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Massachusetts Society of CPAs®

September 28, 2017

AICPA Auditing Standards Board
American Institute of Certified Public Accountants
1211 Avenues of the Americas
New York, NY 10036
Attn: Sherry Hazel

Via e-mail to: Sherry.Hazel@aicpa-cima.org

RE: EXPOSURE DRAFT DATED APRIL 20, 2017 – FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS OF EMPLOYEE BENEFIT PLANS SUBJECT TO ERISA

Ladies and Gentlemen:

The ERISA Accounting and Auditing Committee and the Accounting Principles and Auditing Procedures Committee ("Committees") of the Massachusetts Society of Certified Public Accountants are forwarding this joint comment letter in response to the above referred to exposure draft. The ERISA Accounting and Auditing Committee is the main Committee that oversees the distribution of knowledge of audits of Employee Benefit Plans for the Massachusetts Society of Certified Public Accountants. The Accounting Principles and Auditing Procedures is the senior technical committee of the Massachusetts Society of Certified Public Accountants. The Committees consist of members who are affiliated with public accounting firms of various sizes as well as members in both industry and academia. The majority of the members of the Committees primarily serve small and medium sized clients. The Committees have reviewed and discussed the above referred to proposal. The views expressed in this comment letter are solely those of the Committees and do not reflect the views of the organizations with which the Committee members are affiliated.

First the Committees thank the AICPA Auditing Standards Board for the opportunity to comment on this Exposure Draft.

The members of the Committees mainly are preparers, auditors and advisors to small and medium sized entities.

All comments are detailed on the following pages 1 thru 10.

Thank you for allowing us to comment on this proposal.

For the ERISA Accounting and Auditing Committee – Donna Neely and David Villani
Co- Chairs

For the Accounting Principles and Auditing Procedures Committee - Philip B. Pacino
Chairman

Issue I

Required Procedures When an ERISA-Permitted Audit Scope Limitation is imposed

Paragraph 20 of the proposed SAS requires audit procedures to be performed relating to the information certified by a qualified institution as permitted by ERISA. In particular, paragraph .20(d) of the proposed SAS requires the auditor to evaluate whether the form and content of the ERISA plan financial statement disclosures related to the information prepared and certified by a qualified institution are in accordance with the applicable financial reporting framework.

The objectives of the proposed procedures are to improve the execution and consistency in audit procedures related to limited scope audits as current practice varies resulting in inconsistent audit quality. The proposed SAS also provides examples of ways the auditor can evaluate the financial statement presentation and disclosures relating to the certified information, such as obtaining an understanding of management's selection and application of accounting principles which would include concluding on the appropriateness of selected investment valuation methodologies, and determining whether relevant fair value disclosures are in accordance with the financial reporting framework.

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.*

Response

MA ERISA Committee's Comment:

We agree the procedures and guidance will improve the performance and consistency of financial statement reporting and disclosures.

There are no additional procedures that we feel should be recommended in this area.

Issue II

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

As noted in the Background discussion, the DOL had requested the ASB to explore different reporting models in these circumstances, expressing a concern that the wording of the current limited scope auditor's report, and resulting disclaimer of opinion typically issued, may be a contributing factor to audit quality deficiencies because of potential confusion regarding the auditor's responsibilities in performing these engagements. The proposed SAS is intended to

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provide more transparency into the audit procedures that are required by requiring a new form and content of the auditor's report when the ERISA-permitted audit scope limitation is imposed by management and there are no other limitations on the scope of the audit and no identified material misstatements of the ERISA plan financial statements. Should either of the latter conditions exist (scope limitation or material misstatement) the auditor would be precluded from using the format of the new proposed report and would apply the requirements in AU-C section 705, Modifications to the Opinion in the Independent Auditor's Report (AICPA, Professional Standards).

This new form of opinion includes a statement that in the auditor's opinion, based on the audit and based on the use of the certification of the investment information which the auditor was instructed not to audit, the financial statements are fairly stated in all material respects in accordance with the applicable financial reporting framework.

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.*

Response

MA ERISA Committee's Comment:

We agree with the intent of providing clarity and transparency but have the following comments which we feel will make it easier for the reader to understand what procedures were performed (or not performed) and why:

- In the first sentence of the introductory paragraph we would prefer to see a term like "endorsed by management" as opposed to "imposed by management" at the end of first sentence. We feel that the term "imposed by management" has a negative connotation and sounds as though management is restricting the auditor from procedures that the auditor wanted to perform.

- In the Auditor's Responsibility paragraph we suggest adding wording regarding the following procedures performed on the certified investment information:
  - That a comparison was made of management's reconciliation of the certified investment information to the trial balance and financial statements.

  - That the auditor evaluated management's determination of investment valuation (fair value or contract value), including investment types, valuation inputs and classification in the fair value hierarchy table.

