

August 21, 2017

AICPA Auditing Standards Board  
Sherry.Hazel@aicpa-cima.com

**RE: April 20, 2017 ASB Exposure Draft of a Proposed Statement on Auditing Standards (SAS), *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA***

Dear Board Members:

Wipfli LLP (“Wipfli”) appreciates the opportunity to comment on the above captioned exposure draft. Wipfli has expansive expertise in the area of benefit plan audits and performs over 700 employee benefit plan audits annually. We are committed to ensuring the quality of our audits is in compliance with the most current Department of Labor (DOL) requirements and audit and accounting standards. We appreciate the Board’s effort to enhance audit quality of employee benefit plans.

We have reviewed the Proposed SAS and the related Issues. Based on these, we are providing the following comments for your consideration:

**ISSUE 1 – Required Procedures When an ERISA-Permitted Audit Scope Limitation is Imposed**

**1) Respondents are asked to provide their views on whether:**

**(a) The procedures and guidance will achieve the objectives of enhancing execution and consistency in these engagements and, if not, why?**

We agree the procedures and guidance in the Proposed SAS could enhance execution and consistency when an ERISA-permitted audit scope limitation is imposed. While the procedures and guidance identified in the proposed SAS are already defined in existing literature, the proposed SAS could encourage auditors to consider whether the appropriate procedures were performed. We further believe the consistency in audit quality objective could be achieved by enforced employee benefit plan audit training requirements, which may include modification of the existing ERISA CPE requirements, better monitoring by regulators to ensure auditors are meeting CPE requirements, and enhanced peer review programs.

With regard to the information certified by a qualified institution as permitted by ERISA, plan sponsors and auditors are often challenged to determine which institutions are qualified as defined by ERISA. We believe the burden of proof of qualification should reside with each institution and, therefore, we recommend each institution not only be required to certify both the accuracy and completeness of the investment information submitted, but should also be required to certify that they are a qualifying institution as defined under ERISA Section 103(a)(3)(c). This would considerably reduce the audit deficiency related to improper use of the limited scope exemption due to institutions not qualifying for such an exemption.

**(b) Any procedures that should be required are missing and, if so, describe them.**

We identified no required procedures that are missing with respect to paragraph 20.

**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 of the new form of opinion:**

**(a) 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?**

While we support the initiatives of the Proposed SAS, we do not believe creating a hybrid opinion which disclaims information specific to limited scope employee benefit plan audits is appropriate. AU-C Section 805.21 provides guidance that if an auditor disclaims an opinion on a complete set of financial statements, the auditor should not express a separate unmodified opinion on a single statement or a specific element, account, or item within those financial statements in the same auditor’s report; however, the proposed form and content of the new form of opinion disregards this guidance by issuing an unmodified opinion with a scope limitation on the investment information. We do not support venturing into this new territory, which conflicts with current reporting standards.

**(b) 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 agree management and auditor responsibilities are more transparent in the proposed form and content of the auditor’s report when an ERISA-permitted audit scope limitation exists, which may eventually improve understanding of management and auditors’ responsibilities; however, we also believe an education process should coincide with implementation of the Proposed SAS since many plan sponsors, and even plan auditors, do not clearly understand their responsibilities. Upon implementation of the Proposed SAS, this lack of understanding may result in reporting challenges where responsibilities as highlighted in the expanded auditor’s report are not being fulfilled. It may be helpful to include guidance in the Proposed SAS that addresses the impact to the audit report in these situations.

**(c) Better describe management’s responsibilities for the financial statements and, if not, why?**

As noted in the immediately preceding response, the new content for management responsibility states management is responsible for maintaining a current plan instrument; however, this responsibility may not be fulfilled and, therefore, guidance should indicate how this impacts the auditor’s report. In addition, without a determination letter program there should be guidance related to how auditors should evaluate whether management has met their responsibility to determine that the plan is designed, and currently being operated, in compliance with the applicable requirements of the IRC and, therefore, is qualified.

