



September 27, 2017

**Ms. Sherry Hazel**  
**Audit and Attest Standards Team**  
**American Institute of Certificate Public Accountants (AICPA)**

By e-mail to: [sherry.hazel@aicpa-cima.com](mailto: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***

Dear Ms. Hazel:

Hood & Strong LLP, founded in 1917, is a well-respected public accounting firm, providing audit, business advisory, tax, and information technology services to nonprofit organizations and privately held businesses throughout the United States.

Our San Francisco and San Jose offices are home to a team of more than 100 professionals, led by 15 partners. We have a practice niche auditing employee benefit plans led by 3 partners with extensive experience in this area. Hood & Strong LLP is a member of the AICPA Employee Benefit Plan Audit Quality Center.

The Firm is pleased to have the opportunity to comment on the Exposure Draft Proposed Statement on Auditing Standards entitled *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, issued by the AICPA Auditing Standards Board on April 20, 2017.

We appreciate the efforts being put forth by the AICPA to improve the quality of audits of financial statements of employee benefit plans and that the exposure draft was developed with that objective. Unfortunately, we do not feel this specific exposure draft improves audit quality.

As many of us at Hood & Strong LLP read this exposure draft, we could not help but notice the Department of Labor is essentially responsible for drafting an exposure draft for the AICPA Auditing Standards Board. With the statement in the background section, “The Chief Accountant of the Department of Labor (DOL) requested the ASB take a fresh look at the auditor reporting model for ERISA plan audits to provide better insight to the public regarding the scope of the responsibility of management and the auditor...” Why are we, as audit professionals, allowing the DOL to dictate how we perform and report on our audits of employee benefit plans?

We understand that there has been an issue with the quality of certain audits. It is a disgrace that some firms choose to perform audits that do not meet a minimum standard of quality and there are others who don't know how to perform these types of audits. Unfortunately, that is the case whether it is an employee benefit plan audit, a single audit, a financial statement audit or other type of engagement. There is a certain percentage of bad auditors

The current regulatory environment, provides the DOL two options for addressing changes they want to make for what they control. They can do this through the Form 5500 and/or request Congress to make changes to ERISA. Why is the ASB allowing the DOL to circumvent that process by making changes to our auditing standards?

Why is the ASB requiring a new form of report specific to an audit of an ERISA plan when there is a management imposed, ERISA-permitted, scope limitation? It has always been our understanding that we use professional judgment to determine what type of opinion we are going to provide based on the availability of information and the results of our audit procedures performed.

We hope after the comment period is completed and practitioners, state societies, and others have provided their feedback, the Board will withdraw this proposal or make significant modifications to address our concerns and those of other respondents.

### **General Comments**

We feel the ED is flawed due to the incorporation of audit program type procedures directly into an auditing standard to address compliance requirements of an employee benefit plan audit. The focus of the Board has been to move away from such detail within auditing standards. If the focus is to move toward principles based auditing standards, this ED is the exact opposite.

Limited Scope Audit: Under the proposal, auditors would be required to issue an unqualified opinion, based in part, on the custodian's certification of investments. With a limitation, such as this imposed by the plan sponsor, we would not be able to obtain sufficient appropriate audit evidence on which to base our opinion. As auditors, we cannot in good conscience, provide an unqualified opinion when there is such a significant scope limitation.

Reporting on Specific Plan Provisions: The ED proposes a new requirement to report on specific plan provisions (par. 121), which includes disclosing auditor findings from applying certain mandated procedures (par. 15-17 and A15). Substantive testing is being required without regard to the assessment of risk of material misstatement. This is counter to risk based auditing. We feel these mandated procedures should be eliminated from the standard. The report is a compliance report without a requirement to express an opinion on compliance. We believe there is nothing about these mandated procedures that are acceptable.

5500: The ED allows auditors to issue an audit report prior to the 5500 being available for review, but we still have responsibilities with respect to the 5500 after the audit report date. This does not make sense. The 5500 should be available to the auditor so it can be compared to the audited statements prior to report issuance.

We do not choose to provide specific feedback on the specified issues, except for issue 9, since we feel this is such an ill-conceived standard and do not agree with any of it. Please note that the proposed effective date does not provide sufficient time for preparers, auditors and others to adopt the new standard and related conforming amendments.

### **Suggested Alternative**

We understand the need for change to improve audit quality so here are some thoughts for an alternative to the exposure draft. Approach the requirements through a Department of Labor Audit Guide, similar to the HUD Consolidated Audit Guide developed by the Department of Housing and Urban Development. Incorporate the required compliance procedures included in the exposure draft into the guide. Consider including calculations for the “viability” of the plans with something similar to the net worth calculations for HUD funded entities. Consider the applicable reporting requirements and determine if the engagement should be subject to Generally Accepted Government Auditing Standards that would include a compliance opinion and internal control opinion in addition to the financial statement opinion. Also, instead of incorporating the findings into the auditor’s report, include a schedule of findings and questioned costs, similar to what is included in a single audit reporting package.

We thank you for the opportunity to comment on this exposure draft. We would be happy to discuss our opinions with you further should you have any questions or require additional information.

Very truly yours,

A handwritten signature in black ink, appearing to read "Raul Hernandez". The signature is written in a cursive, flowing style.

Raul Hernandez  
Designated Partner for the EBP Practice