LBMC MAKE A GOOD BUSINESS BETTER

September 28, 2017

Ms. Sherry Hazel
Audit and Attest Standards Team
AICPA
1211 Avenue of the Americas, 19th Floor
New York, NY 10036-8775

Re: April 20, 2017 ASB Exposure Draft (ED), *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

Dear Ms. Hazel:

LBMC, PC appreciates the extent of work that was performed by the Auditing Standards Board in developing this Exposure Draft (ED). We generally support the exposure draft and agree that a change to the reporting model for ERISA plans is necessary. However, we do believe that some of these suggested changes will not have the intended goal of increasing audit quality and will also increase audit costs. We appreciate the opportunity to comment on the ED. Our responses are discussed below.

Issue 1: *Respondents are asked to provide their views on whether (i) the procedures and guidance will achieve the objectives of enhancing execution and consistency in these engagements and if not, why; and (ii) any procedures that should be required are missing and, if so, describe them.*

The AICPA Employee Benefit Plan Audit Guide (the Audit Guide) generally includes many of the proposed procedures. For many of the smaller plans being audited, we do not believe management is currently performing all or most of the suggested procedures but is relying on the auditor to make or assist in determining whether a limited scope audit should be performed. We believe that these suggested procedures would help emphasize that management is responsible for the decision to have a limited scope audit performed and that the certification is appropriate. We also believe that it will be beneficial for auditors to understand what is required of them when performing a limited scope audit.

We are concerned that there will be confusion among practitioners regarding the evaluation of the form and content of the financial statement disclosures required by Paragraph 20(d). As noted in the Audit Guide in Paragraph 2.23, the limited scope audit exemption does not extend to required financial statement disclosures. The confusion exists because the practitioner has to perform audit procedures on investments to support the financial statement disclosures, but the limited scope exemption instructs them not to audit investments. We suggest that the ASB clarify the auditor's responsibility related to investment disclosures to remove this confusion.

Issue 2 - The Form and Content of the Auditor's Report on ERISA Plan Financial Statements with the ERISA-permitted Audit Scope Limitation: *Does the form and content of the proposed auditor's report 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? Does the form and content of the proposed auditor's report improve the auditor's understanding of his or her responsibilities in a limited scope audit resulting in improvements in audit quality, and if not, why? Does the form and content of the proposed auditor's report better describe management's responsibilities for the financial statements, and if not, why? Does the form and content of the proposed auditor's report provide sufficient clarity to users with respect to the auditor's responsibilities and matters reported, and if not, why?*

We agree that the proposed audit report improves transparency. We believe the new audit report will provide a better understanding to plan sponsors and the users of the financial statements of the procedures that are performed in a limited scope audit. Additionally, the new opinion will make practitioners aware that there are procedures that should be performed in a limited scope audit. However, we do not believe that the new audit report alone will meaningfully impact audit quality. Improvements to audit quality will require continued scrutiny by peer reviewers, possible continuing education requirements for plan auditors, and education for plan sponsors on the value of a quality audit.

We do not believe that an unqualified opinion should be used when a limited scope audit is being performed. In most cases in a limited scope audit, substantially all of the plan's assets are unaudited. We believe that it will be confusing to the users of the financial statements if an unqualified opinion is issued. We believe that a disclaimer of opinion is appropriate in this circumstance.

We suggest that the wording in Paragraph 102, "…management instructed the auditor not to audit…" be changed to "management instructed the auditor not to audit, <u>and the auditor did not audit</u>". This change would clarify that the auditor did not audit the certified investments.

Issue 3 – Modifications to the Opinion in the Independent Auditor's Report: *Is the guidance in paragraphs 31 and 34 of the proposed SAS (a) clear with respect to the auditor's responsibilities for addressing the circumstances that may result in a modification to the limited scope auditor's report and (b) achieves the objective of providing transparent reporting to the users, and if not, suggested revisions? What are the respondent's views on the form and content of the example reports (nos. 5-7) illustrating guidance in paragraphs 31 and 34?*

We agree that the guidance in Paragraphs 31 and 34 is clear and achieves the objective of providing transparent reporting. The example reports numbered 5-7 appear to provide reasonable examples of what may constitute a disclaimer other than the ERISA-permitted scope limitation.

***Issue 4 – Required Emphasis-of-Matter Paragraphs**: Consider whether the situations identified in paragraph 116 are appropriate for requiring the inclusion of emphasis-of-matters paragraphs in the auditor's report. Are there additional situations that should result in a required emphasis-of-matter paragraph?*

We do not believe that the situations identified in Paragraph 116 should be required for inclusion of emphasis-of-matter paragraphs. We believe that AU-C 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*, provides sufficient guidance in this area. The required situations in Paragraph 116 are normally included in the footnotes to the financial statements, and we do not believe that an EOM paragraph in the opinion should be required.

