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Via e-mail: [Sherry.Hazel@aicpa-cima.com](mailto:Sherry.Hazel@aicpa-cima.com)

Ms. Sherry Hazel  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036-8775

**RE:** AICPA Auditing Standards Board Proposed Statement on Auditing Standards, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

Dear Ms. Hazel,

We appreciate the opportunity to provide feedback on the AICPA Auditing Standards Board Proposed Statement on Auditing Standards, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (the “proposed SAS”). We support the review of the process by which benefit plan audits are conducted, and while we have found some added clarity over reporting with this proposed SAS, we perceive numerous unintended consequences as a result of the adoption of the proposed SAS as it is currently written.

We recognize the need for improvement in overall audit quality and support any initiative to move our profession in that direction; however, we do not believe this will be effectively achieved through additional regulation over the reporting process. In our responses to the issues for which feedback was requested, we have indicated those areas we feel provide clarity. We did not find any such changes to be reasonable solutions for the deficiencies in quality that have opened the discussion for change. We have offered alternative solutions to improve audit quality that we believe would be more effective.

The specific issues noted in the proposed SAS for which respondents were asked to provide feedback are as follows:

## **Issue 1-Required Procedures When an ERISA-Permitted Audit Scope Limitation is Imposed**

1. Respondents are asked to provide views on whether the procedures and guidance will achieve the objectives of enhancing executions and consistency in these engagements and if not, why.

We believe the procedures will achieve the objectives noted.

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

We do not believe there are any procedures missing that should be required with regard to the stated objective.

### **Issue 2-The Form and Content of the Auditor’s Report on ERISA Plan Financial Statements with the ERISA-Permitted Audit Scope Limitation**

1. Respondents are asked to provide feedback on whether the form and content of the proposed auditor’s report, including the form and proposed content on the new form of opinion will provide improved transparency with respect to the reporting on an audit of ERISA plan financials when an ERISA-permitted audit scope limitation exists, and if not, how it could be revised.

The additional wording would be beneficial for plan sponsors to better understand the level of work being performed in an ERISA-permitted limited scope audit.

2. Respondents are asked to provide feedback on whether the form and content of the proposed auditor’s report, including the form and proposed content on the new form of opinion 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 do not believe this will provide noticeable improvements to overall audit quality. We believe auditors who do not understand these requirements are not seeking appropriate education. For those auditors with insufficient education, we do not believe the audit report should be viewed as a tool to bridge any knowledge gaps. Requiring a higher level of employee benefit training would better serve this purpose.

With respect to audit quality, we believe some of the issues stem from lack of concern, rather than lack of understanding of the auditor’s responsibilities. We do not believe the form and content of the new opinion will create any additional accountability for auditors who knowingly perform substandard audits.

3. Respondents are asked to provide feedback on whether the form and content of the proposed auditor’s report, including the form and proposed content on the new form of opinion will better describe management’s responsibilities for the financial statements, and if not, why.

We believe the requirements specified by paragraph 12.d of the proposed SAS place undue burden on plan sponsors who are small business owners. We worry that these owners may not feel qualified to make a determination on whether an entity certifying their trust statement is qualified to certify. Additional regulations on plan sponsors such as this one may discourage companies from keeping their retirement plans.

4. Respondents are asked to provide feedback on whether the form and content of the proposed auditor's report, including the form and proposed content on the new form of opinion will provide sufficient clarity to users with respect to the auditor's responsibilities for matters reported, and if not why.

We believe the additional wording, with the exception of the language required by paragraph 12.d of the proposed SAS, would be beneficial to users to better understand what the ERISA-permitted audit scope limitation means.

### **Issue 3-Modifications to the Opinion in the Independent Auditor's Report**

1. Respondents are asked to provide 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.

Our view is that the modifications to the report provide both clarity for auditor's responsibilities and transparency to users.

2. Respondents are asked to provide 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 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.

Both the form and content of the example reports provide more clarity to users.

### **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.

The situations identified are appropriate, and we have identified no other situations that we believe merit specific requirements for emphasis-of-matter paragraphs.

### **Issue 5-Reporting Internal Control Deficiencies**

1. Respondents are asked to provide feedback on whether the current reporting of internal control deficiencies to those charged with governance is sufficient.

