

September 22, 2017

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

Re: Proposed Statement on Auditing Standards – *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

Ms. Hazel and Board Members:

The Accounting & Auditing Committee of The Ohio Society of CPAs is pleased to provide comment on the above-referenced Proposed Statement on Auditing Standards.

The Committee is a voluntary group of member CPAs from public practice and industry. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization of our Committee is outlined in Appendix A to this letter.

General Comments:

While the committee is strongly supportive of the AICPA audit quality initiative, it has concerns about whether some of the requirements of this draft to improve the quality for poor performers have been weighed against the increased cost and liability exposure for the large number of those already providing high quality professional services. We believe the costs to the plan sponsors and their auditors outweigh the related benefits.

Responses to specific questions in the exposure draft follow:

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 committee did not have concerns about the audit procedures and generally found them consistent with the audit guide; however, it did not see a quality benefit of putting them in the standard versus continuing to maintain an updated audit guide. Maintaining requirements in the audit guide eases the process of making updates and would increase consistency with the form of professional standards guidance across industries.

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;*
- *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;*
- *better describe management's responsibilities for the financial statements, and if not, why;*
- *provide sufficient clarity to users with respect to the auditor's responsibilities and matters reported, and if not, why.*

The committee was supportive of the report clarifying the responsibilities of management and the auditor, and clarifying the differences between limited and full-scope. Members did not believe implementation of these requirements would be difficult or costly, or have significant impact on most clients or auditors.

We would recommend that paragraph 106 reflect that the auditor was instructed not to audit the certified investment information and did not audit this information. While the committee felt it was beneficial to include within the Standards a unique form of opinion for an ERISA-permitted limited scope audit, it had concerns with wording in paragraph 106 as the wording could be interpreted to provide undue assurance on the information covered by the limited scope certification. The committee felt it was important to distinguish that the certified investment information is not equivalent to the evidence obtained through audit testing, so an opinion should not be issued. This is important due to the proportional significance of investment information covered by the limited scope certification to the respective plans.

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 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.*
- *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.*

The committee found the guidance and examples to be clear.

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.

Professional standards already permit the auditor to use judgment regarding the inclusion of emphasis-of-matter paragraphs. The examples presented would typically represent a departure from other industries for which there is not prescriptive guidance. If the guidance is overly prescriptive, there is heightened risk that only the specific guidance will be considered rather than utilizing professional judgment. Committee members anticipated significant variation in practice on this matter.

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 committee found the current reporting of internal control deficiencies to those charged with governance to be sufficient, and agreed with the conclusion to exclude a report on internal controls. The additional audit work necessary for this would add an excessive cost for most plan sponsors both in terms of audit fees and personnel resources to support the audit.

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

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:

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?*

The committee felt the proposed level of detail represented a departure from other industries and was overly prescriptive. While some consistency and audit quality would be gained for audits that do not currently contain testing in the proposed specified areas, attempting to describe the audit test areas will result in the potential to exclude applicable areas which are specific to a given plan. The committee felt it was more important that the language in the standard be consistent with guidance in AU-C 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement and detailed procedures could be included in the Employee Benefit Plans Audit and Accounting Guide.

- 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 does provide specific guidance on provisions of the plan instrument to test. However, as noted above, this increases the risk that only the specified procedures will be

performed rather than assessing an individual plan's specific risks and customizing audit procedures based upon this assessment. Plan documents vary enough that, in trying to describe every attribute to test, applicable procedures could be overlooked and not performed.

ii. to what extent testing should be performed?

The proposed SAS does not provide guidance on the extent of testing to be performed. The nature, extent and timing of the testing will still be dependent on the auditors' risk assessment and professional judgment.

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?

As noted above, the committee did not feel specific procedures are needed.

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).

We do not believe that listing the individual areas is appropriate or reporting the detailed findings of the procedures is necessary. The attribute testing detail is communicated to Those Charged with Governance who can take appropriate action and this level of detail is not necessary or meaningful to users. This requirement also increases the risk that testing of relevant plan provisions and participant activity could be omitted if they are not specifically listed in the Standard.

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?

The terminology “clearly inconsequential” could be problematic, and its application may vary greatly in practice. But, that is the industry term used for all industries and follows “principles-based” accounting.

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.]

The committee does not feel that matters identified by management or the plan administrator should be included as findings. In general, these types of matters are addressed by management and Those Charged with Governance and due to their nature and lack of significance should not be required in a public document.

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?

The reporting illustrations are clear and are similar to similar reports under Government Auditing Standards. However, the determination as to whether they are sufficiently useful is highly subjective.

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 committee strongly disagrees with including findings in the auditor's report. Including findings in the auditors' report could appear to conflict with the unmodified audit opinion. In addition, unintended consequences could arise from varying interpretations of matters that are "clearly inconsequential" resulting in companies seeking a firm whose interpretation of this terminology is applied more liberally. The committee further felt that the public nature of these findings, some of which may not be significant, but deemed more than "clearly inconsequential", will increase the risk of litigation. These unintended consequences could, in turn, result in companies feeling compelled to terminate a plan.

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

As noted in response 2.e., the committee feels that public disclosure of findings under the proposed standard could give rise to unintended consequences and this public disclosure should not be required as currently proposed. However, if public disclosure is required under the final standard, the committee suggests consideration of a separate finding schedule, similar to what is required under *Government Auditing Standards*.

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 potential benefits of enhanced audit quality?

The committee believes the additional procedures and reporting of findings will result in additional audit time and costs to the Plans. Audits that do not currently include specific audit procedures related to significant plan provisions and participant activity will have a net benefit. However, we believe that the increased costs related to the proposed reporting of findings could be significant without providing additional benefits as noted above.

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;*
- b. the proposed amendments to the other AU-C sections are appropriate; and*
- c. whether there are other sections of AICPA Professional Standards that might need to reflect the provisions of this proposed SAS.*

While some sections of the proposal add language to clarify management responsibilities, the committee disagrees strongly with including procedures and findings in the audit report, as this is inconsistent with other industries, has no direct linkage to audit quality, and comes with a

significant exposure cost. The potential exists for important points to be lost in the volume of items reported.

Issue 9—Proposed Effective Date

Respondents are asked whether the proposed effective date provides sufficient time for preparers, auditors, and others to adopt the new standards and related conforming amendments.

The committee recommends a delay of the effective date to provide sufficient time to prepare for the changes, and to educate clients and other users of Employee Benefit Plan audits.

The committee appreciates the opportunity to respond to the Proposed Statement on Auditing Standards. If you have any questions, please contact either of us at the below email addresses.

Best Regards,

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