**(d) Provide sufficient clarity to users with respect to the auditor’s responsibilities and matters reported and, if not, why?**

We believe there is sufficient clarity with respect to the auditor’s responsibilities and matters reported, except where otherwise noted in our previous and following responses, as applicable.

**ISSUE 3 – Modifications to the Opinion in the Independent Auditor’s Report**

**1) 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:**

**(a) 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.**

We believe the guidance is clear with respect to the auditor’s responsibilities and achieves the objective of providing transparent reporting to users.

**(b) 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?**

As currently written, the Proposed SAS does not address Field Assistance Bulletin 2009-02 relating to transitional relief on certain annuity contracts/custodial accounts issued before January 1, 2009 for 403(b) audits. We believe this matter should be addressed in the guidance since it’s not part of an ERISA limited scope and, therefore, guidance should be provided as to whether this matter requires a modified, qualified, or disclaimer of opinion.

**ISSUE 4 – Required Emphasis-of-Matter Paragraphs**

**1) 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 believe the situations identified are generally appropriate for requiring the inclusion of emphasis-of-matters paragraphs in the auditor’s report; however, we also believe the inclusion of emphasis-of-matters paragraphs in the auditor’s report should be subject to auditor judgment.

The following additional situations, which are identified in AU-C Section 706.A2, may also be considered by auditors for emphasis-of-matters paragraphs and inclusion of such paragraphs should be subject to auditor judgment:

- Plan termination or liquidation;
- Going concern matter with regard to the plan sponsor or the plan;
- Uncertainty relating to future outcome of significant litigation or regulatory action;
- Significant transactions with related parties;
- Significant subsequent events; and
- Other circumstances as determined by auditor judgment.

In addition, the guidance in paragraph 116 uses the term “significant” which is not defined. We suggest the Board consider defining that term for purposes of clarification for applicability of 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; and/or there are other reporting considerations the ASB should evaluate.**

We believe the current reporting of internal control deficiencies to those charged with governance is sufficient; however, current reporting of internal control deficiencies could be enhanced to include the findings otherwise reportable in the Proposed SAS, which may not be considered significant deficiencies or material weaknesses in internal controls, as we do not believe it is appropriate such findings be public record. It is more appropriate any findings, if required to be reported, be communicated to those charged with governance in combination with internal control deficiencies. We believe inclusion of findings in audit reports may have unintended consequences that could be detrimental to employee benefit plans that fall under ERISA audit requirements, including detrimental implications to plan sponsors, participants, and plan auditors. Refer to the response below in Issue 6(2)(e).

#### **ISSUE 6 – Certain Requirements for Audits of ERISA Plan Financial Statements and Related Required Report on Specific Plan Provisions Relating to the Financial Statements**

- 1) 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:**
  - (a) With respect to the required procedures in paragraphs 15-16, 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 believe the procedures in paragraphs 15-16 could enhance the consistency and quality of the audit work being performed; however, highlighting specific plan provisions and procedures applied to those provisions in the audit report could have a negative impact on plan participants as a result of vendors who may use this information to their own advantage at the expense of participants’ benefits.

In addition, the Proposed SAS states such procedures should be performed irrespective of the risks of material misstatement. We believe auditor judgment is fundamental in determining the nature, timing, and extent of procedures to be performed, which includes the auditor’s assessment of the risk of material misstatement. Accordingly, we believe the risk of material misstatement is relevant to the procedures (and the extent of procedures) performed.

- (b) 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?**

Please refer to the responses provided in Issue 6(1)(a) above and 6(1)(c) below. While the Proposed SAS provides appropriate guidance on certain procedures to be considered for purposes of achieving

consistency and quality in plan audits, we believe the provisions to be tested and the extent of testing should involve auditor judgment with respect to the auditor's assessment of the risk of material misstatement. Furthermore, consideration should also be given to the unintended use of this information when including it in the audit report and the negative implications of this to employee benefit plans and plan auditors (see the response to Issue 6(2)(e)).