We believe the current reporting of internal control deficiencies is not only sufficient but also appropriate. As plan sponsors are not required to offer retirement plans, we believe any internal control deficiencies should be communicated only to those charged with governance and plan management, as the auditing standards currently require.

2. Respondents are also asked to provide feedback on whether there are other reporting considerations the ASB should evaluate.

There are no additional reporting considerations the ASB should evaluate.

### **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?

We do not believe these requirements will enhance the consistency and quality of audit work performed. From our review of the DOL's May 2015 Report: *Assessing the Quality of Employee Benefit Plan Audits* and from listening to representatives from the DOL, we believe the crux of the issue to be auditors who are either not appropriately educated or are not committed to audit quality. In many instances, this results in over-reliance on SOC 1 reports. We believe auditors who are not committed to high quality work are likely to continue to over-rely on the SOC 1 for the test work that is being specified by these procedures. We are not opposed to these requirements, but we do not believe they will improve overall audit quality.

- b. Does the proposed SAS provide appropriate guidance on achieving these requirements, including
      - i. Which provision of the plan instrument should be tested; and

Yes, the guidance clearly indicates which provisions of the plan instrument should be tested.

- ii. To what extent testing should be performed?

Yes, the guidance on the extent of testing is appropriate.

- 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?

We did not identify additional plan provisions that should be included in the required testing.

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).

This requirement suggests the intended benefit is to ensure that auditors understand what work is required in an employee benefit plan (EBP) audit by using the audit report as an educational instrument. If that is the objective of listing the individual areas tested, then we do not believe it is appropriate to include such items in the report. For auditors who do not understand their responsibility, education is the better solution. For auditors who are not concerned with their responsibility, removing their ability to perform EBP audits is the better solution. An auditor with a cavalier attitude about his/her responsibility will likely be unfazed by being required to attest to performing a specified level of work.

The Background to the Exposure Draft indicates that Yellow Book standards were considered in the process of developing the draft. As required for governmental audits, we recommend that plan sponsors select from a list of approved EBP auditors. Requirements for approval could include peer review reporting over EBP audits as well as a specified level of EBP education. Education should involve no less than 16 hours of EBP CPE every two years for professionals running and/or directing EBP engagements. This program could be administered through the State Boards of Accountancy with guidelines specified by the AICPA. This would ensure that all EBP auditors are receiving appropriate continuing education and are committed to the highest quality audits. We do not believe creating more regulation over reporting will be an effective solution.

- 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?

We are not in support of reporting findings in the opinion. Refer to comments on 2.e. under Issue 6.

- c. The findings should also include any matters identified by management or the plan administrator?

We are not in support of reporting findings in the opinion. Refer to comments on 2.e. under Issue 6.

- 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 illustrations appear to be clear. As we are not in support of reporting findings in the opinion, the information reported is more than we consider necessary.

- 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?

Yes, we perceive this requirement to have unintended consequences. We believe this requirement disregards the fact that plan sponsors have no obligation to provide employee benefit plans. The worst possible consequence is plan sponsors discontinuing their plans as a result of unnecessary regulation. As these filings are public, having findings reported may cause embarrassment, fear of penalties and/or litigation and fear of prompting an IRS or DOL audit. We see no benefit in reporting these findings in a public arena, and putting this additional onus on plan sponsors penalizes a retirement system that is voluntary on the part of plan sponsors. An additional potential consequence is the possibility that "dabblers" will not report such findings, which could shift more audits into the hands of the inexperienced.

For auditors who are performing this work at an appropriate level, this function of the audit is not broken. We have had great success in using findings as a means to educate plan sponsors and improve their processes over internal controls and plan management. We frequently point them to self-correct errors that qualify under EPCRS, and their willingness to do so is largely based on the lack of having to report such findings to the IRS. We typically do not have repeat findings for those errors corrected under EPCRS, which indicates this program is working.

Finally, the requirement for the tax status footnote gives auditors an appropriate outlet to report necessary findings. When we encounter plan errors that require more than a minor self-correction, depending on the facts and circumstances, these matters are reported in the tax status footnote. We believe this method of

reporting provides sufficient communication to regulators about significant plan errors while also compelling plan sponsors to fix such errors.

