



Agenda Item 6

Reporting on ERISA Plan Financial Statements

Discussion Memorandum — High Level Feedback on Responses to *Issues for Consideration*

Objective

To provide the ASB with preliminary feedback from the comment letters received through September 8, 2017 and to obtain direction from the ASB on certain matters.

Background

In April 2017, the proposed Statement on Auditing Standards *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* was released for public comment. The exposure draft contained nine “Issues for Consideration” in which the ASB asked for specific feedback. The public comment period on the proposed SAS was extended from the original August 21, 2017 deadline to September 29, 2017.

This discussion memorandum is intended to provide the ASB with preliminary feedback from the comment letters that have been received up through September 8, 2017. The comment letters that have been received after September 8th through the September 29, 2017 comment letter deadline have been read by the task force but are not included in the analysis in this discussion memorandum. The task force will provide the ASB with a more comprehensive analysis that will include any additional comment letters received through the comment deadline at a future ASB meeting.

Preliminary Feedback from the Comment Letters

As of September 8, 2017, the task force received 68 comment letters. Of those respondents, 65% were from CPA firms, 17% from plan sponsors or trustees, 13% from state societies, 3% from law firms, and 2% from other entities or individuals.

This analysis will focus on responses received specific to the nine “Issues for Consideration.” In addition to providing the ASB with the initial feedback on these issues, the task force is asking the ASB for direction on Issues 1, 2, and 6, as noted in the “Action Requested of the ASB” sections that follow, to help the task force in moving forward with considering the comment letters.

When reviewing the letters, the task force categorized the responses into three categories:

- i. supportive of the proposed SAS;
- ii. supportive of the proposed SAS with concerns;
- iii. not supportive of the proposed SAS.

A response was considered “supportive of the proposed SAS with concerns” if it supported the direction of the standard but recommended changes to further enhance the proposed SAS.

This discussion memorandum will first discuss those issues in which we are requesting direction from the ASB in the following order: Issue 2; Issue 1; and Issue 6. The remaining issues are included to provide the ASB with preliminary feedback from the comment letters.

Issue for Consideration #2 —The Form and Content of the Auditor’s Report on ERISA Plan Financial Statements with the ERISA-Permitted Audit Scope Limitation

Question

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.**

Preliminary Results

Forty-nine of the sixty-eight comment letters specifically responded to the questions in Issue 2. Of the forty-nine who responded, fifteen supported the proposed SAS, and 8 supported the proposed SAS with concerns. The task force viewed this as 47% of respondents supporting a new form of report for when the ERISA-permitted audit scope limitation is imposed.

Twenty-six of the forty-nine comment letters did not support the new form of report. Of those twenty-six responses, seventeen believe the disclaimer of opinion is the appropriate opinion when the ERISA-permitted audit scope limitation is imposed. Many of those that did not support the proposed SAS believe the auditor cannot express an opinion on the financial statements as a whole when not auditing a vast majority of the assets. Many respondents believe the proposed opinion

contradicts current reporting standards and that a disclaimer of opinion is the appropriate opinion in such circumstances. Some of the respondents did not believe the proposed SAS would improve transparency.

The following is a summary of the results.

<i>Issue 2</i>	<i># Responses out of 49</i>	<i>Percentage of those who responded</i>
Supportive	15	31%
Supportive with concerns	8	16%
Not Supportive	26	53%

With the mixed results received, the task force would like to continue to move forward with a new form of report when the ERISA-permitted audit scope limitation is imposed and explore the suggested changes set forth in many of the comment letters. Preliminarily, the task force does not believe it is in the public interest to revert back to the current form of report, which is a disclaimer of opinion that does not address the audit work required to be performed in such audits.

Action Requested of the ASB

Recognizing that all comment letters have not yet been received and analyzed,

1. Is the ASB supportive of continuing to explore a new form of report, that is outside the current reporting framework, when the ERISA-permitted audit scope limitation is imposed?
2. If not, does the ASB believe that based on the preliminary results so far, the task force should revert back to the current form of limited scope opinion, that is primarily a disclaimer of opinion or should the task force explore other opinions within the current reporting framework (modified opinions) or amend the current reporting framework to fit such engagements, for example to consider amending the definition of pervasive so that a qualified opinion becomes more prevalent?

Issue for Consideration #1 — Required Procedures When an ERISA-Permitted Scope Limitation is Imposed

Question

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.**

Preliminary Results

Forty-three of the sixty-eight comment letters specifically responded to the questions in Issue 1. Of the forty-three who responded, twenty-six supported the proposed SAS and five supported the proposed SAS with concerns. The task force viewed this as 72% showing support for including the procedures relating to the certified information in the proposed SAS. Twelve of the forty-three respondents did not support the proposed SAS.

The following is a summary of the results.