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- We would also like to see guidance in the form of reporting illustrations for 403(b) Plans that were established prior to 2009 which may not have complete and accurate recordkeeping on individual annuity contracts. Under the current reporting standards, these 403(b) plan audit reports include a disclaimer of opinion due to the inability to perform audit procedures on these individual annuity contracts.

MA Accounting Principles and Auditing Procedures Committee's Comment:

The Accounting Principles and Auditing Procedures Committee is very concerned with the auditor's opinion on a qualified limited scope engagement. In illustration 3 it states "In our opinion, based on our audit and based on the certification of the investment information we were instructed not to audit, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits". The Committee is concerned that a large percentage of net assets are not being subjected to audit procedures but the auditor opinion is stating that net assets are accurate. The Committee's belief is the present wording can be interpreted as the auditor performed audit procedures to the investments when that is not what the auditor was able to perform. The Committee believes readers of these financial statements, outside of the DOL personnel, will interpret that the entire plan was fully audited. The Committee believes that the present disclaimer opinion should be retained as a part of the auditor opinion when a limited scope audit is imposed.

The Committee further finds illustration 3 inconsistent with illustration 7 which allows a disclaimer of opinion when the auditor is unable to gain competent audit evidence. The Committee could not reconcile the difference between the two illustrations. The Committee does not understand that in illustration 7 a disclaimer opinion is acceptable when sufficient audit evidence is not available and why that same thinking is not present in illustration 3.

Issue III

Modifications to the Opinion in the Independent Auditor's Report

The proposed SAS addresses the interaction of the new proposed reporting model for audits of ERISA plans when the ERISA-permitted audit scope limitation is imposed, with existing requirements in AU-C section 705. Specifically, the proposed SAS indicates that AU-C section 705 does not apply unless there is another limitation on the scope of the audit other than the ERISA-permitted audit scope limitation or there is a material misstatement of the ERISA plan financial statements. For example, an auditor engaged to perform an audit of an ERISA plan with an ERISA-permitted audit scope limitation may determine that there is insufficient evidence to conclude on assertions relevant to benefit payments. In this circumstance, the auditor's report with the ERISA-permitted audit scope limitation in the proposed SAS would not be suitable. Instead, the auditor would consider the requirements and guidance for *modified opinions set forth in AU-C section 705, including the modification for the scope limitation with respect to the certified information.*

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.*
- *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.*

Response

MA ERISA Committee's Comment:

We agree that the guidance in paragraphs 31 and 34 of the proposed SAS is clear with respect to the auditor's responsibilities for addressing circumstances noted above.

We do not feel that there should be a change in the reporting requirements of internal control deficiencies. We feel that the current reporting of internal control deficiencies to those charged with governance is sufficient (see our comment on Issue V) and that a requirement to report deficiencies could result in clients opinion shopping. If the SAS will require the audit report to include findings, we have the following suggestions/comments:

a. We do feel that it would be beneficial to more clearly explain the testing procedures and transaction cycles that we test. However, the exceptions/findings should not be noted within the audit report, but instead remain included in the required communications to those charged with governance. If they are to be included in the audit report, we would like to be provided with guidance on whether or not materiality will be considered.

b. When exceptions/findings may exist, if they are determined under the proposed SAS to be included in the audit report or in a separate report, we suggest clarity on whether the separate report detailing the findings would need to be attached to the Form 5500 filing. We would also request clarity about whether the exceptions/findings would require the Form 5500 submitter to check an additional box on the return to indicate exceptions/findings. If not, we are concerned that the separate report may not be included with the 5500.

Comments on Illustrations 5 and 6:

We feel that the illustration is applicable to 401(k) plans, but we noted there is no sample for 403(b) plans. We would find a 403(b) sample to be helpful.

We do not recommend including findings in the paragraph titled "Report on Specific Plan Provisions Relating to Financial Statements"

Comments on Illustration 7:

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We feel that the illustration is applicable to 401(k) plans, but we noted there is no sample for 403(b) plans. We would find a 403(b) sample to be helpful.

We do not recommend including findings in the paragraph titled "Report on Specific Plan Provisions Relating to Financial Statements".

We agree with statement about what we were unable to audit, however as previously mentioned, we do not think that the findings need to be included within the audit opinion.

Issue IV

Required Emphasis-of-Matter Paragraphs

Paragraph 116 of the proposed SAS requires the auditor to include an emphasis-of-matter paragraph in the auditor's report when certain situations exist and are disclosed in the notes to the financial statements under U.S. generally accepted accounting principles. The required emphasis-of-matter paragraphs are intended to highlight certain situations that, when they occur, are considered fundamental to the users' understanding of the financial statements.

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.

Response

MA ERISA Committee's Comment:

We agree that the items listed in paragraph 116 would warrant the addition of an Emphasis of Matter paragraph. In addition we feel that the use of such a paragraph is based on the auditor's judgement about the significance of the matter. Other situations that would warrant an Emphasis of Matter paragraph include a change in accounting method or adoption of a new accounting principle.