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

Yes, as mentioned above, an ideal solution would be for plan sponsors to be required to select an auditor from a list of approved auditors, as our governmental clients are currently required to do. Any regulation should be focused on education and commitment to quality. The AICPA Employee Benefit Plans Audit Certificate programs are a great step in the right direction. However, for a large majority of plan sponsors the EBP audit is a necessity and frequently their decision for an auditor is based on cost, not quality. Quality will always cost more. Many plan sponsors see the potential for having their 5500 filings rejected if their auditor was shown to have performed a subpar audit as a very remote possibility. We believe providing plan sponsors with an avenue that directs them to quality auditors is the best approach.

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?

There is always additional cost associated with additional reporting. To properly quantify the cost to the client we would need to anticipate the findings or modifications that would be required, which we do not consider feasible. However, the greater costs that we anticipate are the loss of clients who we believe would look for another auditor if findings are made public as required by this Exposure Draft. In addition, we anticipate a potential for the plan sponsors we work with to discontinue their employee benefit plans altogether as a result of the added regulation, specifically the reporting of findings to the public. Ultimately, we perceive the result of additional reporting to be a penalty to auditors who are already committed to quality and to plan sponsors. We do not perceive there to be any benefit to the additional procedures described in paragraphs 15-16, nor the reporting of findings as described by paragraphs 119-124, as we do not expect them to enhance audit quality.

### **Issue 7-Required Procedures Relating to the Form 5500**

Respondents are asked to provide 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 proposed procedures would increase consistency with respect to the auditor's requirement to review the 5500 and our approach in doing so. These procedures would also aid in our communications with 5500 preparers.

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

1. 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 of creating a new reporting model better describes management's and the auditor's responsibilities, except for Issues under which we expressed concern: Issue 2 and Issue 6.

2. Respondents are asked whether the proposed amendments to the other AU-C section are appropriate.

Our position is that the proposed amendments are appropriate, except for those noted under Issue 2 and Issue 6. Specifically, we are opposed to the implementation of paragraphs 12.d, 66, 110 and 119-124. We are already performing the procedures in paragraphs 15-16; therefore, we are not opposed to reporting on them. However, we do not believe the requirement to report on such procedures will enhance audit quality.

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

We perceive the audit quality issues that have prompted this proposed SAS to be engagement performance issues rather than reporting issues. As such, we believe the more appropriate place to add clarity for the auditor's responsibilities related to employee benefit plans to be either AU-C Section 220, or directly in the AICPA Code of Professional Conduct. We have noted that there are many instances in which "Considerations Specific to Governmental Entities" are detailed in AU-C Section 220 and we believe adding EBP Considerations to this section would be appropriate and help provide clarity. We recognize that CPE reporting programs are governed by each state's respective Board, however, we believe the AICPA and NASBA could make a joint recommendation to the State Boards for specific CPE requirements, in conjunction with a recommendation for each State Board to maintain its own list of approved CPAs. If the DOL were willing to add a portal to EFAST for each state to have their list of approved CPAs housed, there is a possibility that we could achieve a very positive change for audit quality over EBP audits. Currently, the DOL is largely relying on State Boards to resolve GAAS deficiencies after they have been found. We believe this would allow an already established relationship to continue for a more proactive approach. While this would likely take longer to implement than the proposed SAS, we believe it would be much more effective at improving audit quality.

### 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.

While we have noted numerous facets of the new standard that we support, we have also found issues that we believe need to be improved before the standard is implemented. That being the case, we believe the proposed effective date is not reasonable.

Thank you for giving us the opportunity to respond to the issues detailed in the proposed SAS. If you have any questions about our response, please contact Walker Coburn at (318) 429-2109 or [wcoburn@hmvcpa.com](mailto:wcoburn@hmvcpa.com) or Olivia Maness at (318) 429-2091 or [omaness@hmvcpa.com](mailto:omaness@hmvcpa.com).

Sincerely,

A handwritten signature in black ink that reads "Heard, McElroy & Vestal LLC". The signature is written in a cursive, slightly slanted style.

Heard, McElroy & Vestal, LLC