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September 26, 2017

SENT VIA EMAIL

Ms. Sherry Hazel
American Institute of Certified Public Accountants
1211 Avenue of the Americas, 19th Floor
New York, NY 10036-8775

Re: Proposed Statement on Auditing Standards, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA (the proposed SAS)

Dear Ms. Hazel:

Moss Adams LLP is the largest accounting and consulting firm headquartered in the Western United States, with a staff of over 2,600, including more than 275 partners. Founded in 1913, the firm serves public and private middle-market businesses, not-for-profit, and governmental organizations across the nation through specialized industry and service teams. We perform over 1,600 employee benefit plan audit engagements annually.

We appreciate the opportunity to provide our comments on the proposed SAS and we support the stated objective of the Auditing Standards Board's task force to "improve the quality of EBP audits". Performing quality audits is the paramount objective of our EBP practice. However, the proposed SAS contains certain provisions we object to, and several areas that are unclear and may have unintended consequences.

Required Audit Procedures and Reporting of Findings

Audited EBP financial statements are required for certain plans, under ERISA, as prescribed by the DOL. This proposed SAS would establish additional performance and reporting requirements that do not have a basis in DOL or IRS regulations, and go beyond currently established requirements of AU-C 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* (AU-C 250). We believe the ASB is acting outside of its purview. While the ASB might provide implementation guidance on auditor considerations of regulatory requirements relevant to an ERISA plan's financial statements, perhaps in the form of an audit guide, it should not create additional audit requirements that are contrary to existing audit standards and not mandated by law or regulation.

Paragraphs 15 and 16 of the exposure draft outline certain items for which audit procedures are required "irrespective of the risks of material misstatement", but the nature and extent of testing performed is based upon auditor judgment. We question whether these additional requirements will lead to meaningful improvement in audit quality. In addition, further clarification is needed regarding the objective of each of these required procedures, in order for the auditor to design tests that meet the stated objective and are sufficient in their nature and extent. Without clarification, we anticipate that there will continue to be diversity in practice with respect to the nature and extent of procedures performed on these required areas by all auditors. Furthermore, the additional requirements do not readily reconcile with existing audit standards. Performing these required procedures would be more appropriate, and would receive better attention, if they were structured as a separate required agreed-upon-procedures engagement, with procedures specified by the DOL.

We do not believe that reporting on findings related to a few specified plan provisions will provide meaningful information for the majority of the users of the plan's financial statements. Further, the requirement to disclose certain findings appears inconsistent with existing standards, and therefore we request this requirement be omitted from the final standard. In conjunction with AU-C 250 and AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit*, certain findings, including plan operational defects, are already required to be or are electively communicated to those charged with governance, significant users of the financial statements.

The disclosure of findings in the audit report may include sensitive matters that we do not believe should be made available for public consumption. These matters may be concerning and confusing to plan participants, and may represent matters which have already been fully corrected by the plan sponsor.

Definition of "Clearly Inconsequential"

The proposed SAS specifies that audit findings would be included in the report unless they are "clearly inconsequential" (paragraph 121). Further clarification is needed with respect to whose perspective should be considered as part of this evaluation (e.g., the perspective of the plan, the participants, those charged with governance, or the auditor). For example, would an audit report need to disclose a $500 error that affected one plan participant? Such finding is more than inconsequential from the participant's perspective, but is clearly inconsequential from the plan's perspective. Also, if a key control related to eligibility was not operating effectively for three months of the plan year, and the error resulted in three participants being improperly enrolled into the plan prior to meeting the plan's eligibility criteria, is that "clearly inconsequential" because it only impacted three participants, or more than inconsequential because the control was ineffective for a quarter of the plan year?

Further clarification of the phrase "clearly inconsequential" will help promote more consistent and appropriate application. The ASB's clarification of the term "clearly inconsequential" should be exposed for public comment if it intends to use that term in the final standard in any form.

