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August 23, 2017

Sherry Hazel
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Hazel:

On behalf of the Tennessee Department of Audit, Division of State Audit, we thank you for the opportunity to comment on the Exposure Draft (ED), *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.* We generally agree with the amendments proposed in the ED.

Issue for Consideration:

1. We agree that the procedures and guidance will achieve the objectives of enhancing execution and consistency in these engagements. We can think of no other procedures that should be required.

2. We agree that the form and content of the proposed auditor's report, including the form and proposed content of the new form of opinion, should provide improved transparency with respect to reporting on an audit of ERISA plan financial statements when an ERISA-permitted audit scope limitation exists; will improve the auditor's understanding of his or her responsibilities in a limited scope audit resulting in potential improvements in audit quality; better describe management's responsibilities for the financial statements; and provide sufficient clarity to users with respect to the auditor's responsibilities and matters reported.

3. We agree that the guidance in ¶31 and ¶34 and the example report illustrations (#5-7) of the proposed SAS (a) are clear with respect to the auditor's responsibilities, and (b) achieve the objective of providing transparent reporting to the users.

4. We agree that the situations identified are appropriate for requiring the inclusion of emphasis-of-matters paragraphs in the auditor's report. We can think of no additional situations that should result in a required emphasis-of-matter paragraph.

5. Even though this proposed SAS does not apply to our audit engagements, we disagree with the ASB's decision not to include reporting of findings similar to that required in the Yellow Book. We believe certain elements of the Yellow Book reporting model (i.e., reporting significant deficiencies and material weaknesses in internal control over financial reporting and compliance) should be considered to enhance reporting for audits of ERISA plan financial statements. We do not believe the AU-C 265 communication requirements are sufficient, especially considering that a significant user of these reports is a regulator. Thus, we believe a description of significant deficiencies or material weaknesses in internal control identified as part of the audit engagement should be a required disclosure in a separate section of the auditor's report. We believe this change will increase the informational value and relevance of the auditor's report for users, and therefore is in the public interest.

6. In regard to the required procedures discussed in ¶15–16, our only concern is that the auditor is required to perform audit procedures irrespective of the risks of material misstatement. This approach is completely contrary to a risk-based audit approach in AU-C 315, 320, and 330. We suggest adding application guidance clarifying that occasionally regulators will identify areas it considers to be of "higher risk." This might address the issue of audit quality whereby auditors ignore such areas. "Irrespective of the risks" does not address what the underlying issue is (i.e., audit quality). Furthermore, for the related reporting requirements in ¶119-124, we again believe the Yellow Book reporting requirements for findings related to internal control over financial reporting and compliance should be a separate section of the separate report.

7. We agree that the proposed procedures in ¶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.

8. We believe 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 and the proposed amendments to the other AU-C sections are appropriate. However, we question (as noted in our response to issue #6 above) whether a conflict with the Risk Assessment Suite of standards exist because of the "irrespective of the risks of material misstatement," and thus requiring an amendment to the application material to include our suggested language of "higher risk" above.

9. We agree that the proposed effective date provided sufficient time for preparers, auditors, and others to adopt the new standard and related conforming amendments.

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz (615) 747-5262 (Gerry.Boaz@cot.tn.gov) or me at (615) 747-5251.

Sincerely,

Deborah V. Loveless, CPA
Director, Division of State Audit