Auditing Standards Board
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

July 31, 2017

Dear Auditing Standards Board:

Thank you for allowing us the opportunity to comment on the Proposed Statement on Auditing Standards for Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.

We applaud the effort to improve the reporting in a compliance driven industry suffering from documentation overload.

Overview Comments:

We concur with parts of the proposed statement and disagree with other parts.

In general, we concur with the concept of clarifying the audit report regarding the nature and scope of the audit engagement, particularly for the limited scope engagement. We believe the report should be a high level synopsis of the engagement performed and a high level conclusion of the results and critical risks of the underlying entity (Plan).

We disagree with the concept of requiring the audit engagement to report on the detailed minutia of Plan activities. (i.e. compliance with specific plan provisions) This should not be the objective of the audit process or the auditor's report. While this information may be important operational information for the management of the Plan, it should not be a reporting obligation related to the financial statement presentation. Accordingly, we strongly believe that the audit process and reporting should focus on ***critical audit matters, high level risks and uncertainties, and related results,*** *rather than operational minutia.*

The primary objective of an ERISA audit should be to evaluate the resources available to provide benefits to the participants (i.e. Fair Value of the assets), and the ability of the Plan to provide the benefits promised to the participants.

Specifically requested feedback on ASB identified issues:

Issue 1 – Required procedures when an ERISA permitted Audit Scope Limitation is imposed.

In general, we concur with the conceptual direction of the exposure draft relating to the limited scope, but believe there is a ***fatal conceptual omission*** related to the consideration of the valuation measurement issue. It is critical to address the responsibility for the **valuation *measurement*** of the assets in the Audit Report. It is paramount that the users of the financial statements understand whether or not any corroboration of the Values has been performed by the qualifying financial institution or the Auditor. If neither of these two parties has performed any corroborating procedures related to the Valuation, this should be explicitly communicated to the user of the financial statements. This measurement goes directly to the ability of the Plan to provide the promised Plan benefit.

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

As indicated in our response to Issue 1 above - we believe a fatal conceptual omission exists related to the ambiguous responsibility pertaining to the Asset Valuation Measurement presented in the body of the Financial Statements. A disclaimer by the auditor due to reliance on the certification provides an implicit assertion that the certification addresses the valuation issue, [when it very well may not] potentially misleading the user of the financial statements to place undue reliance on the certification, and therefor undue reliance on the audit report.

Issue 3 – Modification to the Opinion in the Independent Auditor's Report

Consistent with our commentary above, if the Plan's assets include investments which lack quoted market values, and if the qualifying financial institution has not demonstrated any valuation corroboration procedures in issuing their certification as "complete and accurate", then the financial statement user should be explicitly alerted to this fact pattern.

Issue 4 – Emphasis of Matter Paragraphs (EOM)

We disagree with the exposure draft on a couple of different levels related to EOM paragraphs.

We are not convinced that it is appropriate to mandate EOM paragraphs, and we are not convinced that it is appropriate to mandate EOM paragraphs for the *predetermined topics, such as those* discussed in the exposure draft.

Alternatively, we would suggest the ASB re-think this topic.

We recommend that the focus of any EOM paragraphs be more aligned to critical audit matter issues. Such issues might include any subjective and/or judgmental areas, risks and uncertainties, and/or any matters that impact the ability of the Plan to pay benefits as promised.

In particular, in Plans which provide defined benefits, the critical issue for the Plan participants is whether the Plan will be able to provide the benefits as promised, when promised.

Auditors have been trained to evaluate financial statements through a "going concern" lens for corporate audits. This "going concern" lens is not as applicable to a benefit Plan as the concept of:" the ability to provide promised benefits".

Accordingly, in defined benefit plans, the funded status and benefit vesting status should be considered and evaluated. The auditor should consider if there is sufficient concern regarding whether the Plan will ultimately be able to pay the benefits as promised, or whether there is a significant risk of the benefits being reduced or eliminated. If the auditor concludes that there is a significant risk of non-payment, reduced payment, or reduction of promised benefits, this ***risk and uncertainty*** should be considered for communication in an EOM paragraph.

Issue 5- Reporting Internal Control Deficiencies

If the ASB has concluded that the proposed SAS should not require disclosure of a description of significant deficiencies or material weaknesses in internal control, then it is conceptually inconsistent to then require a separate report on compliance of specific transactions with Plan provisions.

Plan participants should be concerned with and informed about the internal control environment and related control deficiencies. We believe that requiring auditors to report on specific detailed transactions rather than the control environment would be ***counterproductive***, and ***potentially misleading*** to all parties involved.

Issue 6 – Certain Requirements for Audits of ERISA Plan Financial Statements and related Required Report on Specific Plan Provisions Relating to the Financial Statements

Consistent with previous comments noted in the above issues, we believe that having the audit focus on specific transactions is incongruent with the overall objective of the financial statement audit. Having the auditor focus on the minutia of specific transactions will drive the reporting and the perspective on the financial statements into the "weeds".

A likely outcome of forcing this detailed perspective is the loss of perspective on the meaning of the financial statements, a loss of perspective of what is truly significant and important to the participant, and a loss of perspective regarding the risks related to the ability of the Plan to ultimately pay its "Promised Benefits".

Conclusion:

In summary, we hope we have meaningfully articulated our perspective that the proposed statement on auditing standards for employee benefit plan audits would be well served to consider the following:

I) Clarifying the level of responsibilities and corroboration of valuation issues in limited scope situations. [i.e. clarify the meaning and reliability of the certification]

II) Evaluating and reporting on the resources available to pay benefits and the ultimate ability of any particular Plan to pay the promised benefits. [potential EOM paragraph]

III) Evaluating and reporting on the responsibility for the subjective and judgmental issues (critical audit issues), and clearly communicating the risks and uncertainties regarding these issues to the users of the financial statements. [potential EOM paragraph]

IV) Requiring reporting on specific plan transactions may be counterproductive and improperly elevate and emphasis the significance of operational minutia.

V) Secondarily, an audit responsibility is to evaluate and report on the Plan's internal control deficiencies and material weaknesses. If this reporting is limited to communicating only with Plan governance, then any reporting on specific plan transactions and compliance with plan provisions should also be limited to communications with governance.

Sincerely Submitted,

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