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Issue V

Reporting Internal Control Deficiencies

As noted in the Background discussion, the ASB concluded that the proposed SAS should not include a requirement to disclose, in a separate section of the auditor's report, a description of significant deficiencies or material weaknesses in internal control identified as part of the audit engagement and that it is sufficient for the auditor to communicate those matters to those charged with governance as required by AU-C section 265.

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.*

MA ERISA Committee's Comment:

We believe that the current requirement to communicate internal control deficiencies to those charged with governance is sufficient and there are no additional reporting considerations that we feel are needed.

MA Accounting Principles and Auditing Procedures Committee's Comment:

The Committee believes there are sufficient standards under AU-C Section 260 and AU-C 265 that should be followed with regard to issue.

Issue VI

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

Paragraphs 15–16 of the proposed SAS require the auditor to perform audit procedures on certain provisions relating to ERISA plan financial statements that are the basis for a new reporting element. The new requirements are focused on plan instrument provisions based on information provided by the DOL, along with other feedback, that could have a direct effect on the financial statements. As noted in the Background discussion, the auditor would be required to perform audit procedures with respect to the specified plan provision irrespective of the assessed risks of material misstatement.

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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?

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

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

ii. to what extent testing should be performed?

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?

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).

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?

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.]

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?

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?1

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

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?

MA ERISA Committee's Comment:

We agree with paragraphs 15 and 16 and feel that these are procedures that we do anyway. Specifically stating these requirements may improve the consistency of audit work performed among auditors.

As previously stated, we believe that the current system of reporting internal control deficiencies to those charged with governance is sufficient and that if further reporting is required that additional guidance be provided.

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We do not feel that the additional procedures will require additional time during the audit as we already perform those tests. We do however feel that the increased reporting requirements will add time and cost to the audits.

Issue VII - Required Procedures Relating to the Form 5500

The DOL's audit quality study identified that the auditors are inconsistent in the procedures performed regarding the Form 5500 as well as consideration of the reconciliation between the Form 5500 and the financial statements that is an ERISA requirement. In response, the ASB concluded that the procedures in paragraphs 36–48 would improve consistency as the auditor's report on the financial statements that accompany the Form 5500 filing. The proposed procedures are based on AU-C section 720, Other Information (AICPA, Professional Standards), however the Form 5500 is not deemed to be an annual report as defined in AU-C section 720.

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?

MA ERISA Committee's Comment:

We consider obtaining the audit and agreeing the information in Schedule H of the 5500 to be standard procedure. Changing the wording to "auditor must read" as opposed to "auditor should read" would eliminate confusion. We would however like further clarity regarding our review of the 5500. There are sections of the 5500 that we normally do not address. What would our responsibility toward those areas be, if any?

Issue VIII

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

The proposed SAS would create a separate, stand-alone reporting section (intended as AU-C section 703) within the Audit Conclusions and Reporting section of the AU-Cs that would include new requirements for reporting on ERISA plan financial statements including a new opinion when an ERISA-permitted audit scope limitation is imposed by management. As such, this proposed SAS, if issued as a final SAS, would apply in place of AU-C section 700, Forming an Opinion and Reporting on Financial Statements (AICPA, Professional Standards) and therefore repeats much of the requirements and guidance currently in AU-C section 700. In addition, appendix A and B to the proposed SAS include amendments to various other AU-C

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sections in AICPA Professional Standards to properly scope the proposed SAS including amendments to reference both AU-C section 700 and AU-C section 703 in other areas of GAAS as appropriate.

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.*

MA ERISA Committee's Comment:

We agree that the new reporting model better describes management's and the auditor's responsibilities in these engagements. As previously mentioned we request reporting illustrations for 403(b) Plans that were established prior to the 2009 audit requirement and may not have complete and accurate recordkeeping on individual annuity contracts. We agree the proposed amendment to the other AU-C sections are appropriate, taking into consideration the suggested modifications we have identified in our comments for the preceding Issues 1 through 7.

We did not identify any other sections of the AICPA *Professional Standards* that might need to reflect the provisions of the proposed SAS.

Issue IX

Proposed Effective Date

The proposed effective date for the proposed SAS is for ERISA plan audits of financial statements for periods ending on or after December 15, 2018. Respondents are asked whether the proposed effective date provides sufficient time for preparers, auditors, and others to adopt the new standard and related conforming amendments.

MA ERISA Committee's Comment:

We agree with the proposed effective date as long as a decision is made prior to the Committee's May 2018 EBP conference so that we have the opportunity to learn about the new requirements at that conference. Ideally we would like 1 year to prepare for the changes.

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MA Accounting Principles and Auditing Procedures Committee's Comment:

The Committee believes that the proposal contains many changes. We recommend that the effective be 1 year after the publishing of the final standard. Thus if the final standard is published before December 31, 2017 then the proposed effective date of years ending on or after December 15, 2018 is acceptable. If the final standard is published after December 31, 2017 then the effective date should be years ending on or after December 15, 2019.

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