<i>Issue 1</i>	<i># responses out of 43</i>	<i>Percentage of those who responded</i>
Supportive	26	60%
Supportive with concerns	5	12%
Not Supportive	12	28%

The task force believes that issues 1 and 2 go hand in hand and determining the appropriate procedures to be included in the proposed standard could be affected by the type of audit report required to be expressed.

The task force noted that the procedures included in the proposed SAS were based on the procedures from the AICPA Audit and Accounting Guide, *Employee Benefit Plans*. Those procedures were discussed with the *Audit Issues Task Force* in 2007 and therefore were not heavily redeliberated as part of this project. The task force notes that many of the respondents expressed concerns with some of the procedures, particularly as they relate to the auditor’s responsibilities relating to fair value disclosures for the certified information. The task force believes the ASB will need to redeliberate the appropriate procedures to be performed relating to the certified information. The task force also believes that the direction provided from the ASB relating to Issue 2 will help to shape the content of the related procedures.

Action Requested of the ASB

3. Does the ASB support redeliberating the procedures relating to the certified information relative to the type of opinion required to be issued?

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

Issue 6 contains three questions: question 1 relates to the required areas to be tested relating to plan provisions (paragraphs 15-16 of the proposed SAS); question 2 relates to the report on findings (paragraphs 119-124 of the proposed SAS); and question 3 relates to possible additional costs. The following will focus on the responses to questions 1 and 2 of Issue 6.

Question 1

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?**

Preliminary Results

Fifty-six of the sixty-eight comment letters specifically responded to question 1 of Issue 6. Of the fifty-six who responded, twelve supported the proposed SAS and seven supported the proposed SAS with concerns. The task force viewed this as 34% support for requiring the auditor to perform procedures relating to compliance with plan provisions. Thirty-seven respondents did not support the proposed SAS.

The following is a summary of the results.

<i>Issue 6; Question 1 (pars. 15-16)</i>	<i># responses out of 56</i>	<i>Percentage of those who responded</i>
Supportive	12	21%
Supportive with concerns	7	13%
Not Supportive	37	66%

Many of the concerns expressed in the comment letters related to the requirement that these procedures be performed irrespective of the risk of material misstatement. There was strong support for maintaining the auditor’s risk assessment as it relates to performing procedures with the plan provisions. There were some respondents that believe the proposed SAS went too far and is attempting to create a compliance audit that is not within the scope of a financial statement audit.

The task force still believes, however, that one of the main areas of deficiency in employee benefit plan engagements relates to the lack of testing around the plan document. Based upon the preliminary feedback, the task force would like to explore a testing model that takes into account the risk of material misstatement as it relates to audit procedures over the plan document and similar compliance areas to be tested as part of a financial statement audit for ERISA plans.

Action Requested of the ASB

4. Given the lack of support for the proposed model requiring the auditor to test certain areas relating to the plan provisions, does the ASB support exploring a model that would continue to require compliance testing in certain areas, taking into consideration the risk of material misstatement so that it is better linked to a financial statement audit?

Question 2

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**

¹ The requirement that the auditor report findings may include items that management or the plan administrator may not have an obligation (regulatory or otherwise) to report.

would achieve the objectives related to enhancing audit quality?

Preliminary Results

Sixty-one of the sixty-eight comment letters specifically responded to question 2 of Issue 6. Of the sixty-one who responded, two supported the proposed SAS and two supported the proposed SAS with concerns. The task force viewed this as 6% support for requiring the auditor to report findings in the auditor’s report. Fifty-seven respondents did not support the proposed SAS.

The following is a summary of the results.

<i>Issue 6; Question 2 (pars. 119-124)</i>	<i># responses out of 61</i>	<i>Percentage of those who responded</i>
Supportive	2	3%
Supportive with concerns	2	3%
Not Supportive	57	94%

Of the fifty-seven respondents who did not support the proposed SAS, ten suggested they would support a communication of findings to those charged with governance.

Recognizing that not all comment letters have been included in this analysis, and given that the task force has not yet been able to analyze the comment letters in detail, the task force would like to explore requiring a communication with management and those charged with governance regarding the findings as a result of the audit, including whether this communication could be included within existing GAAS, such as within the required communications of AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, AU-C section 260, *The Auditor’s Communication With Those Charged With Governance*, or AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*.

Action Requested of the ASB

- Does the ASB support exploring a model that would require the auditor to communicate with management or those charged with governance rather than in the auditor’s report, the findings from the audit work performed relating to the areas to be tested as part of question 1 of Issue 6, or does the ASB support moving away from the reporting of findings altogether?

Issue for Consideration #3 — Modifications to the Opinion in the Independent Auditor’s Report

Question

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.**

Preliminary Results

Thirty-six of the sixty-eight comment letters specifically responded to the questions in Issue 3. Of the thirty-six who responded, eighteen supported the proposed SAS and four supported the proposed SAS with concerns. The task force viewed this as 61% showing support for the proposed SAS. Thirteen of the respondents did not support the proposed SAS and one was unclear.

