufficient accounting records and supporting documents. ... we were unable to … determine the extent to which the financial statements were affected by these conditions." However, the second paragraph of the "Basis for Disclaimer of Opinion" in Illustration 7 says, "stating that the investment information, …, is complete and accurate."

  We believe there is an inconsistency in reporting that the investment information was certified as "complete and accurate" when there is a disclaimer that reports lack of sufficient accounting records and supporting documents maintained for the plan.

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 do not believe it is necessary to specifically define when an Emphasis of Matter paragraph is required since the guidance in AU-C 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* is sufficient to cover situations that should result in an 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 that the current reporting of internal control deficiencies to those charged with governance is sufficient and we agree with the ASB's conclusion on this matter.

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 agree that specific, authoritative guidance about the auditor's responsibilities related to specific plan provisions is necessary and that such guidance could improve audit quality and consistency. However, we are concerned that the guidance as currently proposed is not sufficient with respect to the nature and extent of procedures that should be performed to satisfy the requirements. Certainly, if the specific plan provision represents or is related to a risk of material misstatement, the guidance in AU-C 330 would apply. However, for plan provisions that are important to compliance with laws, regulations, and/or the plan document and may have a direct effect on the financial statements or disclosures, but do not represent a risk of material misstatement, the nature and extent of procedures required is unclear. We are concerned the lack of clear guidance will lead to inconsistent application and will potentially negatively impact audit quality if procedures performed are insufficient.

With respect to reporting the findings resulting from performing procedures related to the areas in paragraphs 119-121, we recommend the ASB reconsider the proposed requirement to report findings related to specific plan provisions in the auditor's report. We believe current auditing standards adequately address the reporting of such matters and we are concerned that treating the findings on specific plan provisions differently from other required communications will create confusion about the importance and priority of matters required to be communicated in connection with an audit. Users of the financial statements, including those charged with governance of the plan, will be left to determine why some findings are reported in the auditor's report while others are reported in separate letters, but not included in the auditor's report, and what that means related to their importance.

We believe the matters identified through the procedures on specific plan provisions should be evaluated and reported in accordance with AU-C 250, AU-C 260, and/or AU-C 265, as applicable, and not reported in the auditor's report. This will result in the reporting of significant findings to those charged with governance of the plan. We believe this is the right audience since they have the responsibility for compliance and they have the authority to evaluate the findings and implement remediation.

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 guidance in paragraphs 36 – 48 of the proposed SAS, and especially the guidance in paragraphs A67-A69, 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. We interpret proposed guidance in paragraph A67 to indicate that auditors should review the **entire** Form 5500 for information that is relevant to, and conflicts with, the audited ERISA plan financial statements. Paragraph A68 provides guidance on the difference between an inconsistency and a reconciling item and will help with the objective of consistency.

The only minor clarification we would suggest is changing "Form 5500" to be defined as "Form 5500 and related schedules (referred to as Form 5500)" since the Form 5500 could be interpreted as only the first three pages of the full filing (with the remainder of the filing being the schedules and attachments).

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 proposed approach of creating a new reporting model for reporting on ERISA plan audits will better describe management's and the auditor's responsibilities with respect to these unique audits.

We have not identified any concerns regarding the proposed modifications to the other AU-C sections noted in the proposed SAS.

We cannot comment on c. as we have not undertaken a study to determine this.

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 effect of this standard on auditors' audit programs, tools and templates as well as the level of training for audit teams and education for plan sponsors will be considerable and therefore we recommend a two-year implementation window in order to allow adequate time to properly prepare for the changes.

Thank you again for the opportunity to comment on the proposed SAS. We would be pleased to respond to any questions the Board or its staff may have about these comments. Please direct any questions to Theresa Banka at theresa.banka@plantemoran.com or 248.223.3572.

Very truly yours,

PLANTE & MORAN, PLLC

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