August 21, 2017

Submitted via email: Sherry.Hazel@aicpa-cima.com

Auditing Standards Board
American Institute of CPAs
1211 Avenue of the Americas #6
New York, NY 10036

Re: Financial Statements of Employee Benefit Plans Subject to ERISA

Dear Auditing Standards Board:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MOCPA) appreciates the opportunity to respond to certain matters in the Proposed Statement on Auditing Standards. The views expressed herein are written on behalf of MOCPA's TIG. The TIG has been authorized by the MOCPA Board of Directors to submit comments on matters of interest to the society's membership.

We generally agree with the direction taken by the Auditing Standards Board (Board) in this proposed SAS. However, we have vital concerns involving incomplete definition and scope for reporting non-compliance, additional cost implications for auditors and plan sponsors to comply, and unintended consequences for users of the financial statements. We are also requesting additional time for implementation of the proposed standard to allow the Board to consider comments from constituents and to allow plan sponsors and auditors in practice to make appropriate adjustments.

Thank you for considering our comments. We would be pleased to respond to questions the Board or its staff may have about any of the following comments. Please direct questions to Mark Winiarski, TIG Chairman, MWiniarski@CBIZ.com.

Sincerely,

Mark Winiarski, CPA	Jim Pursley, CPA	Jeanne Dee, CPA	MaryPat Davitz, CPA	Matt Powell, CPA
TIG Chairman	Project Leader	TIG Member	TIG Member	TIG Member

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

Question: Will the procedures and guidance achieve the objectives of enhancing execution and consistency in these engagements? If not, why?

Response: It is our opinion that the content of paragraph 20 does achieve the objective of providing clarity of standard to enhance audit execution as it relates to the auditor's responsibility to understand the provided certification and its propriety to be used with the plan's investment holdings.

However, the description of "noninvestment-related information" within paragraph 20 does not provide enough guidance to describe the procedures required to meet acceptable audit quality standards. The "application and other explanatory material" within paragraph A43 does provide very limited examples of what would be considered noninvestment-related information. However, this list is not complete and would be better referenced back to the more detailed procedures included within paragraphs 14-17 of the proposed audit standard.

Question: Are there any procedures that should be required that are missing? If so, describe them.

Response: In reviewing the detail within the proposed audit standard's paragraphs 15 and 16, we noted that defined benefit pension obligations, participant loan issuances and repayments were not included within the procedures auditors should perform.

Additionally, we noted that fully insured premium payments within health plans and diversification requirements of ESOPs were not included in the standard. However, paragraphs 15b and 15i may be intended and sufficient to address these items.

Issue 2—The Form and Content of the Auditor's Report on ERISA Plan Financial Statements with the ERISA-permitted Audit Scope Limitation

Question: Will 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? If not, how could it be revised?

Response: We do not foresee an overall change to the level of transparency with respect to reporting on an audit of ERISA plan financial statements when an ERISA-permitted scope limitation exists. The addition of a Report on Specific Plan Provisions Relating to Financial Statements does add a degree of transparency, as further discussed in Issue 6.

Question: Will it improve the auditor's understanding of his or her responsibilities in a limited scope audit resulting in potential improvements in audit quality? If not, why?

Response: The disclaimer opinion is very rarely used outside of ERISA engagements, and this type of report may be subject to misuse and misunderstandings of an auditor's responsibilities. Statements such as "we were not able to obtain sufficient appropriate audit evidence…" without specifying the subject matter is vague (regardless of the fact that the Basis of Disclaimer of Opinion paragraph is referenced).

The form and content of the proposed auditor's report follows generally the same methodologies for auditor's reports in other non-public industries. The limitations are very clearly set forth and are less ambiguous than in the current disclaimer language. In this way, we agree with the Board that this form will improve the auditor's understanding of his or her responsibilities on these engagements.

<u>Question:</u> Will it better describe management's responsibilities for the financial statements? If not, why?

<u>Response:</u> Yes – for the same reasons stated above.

<u>Question:</u> Will it provide sufficient clarity to users with respect to the auditor's responsibilities and matters reported. If not, why?

<u>Response:</u> Yes – for the same reasons stated above.

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

<u>Question:</u> In relation to the proposed interaction of AU-C section 705 and the proposed SAS is the guidance in paragraphs 31 and 34 of the proposed SAS clear with respect to the auditor's responsibilities for addressing the circumstances described? Does it achieve the objective of providing transparent reporting to the users? If not, suggest revisions.

<u>Response:</u> Yes – the guidance within paragraphs 31 and 34 is clear in stating the responsibilities of the auditor. It does achieve the objective of describing the matter(s) that lead to the qualification or limitation in the scope of the audit.

