National Association of State Boards of Accountancy

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August 18, 2017

Ms. Sherry Hazel
Administrative Assistant, Audit and Attest Standards - Public Accounting
Association of International Certified Professional Accountants
1211 Avenue of the Americas
New York, NY 10036

Re: Proposed Statement on Auditing Standards, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

Dear Ms. Hazel:

We appreciate the opportunity to offer comments on the Proposed Statement on Auditing Standards, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (ED).

The National Association of State Boards of Accountancy's (NASBA) mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all certified public accountants and their firms in the United States and its territories.

NASBA appreciates the effort of the Auditing Standards Board (ASB) to develop the proposed standard. NASBA is actively represented at the ASB and our representatives have already provided their input during the development of the ED. NASBA strongly supports initiatives to improve the quality of Employee Benefit Plan (EBP) audits.

We offer the following comments on the ED, in addition to comments provided by the NASBA's members of the ASB.

ISSUES FOR CONSIDERATION

Issue 1—Required Procedures When an ERISA-Permitted Audit Scope Limitation is Imposed

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.*

We believe that the proposed changes will enhance execution and consistency in these types of engagements. We have not identified any procedures that are missing.

Issue 3—Modifications to the Opinion in the Independent Auditor's Report

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.*

AU-C Section 705 (Modifications to the Opinion in the Independent Auditor's Report) establishes three types of modified opinions: a qualified opinion, an adverse opinion, and a disclaimer of opinion.

In accordance with AU-C Section 705, the auditor should modify the opinion in the auditor's report when:

a) the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are materially misstated or

b) the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

The guidance in paragraph 34 of the proposed ED prescribes the requirements for the auditor's report when there are other limitations on the scope of the audit, beyond what is permitted by ERISA section 103(a)(3)(C) and mandates certain modifications to the auditor's report.

We believe that it is important that the final guidance should emphasize that the auditor should consider other factors that may require modification of the audit report in addition to the case of a special limited scope audit report format used in AU-C Section 703.

Issue 5—Reporting Internal Control Deficiencies

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.*

AU-C Section 265 (Communicating Internal Control Related Matters Identified in an Audit) establishes the auditor’s responsibilities on reporting of deficiencies in internal control that the auditor has identified in an audit of financial statements. Current Government Auditing Standards require that in addition to providing an opinion or a disclaimer of opinion on the financial statements, auditors should report on the scope and results of testing of the auditee's internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements.

In accordance with AU-C Section 265, the auditor should include in the auditor's written communication of significant deficiencies and material weaknesses:

a) definition of the term “material weakness” and, when relevant, the definition of the term “significant deficiency”;

b) a description of the significant deficiencies and material weaknesses and an explanation of their potential effects;

c) sufficient information to enable those charged with governance and management to understand the context of the communication. In particular the auditor should include in the communication the following elements that explain that:

    i. the purpose of the audit was for the auditor to express an opinion on the financial statements;
    ii. the audit included consideration of internal control over financial reporting in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of internal control;
    iii. the auditor is not expressing an opinion on the effectiveness of internal control;
    iv. the auditor's consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

d) an appropriate alert, in accordance with section 905, Alert That Restricts the Use of the Auditor's Written Communication.

In accordance with section 4.20 of Government Auditing Standards, “auditors should include either in the same or in separate report(s) a description of the scope of the auditors’ testing of internal control over financial reporting and of compliance with provisions of laws, regulations, contracts, or grant agreements. Auditors should also state in the reports whether the tests they performed provided sufficient, appropriate evidence to support opinions on the effectiveness of internal control and on compliance with provisions of laws, regulations, contracts, or grant agreements”.

Section 4.25 of Government Auditing Standards also prescribes that if auditors report separately (including separate reports bound in the same document) on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements, they should state in the auditors' report on the financial statements that they are issuing those additional reports, include a reference to the separate reports and state that the reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements are an integral part of a Generally Accepted Government Auditing Standards (GAGAS) audit in considering the audited entity's internal control over financial reporting and compliance.

We believe that it is important for the users of EBP financial statements to be made aware of material weaknesses or significant deficiencies in internal controls that have been identified during the plan audit. The auditor should identify these in a separate report similar to the report on internal controls and financial reporting as required under Section 4.20 of Government Auditing Standards which would be accompanying the Form 5500.

Issue 6—Certain Requirements for Audits of ERISA Plan Financial Statements and Related Required Report on Specific Plan Provisions Relating to the Financial Statements

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?*

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?*

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?*

We do not believe that findings resulting from performing procedures related to the areas outlined in paragraphs 15-16 should be included in the auditor's report on the financial statements.

We also do not believe the examples of reported findings, such as the vesting example on page 119 of the exposure draft, provide the user of the financial statements sufficient information on what the issue is and how it may have been addressed by plan management. Consideration should be given to the guidance contained in the GAO yellow book that currently allows reporting findings in a separate Schedule of Findings and Questioned Costs. We believe this model can be also applied in reporting findings identified during audits of ERISA plan financial statements that would be included with the Form 5500 package.

We also recommend performing cost benefit analysis to assess potential impact of changes on smaller plan audits as a result of these additional required procedures and reporting of findings. This may include holding additional discussions with the Department of Labor on the size of a benefit plan that is required to have an independent audit.

Issue 9—Proposed Effective Date

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.

The ED proposes a specific effective date related to financial statements for periods ending on or after December 15, 2018. We agree that the changes being proposed will enhance audit quality and should be implemented as soon as possible, but also believe that the final standard should allow preparers, auditors and others to have at least six months to be able to incorporate changes into their processes. If for some reason the final exposure draft is delayed then the proposed effective date should be extended.

Again, we appreciate the opportunity to comment on the Exposure Draft.

Sincerely,

Telford A. Lodden, CPA
NASBA Chair

Ken L. Bishop
NASBA President and CEO