Sherry Hazel

By email at: Sherry.Hazel@aicpa-cima.com

August 10, 2017

RE: Proposed changes on Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA

Dear Ms. Hazel:

Baker Newman Noyes (BNN) is pleased to provide our comments to the AICPA regarding the Statement on Auditing Standards (SAS) *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA (*"proposed changes").

While BNN supports the AICPA's efforts to improve the consistency and quality of employee benefit plan audits in response to the Department of Labor's (DOL) 2015 report, we are not convinced that the proposed changes accomplishes that goal. We agree the results outlined in the DOL's report stating that 39% of reviewed audits had at least one deficiency, putting $653 billion in plan assets and 22.5 million participants at risk, demand action. In fact, we have seen the need for improvement first-hand through our involvement in the AICPA's peer review oversight program. However, along with our continued support of these efforts, we must express our profound concerns that the proposed changes will not have a direct impact on improving audit quality. We are further concerned that the changes to the form and content of the auditor's report will provide details of audits intended for management and the users of the financial statements. Taken out of context, these additional details could cause unnecessary concern to participants regarding their retirement accounts.

While the Auditing Standards Board's (ASB) intentions are focused on improving the value and relevance of the auditor's report, the reality is that auditors and sponsors will be required to disclose a significant amount of new information not currently required in benefit plan audit reports without any assurance that this additional verbiage and efforts associated with producing will reduce deficiencies. Adding compliance findings and management's responses will increase visibility of findings that historically have been limited to management or others in a position of oversight. Disclosed deficiencies could easily be taken out of context by casual readers or individuals not familiar with the plan or the sponsor. We cannot identify any other situation where private companies are required to disclose deficiencies in internal control, or similar matters, to the general public. Frankly, it is unclear to us how this will improve the quality of audits and reduce deficiencies.

We would agree that clarity of the required audit procedures would improve the quality of audits and in turn reduce deficiencies. However, by removing the concept of materiality from certain aspects of the testing, the proposed changes will require time to be spent on inconsequential matters. While a clear discussion of delineation of duties between management, auditor's and certifying parties is useful, it is unclear whether the proposed level of increased representations is needed.

There are some valuable enhancements offered by the proposed SAS. However, most of the proposed changes focus on increased information being offered to readers, including explanations regarding who was responsible for what, and what their justification was for doing what they did. Perhaps more attention should be focused on another finding in the DOL report – that most of the deficient audits were conducted by auditors with limited annual employee benefit plan audit experience. Crafting the steps required to form an opinion on financial statements requires familiarity with the types of entities (or plans) being audited, and benefit plans are an incredibly unique subset. A very proficient auditor of a manufacturing entity might not necessarily be qualified to audit that manufacturer's benefit plans – at least not without specific training and skills. As is the case with most aspects of life, nothing can top experience. Well-informed and attentive plan sponsors undoubtedly make a difference too, and an astute auditor will design an audit that considers the strengths and/or weaknesses of the professionals involved with the plan.

The proposed SAS seems to assume auditors' competency levels will remain the same, and imposes additional steps and significant disclosures designed to accommodate them. In our opinion, a "one size fits all" approach nearly always contains unnecessary components, and this appears poised to be time-consuming for its auditors, expensive for the plan, confusing to many of its readers, and unnecessary in cases where deficiencies did not exist. Benefit plan audits simply should be conducted by auditors who specialize in such audits, and this proposal could be better designed to achieve that goal.

We would be remiss if we didn't address the fact that the framework to report on the results of compliance already exist under generally accepted government auditing standards. If the ASB feels strongly that reporting the results of a sponsor's internal control environment and compliance with the plan document, AU-C 935 already provides a solid framework that provides a clear delineation between reporting on the financial statement audit under GAAS and reporting on compliance with the provisions of the plan document which have a material effect on the financial statements. In our opinion, this is a superior alternative to the proposed changes.

We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions you may have. Please contact Jeff Wheeler at 603.626.2200 regarding this letter.