**(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?**

The procedures included in the Proposed SAS appear to focus on areas of DOL audit quality concern; however, if the objective of the Proposed SAS is to enhance execution and consistency in audit procedures, as well as to ensure self-regulation, certain additional procedures may be helpful in achieving that objective. Expanded and more explicit guidance of the procedures to be considered by the auditor could help prevent further additional inconsistencies in audit quality.

For example, certain additional substantive procedures for the auditor's consideration may include the following:

- Whether notes receivable from participants are administered in accordance with the plan instrument;
- Whether rollover transactions are appropriately recorded and received from qualifying plans;
- Whether contributions received by the plan are complete and appropriately reconcile to the employer's contribution remittance records;
- Whether participant contributions have been timely remitted to the plan;
- Whether payroll data is sufficient and may be appropriately relied upon;
- Whether the fidelity bonding requirements have been met;
- Whether fair value measurements are appropriate, including the evaluation of investment contracts for benefit responsiveness in defined contribution plans;
- Whether the appraisal/valuation report of employer stock has been appropriately evaluated; and
- Obtaining evidence of management's consultations with third parties.

As previously commented, we believe the procedures related to plan provisions or specific areas of the financial statements should be based on the auditor's assessment of risk of material misstatement and subject to auditor judgment.

**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).**

Refer to the response to Issues 6(1)(a) and 6(1)(c) above. Inclusion of the list of individual areas tested may increase the auditor's risk with respect to the interpreted level of testing performed; however, if a list of areas tested is to be included, it would only be appropriate to include areas that are applicable

to the plan. Therefore, we suggest additional guidance be provided within the Proposed SAS to carve out any areas that may not be applicable to the plan and, therefore, may not be tested.

In addition, as also stated in our response to Issues 6(1)(a) - 6(1)(c) above, consideration should be given to providing guidance when procedures are not performed by the auditor in certain areas based on auditor judgment.

**(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 do not believe the term “clearly inconsequential” has consistent meaning within practice and, therefore, reporting of findings will likely be inconsistent. We believe it is inappropriate to include a report on the findings in the audit report; however, we encourage the Board to provide guidance or definition for the term “clearly inconsequential” should this part of the Proposed SAS be retained. We fail to see the benefit of including specific findings in the audit report when the auditor has clearly obtained comfort in any findings as evidenced by issuance of the audit report. The inclusion of these matters, without perspective of the underlying details, only leads readers to speculate on the significance of them.

**(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.]**

Despite our opposition to the report on any findings in the audit report as stated in Issue 6(2)(b) above, if findings must be included, we believe matters identified by management or the plan administrator that come to the auditor’s attention should be included if they are not “clearly inconsequential;” however, we do not believe findings identified and corrected by management or the plan administrator should be included since this indicates the effectiveness of the plan’s internal control system.

**(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?**

We believe the illustrative language in the case of a finding that states “... the audit was not designed to identify all instances when the plan and plan transactions are not in accordance with those specific plan provisions” conflicts with the language in the first paragraph that states “... we are required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions” due to the placement and separation of these two statements. It may be clearer if the statements were written together as follows and placed in the first paragraph, “... we are required to perform certain procedures to test whether the plan and plan transactions are in accordance with specific plan provisions; however, the audit was not designed to identify all instances when the plan and plan transactions are not in accordance with those specific plan provisions.”

**(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?**

We believe there may be significant unintended consequences from including the findings in the auditor’s report as follows:

- Reported findings will be public record which may ignite litigation by attorneys and participants that could have significant but unwarranted repercussions on employee benefit plans and plan auditors.
- There may be adverse effects to audit quality initiatives as plan sponsors will likely not see the value in the initiatives underlying the Proposed SAS, which may lead them to shop for auditors who may not comply, thus negatively impacting the fulfillment of plan sponsor fiduciary responsibilities and ultimately participants.
- There may be added pressure to minimize or conceal any findings that may be reportable, which increases the risk of fraud.
- There are existing challenges in completing plan audits by extended deadlines resulting in many last minute and late Form 5500 filings. We believe the requirement to report findings in the audit report will result in incurring additional time to complete the audit, particularly in reaching agreement with those charged with governance on the nature of findings and in considering any written responses from management with regard to such findings, which may only increase the volume of last minute and late Form 5500 filings.