<u>Question:</u> In relation to the proposed interaction of AU-C section 705 and the proposed SAS what are your 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.

<u>Response:</u> The form and content of the example modified opinion reports included within the proposed SAS are clear within the full-scope (nos. 5 & 6) example opinions. However, the clarity of the number 7 example for a modification of the opinion within a limited scope audit engagement may not present clearly enough the reason for the scope limitation separate from the ERISA limited scope explanation paragraph of the opinion.

Within example number 7, the scope limitation explanatory paragraph directly precedes the ERISA limited scope paragraph. A user of the financial statements may interpret the second management imposed ERISA limited scope paragraph as a further explanation for auditor's disclaimer of opinion. Were the example to be modified slightly to better clarify the lack of records and supporting documents scope limitation is separate and distinct from the 29 CFR 2520.103-8 DOL permitted disclaimer of opinion, it would better aid the financial statement reader in understanding the result of the plan audit.

Issue 4—Required Emphasis-of-Matter Paragraphs

Question: Are the situations identified appropriate for requiring the inclusion of emphasis-of-matters paragraphs in the auditor's report? Are there additional situations that should result in a required emphasis-of-matter paragraph?

Response: We agree that the situations identified in paragraph 116 of the Exposure Draft are appropriate for requiring the inclusion of emphasis-of-matters paragraphs in the auditor's report. We further submit that the following additional situations should require inclusion of an emphasis-of-matter paragraph: (1) status and terms of a "frozen" defined benefit pension plan; (2) significant subsequent events disclosed in the financial statements that affect net assets or may affect the net assets or funded status of the plan.

Issue 5—Reporting Internal Control Deficiencies

Question: Is the current reporting of internal control deficiencies to those charged with governance sufficient? Are there other reporting considerations the ASB should evaluate?

Response: We believe the current reporting of internal control deficiencies to those charged with governance is sufficient, as required by AU-C Section 265. However, we question why matters considered to be less-significant findings would bypass significant deficiencies or material weaknesses to be reported in the Required Report on Specific Plan Provisions Relating to the Financial Statements. There should be more qualitative analysis or scope definitions provided in the proposal on what matters should be included in the report in terms of "findings." In addition, perhaps a statement could be added to this report or in the other communications to those charged with governance that states whether any of the findings were deemed to be significant deficiencies or material weaknesses.

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 the required procedures in paragraphs 15–16:

Question: 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?

Response: We agree that the required procedures in paragraphs 15-16 would enhance the consistency and quality of the audit work performed relating to matters that could have a direct effect on the financial statements and related disclosures for employee benefit plan audits noting that the guidance allows for auditor judgement as to the nature and extent of the required testing based risk assessments and results of other procedures and that the required procedures may be performed in conjunction with other audit procedures.

Question: 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?

Response: The proposed SAS does provide appropriate guidance regarding which provisions of the plan instrument should be tested but is not precise as to the extent of testing that is required. Paragraph A.16 specifically states "some relevant testing is expected to be performed for each of the matters in paragraphs 15 and 16."

Question: 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?

Response: Paragraph 15 e discusses required procedures related to "whether prohibited transactions identified by management or as part of the audit have been appropriately reported in the supplemental schedules" but does not address procedures to determine if such transactions have been appropriately corrected under available (VFCP or self-correction) methods. We further note that disclosures may be required regarding the potential impact on plan qualification or liabilities related to pending corrections. A specific example would be correction of delinquent contributions and/or loan repayments or failure to correct such.

With respect to reporting on the findings resulting from performing procedures related to the areas in paragraph 119-124:

Question: Is the list of individual areas tested appropriate, and if so, are there other items that should also be included (if not, why not)?

Response: We agree that the individual areas required to be tested and findings to be reported are appropriate if reporting findings are required. However, we also suggest that consideration be given as to whether findings should be reported. Under the current environment plan sponsors are encouraged to correct operational errors and noncompliance and to report them to auditors voluntarily. Mandatory reporting of compliance findings could deter plan sponsors from either making appropriate corrections voluntarily and/or reporting operational errors and related corrections to auditors since the report on findings would be publically available. Furthermore, the purpose of the report is not to express an opinion on compliance with plan provisions, but to report the results of audit procedures performed relating to specific plan provisions which would be useful for management, but perhaps less meaningful for public reporting.

Question: Is the requirement to exclude findings that are "clearly inconsequential" appropriate, and if so is there guidance the ASB can consider to drive consistency in application in practice?

Response: We believe it is appropriate to exclude findings that are "clearly inconsequential". Guidance defining "clearly inconsequential" would be useful and provide consistency in application in practice. Materiality for financial reporting may not be the same as materiality for compliance. Auditors and the resulting reporting would benefit from clear and consistent guidance related to applying materiality for purposes of reporting compliance findings.