***Issue 5 – Reporting Internal Control Deficiencies**: Is the current reporting of internal control deficiencies to those charged with governance sufficient? Are there other reporting considerations to AU-C 265 the ASB should evaluate?*

LBMC agrees that the current reporting of internal control deficiencies is sufficient.

***Issue 6 – 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*
    - *Will requirements in paragraphs 15-16 enhance the consistency and quality of the audit work performed related to matters that could have a direct effect on the financial statements, including related disclosures, and if not, why?*
    - *Does the proposed SAS provided appropriate guidance on achieving the requirements in paragraphs 15-16, including which provisions of the plan instrument should be tested, and to what extent testing should be performed?*
    - *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?*
- *Paragraphs 119-124*
    - *Is including the list of individual areas to be tested in paragraphs 119-124 appropriate and, if so, whether there are other items that should be included (if not, why not)?*
    - *Is the requirement to exclude findings that are "clearly inconsequential" appropriate and, if so, is there guidance the ASB can consider to drive consistency in application in practice?*
    - *Should the findings also include any matters identified by management or the plan administrator? Currently, the only requirement is to include auditor findings.*
    - *Are the reporting illustrations included clear and result in sufficient information to the user of the report?*

- *Are there unintended consequences from including the findings in the auditor's report and, if so, what are those unintended consequences and how might they be mitigated?*

- *Will the required additional procedures and reporting of findings 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?*

We do not agree that the requirements in Paragraphs 15-16 will enhance the quality and consistency of audit work performed. Our concern relates to Paragraph 15 and the requirement to perform "irrespective of the risks of material misstatement." Requiring these procedures on all audits seems inconsistent with AU-C 330 which requires the auditor to design and perform further audit procedures whose nature, timing and extent are based on, and are responsive to the assessed risks of material misstatement at the relevant assertion level. Audit costs would increase and potentially audit quality may be negatively affected because time would be spent auditing areas that would not be material to the plan.

We do agree that reporting plan provisions tested in Paragraphs 119-124 could improve audit quality by ensuring that auditors are considering which provisions should be tested. However, auditor judgement should be used to determine which plan provisions should be tested and included in the auditor's opinion.

We recommend that the ASB remove the requirement to list the results of the testing of the plan provisions. Operational errors are common because of the volume of transactions and complexity surrounding plan operations. When these errors are discovered, the IRS and DOL offer programs to correct these errors. Currently, auditors, third party administrators and plan sponsors work together to identify and correct any operational errors. We believe that including a requirement to disclose these errors, even if corrected, could damage the relationship between auditors and plan sponsors, and even cause plan sponsors to select less qualified auditors to reduce the likelihood of having operational issues discovered. By listing immaterial errors in the report, users of the financial statements will be confused as to the seriousness of the reported matters.

If the reporting of findings is not removed from the auditor's report, we have concerns regarding the use of the term "clearly inconsequential" in Paragraph 121. This term is not defined in the standards and individual practitioners may have different interpretations as to what meets this threshold. This will cause inconsistency in practice and increase confusion among the readers of the financial statements as the same error may be included in one report but not in another report. We would support a requirement to report these errors in the management communication letter under AU-C 260 or AU-C 265. This would still allow communication of errors to management, but these errors would not be included with the Form 5500, which becomes public information.

Issue 7 – Required Procedures Related to the Form 5500: *Do the proposed procedures in paragraphs 36-48 of the proposed SAS 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?*

The requirements in the ED are consistent with the procedures included in the Audit Guide. By including this language in the proposed standard, more practitioners would be aware of the requirements.

Issue 8 – Proposed New Reporting Standard and Amendments to Other AU-C Sections: *Does the proposed approach of creating a new reporting model for reporting on ERISA plan audits (AU-C 703) better describe management's and the auditor's responsibilities in these engagements? Are the proposed amendments to other AU-C sections appropriate? Are there other sections of the AICPA Professional Standards that might need to reflect the provisions of this proposed SAS?*

We agree that the proposed approach improves understanding of management's and the auditor's responsibility in these engagement. It should decrease diversity in practice and help the users of the financial statements understand what was involved in the audit process. We believe this proposed standard, if modified as suggested, would be an improvement over the existing standard.

Issue 9 – Proposed Effective Date: *Does the proposed effective date provide sufficient time for preparers, auditors, and others to adopt the new standard and related confirming amendments?*

The proposed effective date for this SAS is for plan audits for periods ending on or after December 15, 2018. We believe that additional time is needed to adequately educate plan sponsors on the changes herein and how the audit will be impacted. We would recommend extending the effective date an additional year.

LBMC appreciates the opportunity to present these comments and would be pleased to discuss them with you at your convenience. If you have questions about our response, please contact Mr. Mark Blackburn (mblackburn@lbmc.com) or Mr. Brad Bonde (bbonde@lbmc.com) or at 615-377-4600.

Sincerely,

LBMC, PC