

“FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS OF EMPLOYEE BENEFIT PLANS SUBJECT TO ERISA”

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

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.

The procedures and guidance in items 20, 20a to 20c and A42 to A46 are self-explanatory, well written and leave little room for doubt as to what is required of the auditor.

A47 currently includes the following statement; “However, the auditor may need to understand the types of investments...” I recommend that the phrase “may need” be replaced with “must.” If the auditor does not understand the Plan’s investments, how can they possibly conclude with any degree of certainty that the disclosures are appropriate (required per A48d)? Our firm has found that certain custodians and trustees are not providing sufficient information regarding their assessment of the fair value hierarchy leveling. We are seeing more and more certified statements that include the phrase “requires research” when referring to the appropriate leveling of certain investments such as pooled separate accounts. In that case, the auditor must gain an understanding of the nature of those investments and perform tests as deemed necessary.

Notwithstanding the above, I believe that the required fair value disclosures are easily the single most irrelevant and worthless disclosures in participant directed, defined contribution plan financial statements. Audit quality and consistency would be enhanced by deleting many of the fair value disclosures from these types of audits.

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

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;

The new proposed auditor's report is very well written and will absolutely improve transparency in limited scope audits. I would change nothing (except as it relates to Plan Provisions which will be discussed in Issue 6 below).

- **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;**

With the new proposed report being much more detailed, it cannot help but improve the auditor's understanding of his or her responsibilities. This will lead to better overall audit quality and consistency and make substandard audits easier to "enforce" in the peer or oversight review process.

- **better describe management's responsibilities for the financial statements, and if not, why;**

Same response as above.

- **provide sufficient clarity to users with respect to the auditor's responsibilities and matters reported, and if not, why.**

Essentially, the only users of the financial statements is the Department of Labor. As this Exposure Draft has been a "collaboration" between the profession and the DOL, the clarity goal has been met.

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

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.**

These paragraphs are very clear.

- **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.**

Only Illustration 7 reflects the interaction with an ERISA-permitted limited scope exception. This example illustrates a situation where the accounting records (overall) are insufficient. That is generally an easy conclusion to reach. I recommend another Illustration where the situation call for a qualification and disclaimer of opinion is material and pervasive, but yet more narrow than Illustration 7. A more narrow situation might be incomplete census data, lack of audit evidence over benefit payments, lack of audit evidence for payroll data, etc.

Issue 4—Required Emphasis-of-Matter Paragraphs

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.

I recommend that in 116a, the phrase “that affect net assets” be deleted. Including that phrase will significantly reduce the number of EOM paragraphs included in audit reports as auditors will probably (correctly or incorrectly) conclude that the amendment has no direct and immediate impact on net assets. Also, including this phrase may lead auditors to attempt to quantify the impact of the amendment which is not necessarily appropriate.

I recommend that in 116c, after the phrase “a plan merger,” that the words “which results in either a significant increase or decrease in plan assets” be added. I typically see the auditor add an EOM paragraph when plan assets decreased as a result of a plan merger, but not when plan assets increased. I believe that both situations should result in an EOM paragraph.

Any filing (actual or in process) under the IRS Voluntary Correction Program should be added as an additional situation when an EOM paragraph should be included in the auditor’s report.

Issue 5—Reporting Internal Control Deficiencies

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.**

The current reporting of internal control deficiencies in accordance with AU-C 265 is totally sufficient to meet the goal of communicating those deficiencies to those charged with governance. As such, there are no other reporting considerations that should be considered or evaluating. Notwithstanding this comment, this Issue (#5) overlaps slightly with Issue #6 as “findings” are generally the result of a deficiency in internal control.

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. **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?**

These proposed requirements would definitely enhance the consistency and quality of the audit work. The testing of specific plan provisions is one of the most overlooked or under audited areas in a plan audit. These requirements will draw constant attention to the plan auditor that they must perform testing in this area, particularly to an auditor who may only audit a small number of plans each year.

- b. Does the proposed SAS provide appropriate guidance on achieving these requirements, including**

- i. which provisions of the plan instrument should be tested; and**

The proposed SAS is very clear as to which provisions should be tested.

- ii. to what extent testing should be performed?**

No, the proposed SAS is not clear to what extent testing should be performed. The key word here is “extent” which typically means size, scope, degree, level, etc. That said, the language in the proposed SAS is clear enough that an auditor, when applying proper risk assessment procedures, should be able to test specific plan provisions accordingly.

- 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 specific areas and procedures included in the proposed SAS appear complete as it relates to the major plan provisions in typical defined contribution plans. As it relates to ESOP’s, an item should be added requiring that the complex allocations to participant accounts be understood by the auditor (including the sequence of the various allocation steps) and the auditor be required to test the various levels of allocation.

