21 East Main Street
Westborough, MA 01581
508.366.9100
aafcpa.com

August 18, 2017

Ms. Sherry Hazel
AICPA
1211 Avenue of the Americas #6
New York, NY 10036-8775

Via email to sherry.hazel@aicpa-cima.com

Re: Exposure Draft - 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 have an opportunity to respond to the Auditing Standards Board's (ASB) proposed statement on auditing standards and welcome the opportunity to share our thoughts with the AICPA and ASB.

AAFCPAs is a regional CPA firm located in the greater Boston, MA marketplace. We presently provide assurance services to over 130 employee benefit plans. Those plans include defined benefit, defined contribution (profit sharing plans, 403(b) plans, and 401(k) plans) in addition to multi-employer pension plans. We are a member of the AICPA Employee Benefit Plan Audit Quality Center.

AAFCPAs supports the ASB's objectives to enhance audit quality through a redesigned auditor reporting model for audits of ERISA plan financial statements.

Our detailed responses to the questions in the Exposure Draft are contained in Appendix I to this letter.

If you have any questions about our comments, please contact Davide Villani, CPA, CGMA, Managing Director, at 774.512.4012, dvillani@aafcpa.com or Jeffrey E. Mead, CPA, CGMA, Partner, at 774.512.4131, jmead@aafcpa.com.

Sincerely,

ALEXANDER, ARONSON, FINNING & CO., P.C. (AAFCPAs)
Certified Public Accountants

By: ________________________________
Davide Villani, CPA, CGMA, Managing Director

By: ________________________________
Jeffrey E. Mead, CPA, CGMA, Partner

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Appendix I

Issue I - Required Procedures When an ERISA-Permitted Audit Scope Limitation is imposed

Paragraph 20 of the proposed SAS requires audit procedures to be performed relating to the information certified by a qualified institution as permitted by ERISA. In particular, paragraph .20(d) of the proposed SAS requires the auditor to 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.

The objectives of the proposed procedures are to improve the execution and consistency in audit procedures related to limited scope audits as current practice varies resulting in inconsistent audit quality. The proposed SAS also provides examples of ways the auditor can evaluate the financial statement presentation and disclosures relating to the certified information, such as obtaining an understanding of management's selection and application of accounting principles which would include concluding on the appropriateness of selected investment valuation methodologies, and determining whether relevant fair value disclosures are in accordance with the financial reporting framework.

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.*

AAFCPAs' Comment

AAFCPAs agrees that, given the wide range of investment types and the diversity in fair value measurement methodologies, the procedures and guidance as proposed and outlined in paragraph .20(d) will improve the performance and consistency of financial statement reporting and disclosure. We recognize the FASB has embarked upon financial statement reporting "simplification" as evidence by the recently issued Accounting Standards Updates (ASU) 2015-07, 2015-10 and 2015-12, and the extensive disclosure requirements under Accounting Standards Codification (ASC) 820. We also agree that addressing audit performance and the procedural requirements as outlined in this exposure draft attempts to more clearly and distinctively identify the specialization of this assurance service. Recognition of this specialization within the ASCs, the employee benefit plan audit guide, and within our professional audit literature is needed. There is far too great a diversity of what constitutes a well-designed and executed employee benefit plan audit, and therefore this divergence in practice penalizes firms like AAFCPAs who strive to not only adhere to professional standards as written, but also to incorporate the spirit of the literature's intent and what the Department of Labor (DOL) wants. Providing guidance as the ASB is suggesting with the issuance of the proposed audit standard would improve the consistency of both the form and content of the financial statements in accordance with the applicable financial reporting framework.

Issue II - The Form and Content of the Auditor's Report on ERISA Plan Financial Statements with the ERISA-permitted Audit Scope Limitation

As noted in the Background discussion, the DOL had requested the ASB to explore different reporting models in these circumstances, expressing a concern that the wording of the current limited scope auditor's report, and resulting disclaimer of opinion typically issued, may be a contributing factor to audit quality deficiencies because of potential confusion regarding the auditor's responsibilities in performing these engagements. The proposed SAS is intended to provide more transparency into the audit procedures that are required by requiring a new form and content of the auditor's report when the ERISA-permitted audit scope limitation is imposed by management and there are no other limitations on the scope of the audit and no identified material misstatements of the ERISA plan financial statements. Should either of the latter conditions exist (scope limitation or material misstatement) the auditor would be precluded from using the format of the new proposed report and would apply the requirements in AU-C section 705, Modifications to the Opinion in the Independent Auditor's Report (AICPA, Professional Standards).

