



September 28, 2017

Sherry Hazel
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Auditing Standards Board
AICPA
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

We are writing on behalf of the Emerging Standards Committee (ESC) of the Kentucky Society of Certified Public Accountants (KyCPA). The KyCPA is the sole professional organization representing CPAs in the Commonwealth of Kentucky. Its 5,100 members are engaged in business communities throughout the Commonwealth and have a comprehensive grassroots view of the needs of businesses, ranging from large public companies to small owner-managed businesses. KyCPA's ESC consists of a group of KyCPA members organized to monitor the activities of accounting and auditing standard setters, as well as government authorities, with the objective of participating in the standards-setting process by providing thoughtful comment on developing issues.

Our comments for your consideration are as follows:

Comments on Selected Issues for Consideration:

Issue 4 – We believe consideration should be given to an additional circumstance where an emphasis of a matter (EOM) paragraph should be required. This would be when auditing a private company sponsor's Employee Stock Ownership Plan's (ESOP) financial statements and the private company sponsor's shares owned by the ESOP are material to the ESOP's total Plan assets.

We are familiar with EOM wording that emphasizes to the reader "...that xx% of Plan assets are recorded at fair value as estimated by an independent appraiser in the absence of a readily ascertainable market value...and such estimated value may differ significantly from the value that would have been used had an active market for the Sponsor's shares existed."

Issue 5 – We agree that the current reporting of internal control deficiencies to those charged with governance is sufficient.

Issue 6 – Regarding question 1b, we agree the proposed SAS provides appropriate guidance relating to which provisions of the plan instrument should be tested. However, as related to extent of testing, while the proposed SAS noted various relevant assertions and types of tests, it stated in A16 that, “The nature and extent of testing is based on the auditor’s professional judgment and may be influenced by the results of other procedures performed during the audit.” We believe this level of detail is sufficient and appropriate for the ASB to provide to auditors of ERISA plans. To the extent the US Department of Labor (DOL) wants more specifics, such as sample sizes, it should be the DOL that provides this, not the ASB. This practice would be similar to that encountered in certain HUD related audits.

Regarding question 2b, we believe the ASB should provide additional guidance related to the term “clearly inconsequential.” In context, we believe this term embodies the position of the DOL, in which case such amount is much less than amounts calculated related to financial statement materiality and significance. In most cases, it is rare to have such “findings” be either material or significant to the Plan’s financial statements. Accordingly, the ASB should emphasize this notion to avoid misunderstandings by ERISA plan auditors; that is, consider the position of financial statement users, including plan participants and the DOL. Of course, if the DOL wishes to convey their position on this term, it would be within their purview.

Regarding question 2c, we believe the findings should only include matters identified by the auditors, unless the non-auditor findings are not remedied at report issuance date. To the extent non-auditor findings are identified and resolved by management or plan administrator prior to report issuance, there should be no need to report as a finding by the auditor.

Regarding questions 2d/e/f, we strongly believe the “Report on Specific Plan Provisions Relating to the Financial Statements” (including the related findings) should NOT be combined into the report on the financial statements. We believe this report should be separate, similar to reporting format used in generally accepted government auditing standards (GAGAS) reporting. Separating this report will also mitigate possible confusion related to the last paragraph, “Purpose of this Report”, which is not intended to provide a limitation on the financial statement report, but is the last paragraph the reader views.

Similar to GAGAS reporting format, we suggest this Report on Specific Plan Provisions be presented separately, after the financial statements section. Further, the ASB should consider having the findings be presented in a separate “Schedule of Findings” with the related auditor’s report referencing such Schedule of Findings (where present), or indicating there are none.

We also suggest management have the opportunity to be able to respond to such Findings described in the Schedule of Findings. We believe this is important to provide context to plan participants; that is, management can communicate that such finding has been (or will be) remedied and corrected, and the affected Plan participant account balance has been made whole. Without this “resolution” of the finding, the Plan participant is left wondering if their account has been inappropriately impaired. Further, the DOL will have an interest in understanding the appropriate resolution of the finding has occurred as well.

Our reporting should seek to enhance understanding, not increase misunderstanding.

Issue 9 – We suggest adding one year to the effective date as presented in the exposure draft. This SAS will likely not be issued in final form until 2018 and we believe an additional year is needed due to the significant changes to occur, as well as the need to implement training programs and update software programs and tools used by auditors.

Thank you for considering our suggestions.

Sincerely,

A handwritten signature in blue ink that reads "Glenn Bradley". The signature is written in a cursive style with a large initial "G".

Glenn Bradley, CPA, Chair
On behalf of the Emerging Standards Committee
Kentucky Society of CPAs