- 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).**

Listing the specific areas tested in the audit report will increase the consistency and quality of audit work. Doing so holds the auditor accountable. It might be too easy for an auditor to simply report “no findings” without them listed in the report. But to list the specific areas prior to concluding with “no findings” will cause the signing auditor to contemplate whether sufficient testing has been performed in those areas.

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?

I am speculating that this will be the most controversial provision in the proposed SAS. The phrase “clearly inconsequential” is not appropriate and will not drive consistency. In fact, it could cause less consistency. Essentially, we already have a “standard” or “practice” that relates to late remittances. I believe that it is well understood that all late remittances get reported on a supplemental schedule – regardless of the respective dollar amount. Following that practice, there would be no “clearly inconsequential” findings. That said, specifying a de minimus amount (example \$100) would be far more preferable and effective than allowing for a wide range of interpretations of the phrase “clearly inconsequential.” It is reasonable to assume that some auditors may conclude that anything less than the dollar threshold established at the financial statement level for performance materiality (PM) or individually significant item (ISI) would be considered “clearly inconsequential” – and this is clearly wrong.

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.]

Please indulge me for a moment before I answer this question directly. I believe that the Plan Administrator (Sponsor) should be allowed one year (one audit cycle) to correct the findings. The findings would only be reported if they were not corrected within one audit cycle. Unlike financial statement audits of for profit or not-for-profit entities, employee benefit plans do not have the luxury of a formal year end “close” process where items/errors are detected and corrected by recording adjustments “back to” the applicable year or account. The definition of internal control includes the words, “prevent, detect and correct.” I believe that it is appropriate to allow the Plan to “correct” the findings before they are reported. If they are corrected; they are not reported. Now, answering the question directly, yes the findings that are not corrected in a timely manner (one year) should include any and all matters identified by management or the plan administrator.

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?

Yes, I believe that the reporting illustrations are clear and will result in useful information that is in sufficient detail to assist the user of the report. In my opinion, the most likely outcome from reporting findings is that “those charged with governance” are going to hold those processing plan transactions to a much higher standard and thus the quality of the recordkeeping will be enhanced.

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?

The most unintended consequence from including the findings in the auditor’s report is the potential for the DOL to initiate “investigations” for every report that includes findings. That said, the DOL has shown restraint in initiating investigations when auditors report late remittances. Not every plan that reports late remittances gets investigated. If the DOL can show restraint and treat the findings like they do the late remittances, it will mitigate the risk of a perceived “witch hunt” by a governmental entity. Another unintended consequence is that the auditor’s report is part of the EFAST filing and thus findings are

available for “the whole world to see, per se.” This could lead to lawsuits (or threats of lawsuits) that have little to no merit.

- f. There are alternatives to reporting the findings in the auditor’s report that would achieve the objectives related to enhancing audit quality?**

As suggested in ‘c’ above, the alternative (however slight) might be to allow the Plan Sponsor one year (one audit cycle) to correct the findings before they are reported.

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?

Yes, there will be additional costs in connection with the required additional procedures and reporting of findings. No doubt about it. The amount of increase will vary. Plans whose auditors who have been historically been performing the procedures (Plan provisions) will have minimal increases. Plans whose auditors have not been will have larger increases. Cost increases of 10-20% would not be unreasonable. And the benefits of enhanced audit quality far exceed the cost.

Issue 7—Required Procedures Relating to the Form 5500

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?

Yes, these procedures are reasonable and should already be being performed by Plan auditors. They would achieve the stated objective.

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

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;**

Yes, isolating the new SAS in a stand-alone section would be beneficial and more effective. Doing so acknowledges the fact that Plan audits (including limited scope audits) can be very different from typical audits of corporate entities. And therein is part of the historical problem with Plan audit quality – auditors of “for profit entities” attempting to audit an employee benefit plan in a manner that they are used to.

- b. the proposed amendments to the other AU-C sections are appropriate; and**

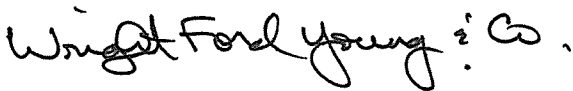
The proposed amendments to the other AU-C sections appear appropriate.

- c. whether there are other sections of *AICPA Professional Standards* that might need to reflect the provisions of this proposed SAS.**

Issue 9 – Proposed Effective Date

The proposed effective date is reasonable. The effective date should be as soon as possible in order to quickly meet the objectives. Periods ending on or after December 15, 2017 would not be reasonable due to time constraints. So the next logical date is periods ending on or after December 15, 2018.

Responses submitted by:

A handwritten signature in black ink that reads "Wright Ford Young & Co." with a period at the end.

Wright Ford Young & Co.
September 6, 2017