Question: Should the findings also include any matters identified by management or the plan administrator?

Response: The proposed illustrative report specifically states that the purpose is to "describe the results of our procedures relating to specific plan provisions". Therefore, matters identified by management and the plan administrator may come to the auditor's attention as a result of audit procedures and, furthermore, may have a bearing on the nature and extent of audit procedures. In this context, matters identified by management or the plan administrator should be included to the extent that such matters are resultant from audit procedures, including management inquiry. We are concerned whether it would be appropriate to include matters of noncompliance noted relating to plan provisions not specifically required to be tested and reported either as a result of audit procedures or identified by management or the plan administrator, would it be appropriate to include such matters in this report versus separately in a letter to management.

Question: Are the reporting illustrations included in the Exhibits to the proposed SAS specific to reporting the findings clear and result in sufficient information to the user of the report?

Response: We believe that the usefulness of the "Report on Specific Plan Provisions Relating to the Financial Statements" is unclear. Furthermore, the reporting illustrations are unclear as to the language when findings that are "clearly inconsequential" occur as the example language states "During our audit, we did not have any findings relating to whether the plan and plan transactions are in accordance with specific plan provisions." There is also a reporting illustration noting instances of findings. However, the guidance states that matters that are "clearly inconsequential" need not be included. We believe the report should be modified to state that no material findings were noted.

Question: What unintended consequences might there be from including the findings in the auditor's report, and how might they be mitigated?

Response: Management and plan administrators may be incentivized to be less than transparent regarding matters that could potentially result in a finding being reported. This could be especially true in situations where corrections could be deemed to be "clearly inconsequential" or where such matters are unlikely to be identified by audit procedures to avoid public reporting of noncompliance with specific plan provisions. We also believe there could be unintended negative consequences coming from plan participants reading and attempting to interpret what the findings mean to them.

Question: Are there are alternatives to reporting the findings in the auditor's report that would achieve the objectives related to enhancing audit quality?

Response: We believe that audit standards, including the proposed changes to such standards included in this exposure draft, provide appropriate guidance to report material noncompliance and corrections which may impact plan qualification or net assets, in the notes to the financial statements and as an "emphasis of a matter" in the audit opinion. We also believe that reporting audit procedures and resultant findings to those charged with governance would be more meaningful and useful to encourage transparency and corrective actions. Rather than including the results of audit procedures performed related to the specific plan provisions in an audit report, the fact that findings were reported to management and those charged with governance could be reported via the auditor information included on the Form 5500.

Question: With respect to reporting on the findings resulting from performing procedures related to the areas in paragraphs 119–124, are there opportunities to enhance the proposed requirements and guidance, including 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?

Response: We believe that the required additional procedures as described in the proposed SAS are likely already being performed by many auditors and that the proposed SAS provides additional, specific guidance which will enhance consistency and overall audit quality. However, the reporting requirements included in paragraphs 119-124 would result in additional costs due to the additional procedures and processes that auditors would have to perform to produce and issue an additional report on the findings of specific audit procedures related to specific plan provisions. We estimate that the additional costs associated with the additional reporting requirements proposed could be in the range of 25% to 30% of the current fees charged for the financial statement audit and, therefore, likely outweigh the potential benefits of enhanced audit quality, especially as the testing requirements and guidance in paragraphs 15-16 provide benefits to enhanced audit quality without the burden and cost of additional reporting requirements.

Issue 7—Required Procedures Relating to the Form 5500

Question: Will the proposed procedures in paragraphs 36–48 of the proposed SAS 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?

Response: We generally agree that the procedures of the proposed SAS will 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.

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

Question: Does the proposed approach of creating a new reporting model for reporting on ERISA plan audits (AU-C section 703) better describe management's and the auditor's responsibilities in these engagements?

Response: As addressed in Issue 2 – we agree with the Board that the new reporting model better describes management's and the auditor's responsibilities.

Question: Are the proposed amendments to the other AU-C sections appropriate?

Response: We believe the proposed amendments are appropriate.

Question: Are there are other sections of AICPA *Professional Standards* that might need to reflect the provisions of this proposed SAS?

Response: None to our knowledge.

Issue 9—Proposed Effective Date

Question: Does the proposed effective date provide sufficient time for preparers, auditors, and others to adopt the new standard and related conforming amendments?

Response: We believe additional time is necessary to educate management and plan administrators and allow time for plan sponsors to prepare for additional audit procedures, reporting of findings, and additional costs associated with the new requirements. Additionally, audit firms must assess their current audit approach and develop reporting mechanisms to comply with the new reporting standards and associated costs to implement new reporting requirements.