We believe the only way to mitigate these unintended consequences is to eliminate the report on findings from the auditor's report and to consider alternatives to reporting the findings in the auditor's report (see the response to Issue 6(2)(f) below).

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

We believe the following alternatives to reporting the findings in the auditor's report should be considered to achieve the objectives related to enhancing audit quality:

- As stated in Issue 5(1) above, we believe the current reporting of internal control deficiencies could be enhanced to include the findings, if findings are required to be reported. It is more appropriate any findings be communicated to those charged with governance in combination with internal control deficiencies so they may be addressed by the appropriate party(s).
- In addition, it may be more effective to require management to submit the report on internal control deficiencies and related findings to regulators as a non-public filing.

**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 believe the proposed new reporting model with respect to additional procedures and reporting of findings places undue burden on auditors currently performing and reporting on Employee Benefit Plan Audits in compliance with current regulations and audit and accounting standards. While it is too premature to identify the extent of additional costs, which we anticipate will vary from plan to plan, it is our opinion additional time will be required to modify the auditor's report to include information on procedures performed under the Proposed SAS, as well as any related findings, and the costs of doing so may outweigh the potential benefits of enhanced audit quality. We are also concerned plan sponsors will not recognize the need for the proposed expanded auditor's report and the additional time incurred to prepare the expanded auditor's report will be absorbed by plan auditors, resulting in additional audit fee pressures in an already extremely competitive market. We believe this may be counterproductive to

quality audit enforcement initiatives whereby plan sponsors may only continue to seek auditors offering the lowest audit fee.

#### **ISSUE 7 – Required Procedures Relating to the Form 5500**

- 1) 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 Proposed SAS should include further clarification of the required procedures relating to the Form 5500, including the following:

- Additional guidance regarding the term “material inconsistency” and the specific financial information that should be reviewed by the auditor should be provided to obtain increased consistency in procedures (i.e., which Form 5500 schedules are subject to the auditor’s review and at what level of reporting should the financial information included in Schedule H be consistent with the audited financial statements – by total net assets, by individual line, etc.).

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

- 1) 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?**

See response to Issue 2(1)(a).

- (b) The proposed amendments to the other AU-C sections are appropriate?**

No specific response.

- (c) There are other sections of AICPA *Professional Standards* that might need to reflect the provisions of this proposed SAS?**

No specific response.

#### **ISSUE 9 – Proposed Effective Date**

- 1) 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 do not believe the proposed effective date of plan years ending after December 15, 2018, provides sufficient time for preparers, auditors, plan sponsors, or others to adopt the new standard and related conforming amendments. We recommend an effective date which coincides with the effective date of the proposed Form 5500 revisions (at the earliest), particularly since those proposed revisions, if adopted, will significantly reduce the number of plans that require an audit.

In addition, it appears this proposed SAS could require substantial modifications to the AICPA A&A Guide for EBPs. Consideration should be given to providing ample time to make the appropriate updates to the Guide where necessary (i.e., Chapter 2 – Planning & General Audit Considerations, Chapter 10 – Concluding the Audit & Other Auditing Considerations, Chapter 11 – The Auditor’s Report, etc.).

## **CONCLUSION**

Thank you for the opportunity to present our views on the exposure draft. We would be pleased to discuss our comments or answer any questions you may have. Please contact Holly Kohl (715-843-7416 or [hkohl@wipfli.com](mailto:hkohl@wipfli.com)) regarding our submission.

Sincerely,

A handwritten signature in black ink that reads "Wipfli LLP". The signature is written in a cursive, flowing style.

Wipfli LLP