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Issue II (Continued)

This new form of opinion includes a statement that in the auditor's opinion, based on the audit and based on the use of the certification of the investment information which the auditor was instructed not to audit, the financial statements are fairly stated in all material respects in accordance with the applicable financial reporting framework.

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.*

AAFCPAs' Comment

AAFCPAs generally agrees with the intent of providing clarity and transparency as presented within the proposed audit standard. We have the following comments regarding Illustration #3 which we would like the ASB to consider in their final draft:

- Introductory paragraph – first sentence – we suggest removing "imposed by management" as this implies that management is creating a 'road block' to completing our audit. As a substitute, we recommend adding "and endorsed by management" at the end of the first sentence. It is important for the reader to understand that a limited scope audit is allowed by current ERISA law, and that the audit service is, at its core, a 'regulatory' requirement. The word "imposed" comes with a suggestion of imposition that has immediate negative connotations. We feel a more positive word or wording, affirming the propriety of the scope limitation is critical for understanding of both the plan sponsor and of the users of the financial statements.
- Auditor's Responsibility paragraph – we suggest adding the following procedures performed on the certified investment information:
    - Compare management's reconciliation of the certified investment information to the trial balance and financial statements.
    - Evaluate management's determination of investment valuation (fair value or contract value), including investment types, valuation inputs and classification in the fair value hierarchy table.

We also suggest that the SAS include reporting illustrations for 403(b) plans that were established prior to 2009, and may not have complete and accurate recordkeeping on individual annuity contracts. Under the current reporting standards, these 403(b) plan audit reports include a disclaimer of opinion for an inability to perform audit procedures on these individual annuity contracts. There is some very unique reporting challenges for these benefit plans and to which the current literature simply does not address in any formal manner. We presently look outside the benefit plan specific literature for applicable guidance. The ASB has a wonderful opportunity to address 403(b) plans within this contemplated new standard, and AAFCPAs strongly encourage the ASB to do so.

The revised description of management's responsibilities does provide added transparency in management's use of the certification in addition to maintaining an updated plan instrument and retention of participant records.

The revised description of the auditor's responsibilities does provide added and necessary transparency.

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Issue III - Modifications to the Opinion in the Independent Auditor's Report

The proposed SAS addresses the interaction of the new proposed reporting model for audits of ERISA plans when the ERISA-permitted audit scope limitation is imposed, with existing requirements in AU-C section 705. Specifically, the proposed SAS indicates that AU-C section 705 does not apply unless there is another limitation on the scope of the audit other than the ERISA-permitted audit scope limitation or there is a material misstatement of the ERISA plan financial statements. For example, an auditor engaged to perform an audit of an ERISA plan with an ERISA-permitted audit scope limitation may determine that there is insufficient evidence to conclude on assertions relevant to benefit payments. In this circumstance, the auditor's report with the ERISA-permitted audit scope limitation in the proposed SAS would not be suitable. Instead, the auditor would consider the requirements and guidance for modified opinions set forth in AU-C section 705, including the modification for the scope limitation with respect to the certified information.

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.*
- *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.*

AAFCPAs' Comment

AAFCPAs agrees that the guidance in paragraphs 31 and 34 of the proposed SAS is clear with respect to the auditor's responsibilities for addressing circumstances noted above.

AAFCPAs believes that the current reporting of internal control deficiencies to those charged with governance is sufficient communication of findings and exceptions (see our comment on Issue V). With that said, if the final SAS requires that the audit report include such communications and findings, we have the following observations and suggestions:

- AAFCPAs suggests edits to paragraph 110 (which paragraph 30 references within this issue). AAFCPAs agrees that it is beneficial to more clearly explain the testing procedures and transaction cycles that are tested. We recommend much greater clarity within the proposed audit standard regarding the concept of materiality of such findings. We recognize the key aspect of communication is the question of "too whom?" If findings and exceptions are communicated to those charged with governance, then the communication is contained "within" the reporting entity. If those findings and exceptions are communicated within the audit report, then in effect, the communication is well "outside" the reporting entity and thus, takes on much greater significance. We feel that external communication has a higher bar of materiality and significance which the present proposed SAS does not address comprehensively. These findings and exceptions, if contained within the audit report, must come with further definitions for purposes of reporting such findings and discussions within the audit report.
- We believe that such presentation of the exceptions/findings in the auditor's report could result in plan sponsors "opinion shopping." In other words, what constitutes a material finding or exception for one auditor could be different as contrasted to another auditor. This type of potential divergence can be improved through further definition within our professional literature and guidance.
- When exceptions and findings exist, if they are determined under the proposed SAS to be included in the audit report or in a separate report, we suggest clarity on whether the separate report detailing the findings would need to be attached to the Form 5500 filing. We would also request clarity about whether the exceptions and findings would require the Form 5500 submitter to check an additional box on the return to indicate such exceptions and findings are contained therein.