A potential unintended consequence of the proposed SAS is that it leads plan management and its governing body to interview potential auditors on their interpretation of "clearly inconsequential" in advance of appointing and engaging an auditor. Such discussions, and resulting pressure imposed by plan management, could pose a threat to an auditor's independence too significant to overcome. Paragraph A136 of the proposed SAS states that, "The auditor may reach agreement in advance with those charged with governance on the nature of findings that would be considered clearly inconsequential and, thus, need not be communicated." We believe the content of the independent auditor's report should not reflect negotiations between the auditor and the client. To ensure that findings, if required to be disclosed, remain the conclusions of an independent auditor, we believe that the level of findings disclosed in the Independent Auditor's Report should not be subject to negotiation and agreement with the client.

Also, because of the subjective nature of the term "clearly inconsequential", it may be difficult for auditors and those charged with governance to come to agreement on what findings to include in the report. We believe it would be more beneficial to the plan for the plan sponsor to be focused on addressing, correcting and preventing future findings, rather than being engaged in discussion on whether there should, or should not, be disclosure of findings in the report.

Finally, the example finding included in the ERISA scope limitation report (page 119 of the proposed SAS) does not appear helpful from the perspective of the plan sponsor, participants, or regulators. It reads: "We noted instances when vesting was not calculated in accordance with the plan document, which resulted in the plan not paying appropriate benefits." To have ended up as a disclosed finding, the finding must have been determined to be more than "clearly inconsequential", but there is no additional information that either quantifies or clarifies to a reader regarding magnitude, scope or pervasiveness of the finding.

ERISA Permitted Scope Limitation Audit Report

We are doubtful that the proposed new form of report, which employs a scope limitation approach rather than a disclaimer approach, will accomplish the objective of addressing certain audit quality concerns when an ERISA-permitted audit scope limitation exists. Simply changing the format of the report and the nature of the audit opinion does not change the underlying nature of the ERISA scope limitation, and many auditors' response to it. While the proposed change in reporting model will not necessarily drive changes in behavior, we acknowledge that it does provide a big enough change to test auditors' adoption of the new standard for quality assessment purposes. Furthermore, while we appreciate some of the expanded language to better explain the auditor's responsibility when such an audit is being conducted, we object to the creation of a new type of report that could further confuse the application of existing reporting models.

The exposure draft should better clarify whether the "special form of opinion" is unmodified, modified, or a new category of opinion all together.

The types of audit opinion available on the 2016 Form 5500, Schedule H are unqualified, qualified, disclaimer or adverse. Modification to the Form 5500, Schedule H or advice from the DOL on how to complete the Schedule H, will be necessary to accommodate disclosing the new ERISA permitted scope limitation opinion on the Form 5500.

Other

Participant loans are included in paragraph 15i as a required item to be tested in accordance with plan provisions. Under this standard, would participant loans be considered "investment information" which can be certified by a qualified institution? Participant loans are not currently considered investments for GAAS purposes, so further clarification is requested in the final standard.

Timing of Implementation

Sufficient time will be necessary for audit firms, the AICPA, and audit resource providers to update their programs and related guidance to incorporate any changes required by the final standard once the standard is issued, prior to the effective date. Given the degree of proposed change in the scope of work and reporting responsibilities, we believe the proposed effective date of periods ending on or after December 15, 2018, is not sufficient time to allow for appropriate adoption and implementation for plans and auditors. In particular, updated EBP audit resources and the AICPA Audit and Accounting Guide for EBPs (Audit Guide) are usually made available in the spring of each year. We believe that the spring of 2019 would be too late for audit firms to prepare and train employees on new programs, familiarize themselves with a new Audit Guide, and sufficiently educate clients on the changes in order to meet 2019 filing deadlines for December 31, 2018, year-end plans. At this point in time, we believe it would not be feasible to expect those resource updates could occur by the spring of 2018. Therefore, we recommend that the effective date be deferred for at least one more year.

We appreciate the opportunity to provide comments; should you have any questions please contact Bertha Minnihan at (408) 916-0585 or Bertha.Minnihan@mossadams.com.

Very truly yours,

Moss Adams LLP