The following is a summary of the results.

<i>Issue 3</i>	<i># responses out of 36</i>	<i>Percentage of those who responded</i>
Supportive	18	50%
Supportive with concerns	4	11%
Not Supportive	13	36%
Unclear	1	3%

The task force believes that issue 3 is tied directly with issues 1 and 2 and therefore the outcome of this topic will be directly affected by the direction taken by the ASB relating to issue 1 and 2 discussed previously.

The task force is not asking the ASB for any action at this time and will consider the comments received relating to this issue for discussion with the ASB at a future meeting.

Issue for Consideration #4 — Required Emphasis-of-Matter Paragraphs

Question

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.

Preliminary Results

Thirty-eight of the sixty-eight comment letters specifically responded to Issue 4. Of the thirty-eight who responded, eleven supported the proposed SAS and two supported the proposed SAS with concerns. The task force viewed this as 34% showing support for requiring an emphasis-of-matter paragraph or requiring the auditor to consider including an emphasis-of-matter paragraph in the auditor’s report. Twenty-five of the respondents did not support the proposed SAS. Many of the respondents believe requiring an emphasis-of-matter paragraph in the auditor’s report takes auditor judgment away and some suggested the proposed SAS require the auditor to consider including such a paragraph.

The following is a summary of the results.

<i>Issue 4 (par. 116)</i>	<i># responses out of 38</i>	<i>Percentage of those who responded</i>
Supportive	11	29%
Supportive with concerns	2	5%
Not Supportive	25	66%

The task force is not asking the ASB for any action at this time and will consider the comments received relating to this issue for discussion with the ASB at a future meeting.

Issue for Consideration #5 — Reporting Internal Control Deficiencies

Question

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.**

Preliminary Results

Forty-two of the sixty-eight comment letters specifically responded to the questions in Issue 5. Of the forty-two who responded, forty supported the proposed SAS and two supported the proposed SAS with concerns. The task force viewed this as 100% support for the current GAAS requirements relating to internal control reporting to those charged with governance.

The following is a summary of the results.

<i>Issue 5</i>	<i># responses out of 42</i>	<i>Percentage of those who responded</i>
Supportive	40	95%
Supportive with concerns	2	5%
Not Supportive	0	0%

The task force is not asking the ASB for any action at this time and will consider the comments received relating to this issue for discussion with the ASB at a future meeting.

Issue for Consideration #7 — Required Procedures Relating to the Form 5500

Question

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?

Preliminary Results

Forty of the sixty-eight comment letters specifically responded to Issue 7. Of the forty who responded, twenty-one supported the proposed SAS and eleven supported the proposed SAS with concerns. The task force viewed this as 80% support for including AU-C 720 requirements in the proposed SAS. Eight respondents did not support the proposed SAS.

The following is a summary of the results.

<i>Issue 7</i>	<i># responses out of 40</i>	<i>Percentage of those who responded</i>
Supportive	21	53%
Supportive with concerns	11	27%
Not Supportive	8	20%

The task force is not asking the ASB for any action at this time and will consider the comments received relating to this issue for discussion with the ASB at a future meeting.

Issue for Consideration #8 — Proposed New Reporting Standard and Amendments to Other AU-C Sections

Question

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.**

Preliminary Results (question 8a only)

Thirty-six of the sixty-eight comment letters specifically responded to Issue 8a. Of the thirty-six who responded, twelve supported the proposed SAS and ten supported the proposed SAS with concerns. The task force viewed this as 61% support that the reporting model would better describe management’s and the auditor’s responsibilities. Fourteen respondents did not support the proposed SAS.

The following is a summary of the results.

<i>Issue 8a</i>	<i># responses out of 36</i>	<i>Percentage of those who responded</i>
Supportive	12	33%
Supportive with concerns	10	28%
Not Supportive	14	39%

The task force is not asking the ASB for any action at this time and will consider the comments received relating to this issue for discussion with the ASB at a future meeting.

Issue for Consideration #9 — Proposed Effective Date

Question

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.

Preliminary Results

Forty-three of the sixty-eight comment letters specifically responded to Issue 8. Of the forty-three who responded, nine supported the proposed SAS and two supported the proposed SAS with concerns. The task force viewed this as 26% support for the effective date discussed in the proposed SAS. Thirty-two respondents did not support the proposed SAS and supported additional time to implement the standard.

The following is a summary of the results.

<i>Issue 9</i>	<i># responses out of 43</i>	<i>Percentage of those who responded</i>
Supportive	9	21%
Supportive with concerns	2	5%
Not Supportive	32	74%

The task force is not asking the ASB for any action at this time and will consider the comments received relating to this issue for discussion with the ASB at a future meeting. The task force recognizes that this project will need to be conformed to the Auditor Reporting exposure draft and therefore the effective dates will need to be aligned.