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Issue III (Continued)

AAFCPAs' Comment (Continued)

AAFCPAs comments on Illustrations 5 and 6:

- The illustration is applicable to 401(k) plans, and we noted no sample for 403(b) plans. We would suggest that such guidance would be helpful, and that the ASB has a wonderful opportunity to address 403(b) plan reporting within the new audit standard.
- We do not recommend a statement about no audit findings within the *Report on Specific Plan Provisions Relating to Financial Statements.*

AAFCPAs comments on Illustration 7:

- The illustration is applicable to 401(k) plans, and we noted no sample for 403(b) plans. We would suggest that such guidance would be helpful, and that the ASB has a wonderful opportunity to address 403(b) plan reporting within the new audit standard.
- We do not recommend a statement about the audit findings within the *Report on Specific Plan Provisions Relating to Financial Statements.*
- We agree with a statement regarding what we were unable to audit. The addition of wording regarding findings is consistent with our previous comments regarding this type of communication within our audit report.

Issue IV - Required Emphasis-of-Matter Paragraphs

Paragraph 116 of the proposed SAS requires the auditor to include an emphasis-of-matter paragraph in the auditor's report when certain situations exist and are disclosed in the notes to the financial statements under U.S. generally accepted accounting principles. The required emphasis-of-matter paragraphs are intended to highlight certain situations that, when they occur, are considered fundamental to the users' understanding of the financial statements.

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.

AAFCPAs' Comment

When determining whether an Emphasis of Matter (EOM) paragraph is necessary to be included in the auditor's report, this is solely based on auditor's judgement. Further the inclusion of an EOM paragraph is related to the matter presented/disclosed within the financial statement, and specifically relates to the determination of whether the matter is of such importance that it is fundamental to users' understanding of the financial statements. EOM paragraphs are used to direct the attention of the financial statement users to a matter that is presented or disclosed in the financial statements. Using the present guidance within our professional literature, the use of an EOM paragraph is the auditor's professional judgement related to the item at hand being of such importance that the user is made aware of this particular item that is contained within the financial statements and to draw attention to it.

We agree with the EOM's suggestion in paragraph 116 sections A125 and A126.

We have also identified additional situations that should result in required EOMs paragraphs, without exception (unless clearly not material and not mentioned in any footnote disclosure). We feel that any matter which is material enough to disclose in a footnote meets the threshold of EOM paragraph(s), including:

- Accounting Principle Adoptions disclosed in the footnotes.
- Change in Basis of Accounting (i.e. change from modified cash basis to accrual basis).
- Plan Termination (this event is significant and results in a change to the liquidation basis from an ongoing basis).

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Issue V - Reporting Internal Control Deficiencies

As noted in the Background discussion, the ASB concluded that the proposed SAS should not include a requirement to disclose, in a separate section of the auditor's report, a description of significant deficiencies or material weaknesses in internal control identified as part of the audit engagement and that it is sufficient for the auditor to communicate those matters to those charged with governance as required by AU-C section 265.

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.*

AAFCPAs' Comment

AAFCPAs believes that the current reporting of internal control deficiencies to those charged with governance is sufficient and that there are no changes deemed necessary. AAFCPAs notes no other reporting considerations that the ASB should evaluate.

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

Paragraphs 15–16 of the proposed SAS require the auditor to perform audit procedures on certain provisions relating to ERISA plan financial statements that are the basis for a new reporting element. The new requirements are focused on plan instrument provisions based on information provided by the DOL, along with other feedback, that could have a direct effect on the financial statements. As noted in the Background discussion, the auditor would be required to perform audit procedures with respect to the specified plan provision irrespective of the assessed risks of material misstatement.

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?

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Issue VI (Continued)

> *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?

AAFCPAs' Comment

1. AAFCPAs agrees with Paragraphs 15 and 16 and has provided additional comments below.

   AAFCPAs believes that the current reporting of internal control deficiencies to those charged with governance is sufficient (see our comments on Issues III and V). If the SAS will require the audit report to include findings, AAFCPAs suggests clarification within the SAS on materiality in terms of reporting findings accumulated during the audit relating to Paragraphs 15-16 as outlined in Paragraph 17.

2. AAFCPAs believes that the current reporting of internal control deficiencies to those charged with governance is sufficient (see our comments on Issues III and V). If the SAS will require the audit report to include findings, AAFCPAs agrees with Paragraph 18 pertaining to findings and evaluating the possible effect on the financial statements, individually and in the aggregate, and to consider the need to modify the nature, timing, or extent of other planned audit procedures. AAFCPAs also agrees with considering whether the findings are indicative of deficiencies in internal controls in accordance with AU-C 265. AAFCPAs suggests clarification on what is clearly inconsequential under Paragraph 121; otherwise this could provide practitioners with too much latitude and thus the opportunity of plan sponsors to 'opinion shop' as there would be the potential of diversity in practice without greater 'bright lines' of guidance.

3. AAFCPAs has implemented Paragraphs 15 and 16 as part of our auditing practice in terms of retirement plans so we don't expect a significant increase in terms of the testing. In terms of reporting the findings – AAFCPAs already reports internal control deficiencies and findings to those charged with governance. Reporting findings within the auditor's report would be duplicative, resulting in additional time and costs incurred.

Issue VII - Required Procedures Relating to the Form 5500

The DOL's audit quality study identified that the auditors are inconsistent in the procedures performed regarding the Form 5500 as well as consideration of the reconciliation between the Form 5500 and the financial statements that is an ERISA requirement. In response, the ASB concluded that the procedures in paragraphs 36–48 would improve consistency as the auditor's report on the financial statements that accompany the Form 5500 filing. The proposed procedures are based on AU-C section 720, Other Information (AICPA, Professional Standards), however the Form 5500 is not deemed to be an annual report as defined in AU-C section 720.

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?

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Issue VII (Continued)

AAFCPAs' Comment

AAFCPAs considers obtaining the form 5500 before issuing audited financial statements as standard practice as the filing mechanism of the audits through the EFAST2 filing system to the DOL and IRS (as the primary users of the financial statements of retirement plans). AAFCPAs suggests that Paragraph 36 should be changed to "Auditor must read" verses "Auditor should read" referencing AU-C 200-25. This would eliminate the need for paragraphs 41, 43, 44, 45 of the SAS as these all pertain to identifying material misstatements after issuance of the audited financial statements. We feel that this audit procedure should be an "unconditional" requirement and not simply a "presumptively mandatory" requirement.

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

The proposed SAS would create a separate, stand-alone reporting section (intended as AU-C section 703) within the Audit Conclusions and Reporting section of the AU-Cs that would include new requirements for reporting on ERISA plan financial statements including a new opinion when an ERISA-permitted audit scope limitation is imposed by management. As such, this proposed SAS, if issued as a final SAS, would apply in place of AU-C section 700, Forming an Opinion and Reporting on Financial Statements (AICPA, Professional Standards) and therefore repeats much of the requirements and guidance currently in AU-C section 700. In addition, appendix A and B to the proposed SAS include amendments to various other AU-C sections in AICPA Professional Standards to properly scope the proposed SAS including amendments to reference both AU-C section 700 and AU-C section 703 in other areas of GAAS as appropriate.

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.

AAFCPAs' Comment

a. AAFCPAs agrees that the new reporting model better describes management's and the auditor's responsibilities with employee benefit financial statement audits. These assurance engagements are highly specialized and require specialized knowledge and expertise. We feel that our practice is impacted by firms that "dabble" in this area where the extent of the audit is not commensurate with what the DOL is expecting or requiring. To the extent the ASB can calibrate the professional literature to recognize this expertise and discourage firms from "dabbling" in this practice area, we are supportive. As previously mentioned in our other responses, we request that the reporting model(s) addresses 403(b) plan reporting. We request reporting illustrations for 403(b) plans that were established prior to the 2009 audit requirement and may not have complete and accurate recordkeeping on individual annuity contracts. Under the current reporting standards, these 403(b) plans include a disclaimer of opinion for the auditor's inability to perform audit procedures necessary to attest to opening balances, particularly if the 403(b) plan has been in existence for many years and contains individual annuity contracts.

b. We agree that the proposed amendment to the other AU-C sections are appropriate, taking into consideration the suggested modifications we have identified in our comments for the preceding Issues 1 through 7.

c. We did not identify any other sections of the AICPA *Professional Standards* that might need to reflect the provisions of the proposed SAS.

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508.366.9100
aafcpa.com

Issue IX - 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.

AAFCPAs' Comment

AAFCPAs agrees with the proposed effective date with the following assumptions:

- If it is determined by early 2018 (before the 2018 AICPA EBP conference) what parts of the SAS are being implemented, that would provide approximately 1 year to prepare for the change before the planning for 12/31/18 audits begins. Also, we need to have time to educate our clients with respect to the new standard, to reflect those changes within our fee quote, and to properly calibrate the expectations of our clients.